

UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY

<b>In the Matter of:</b> First Federal Bank Lexington, Kentucky	) ) )	AA-CE-11-96
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**CONSENT ORDER**

**WHEREAS**, the Office of Thrift Supervision of the United States of America (“OTS”), through its Federal Thrift Examiner, has examined First Federal Bank, Lexington, Kentucky (“Bank”), and its findings are contained in the Report of Examination that commenced on January 31, 2011 (“ROE”).

**WHEREAS**, pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010), all functions of the OTS related to Federal savings associations were transferred to the Office of the Comptroller of the Currency of the United States of America (“Comptroller”).<sup>1</sup>

**WHEREAS**, in the interests of cooperation, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a Stipulation and Consent to the Issuance of a Consent Order (“Stipulation and Consent”), dated November 14, 2011, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference herein, the Bank, without admitting or denying any wrongdoing, has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

**NOW, THEREFORE**, the Comptroller, acting by and through his designated representative and by virtue of the authority conferred by 12 U.S.C. § 1818(b), hereby orders that:

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<sup>1</sup> See Dodd-Frank Act § 312(b), 12 U.S.C. § 5412.

## ARTICLE I

### CAPITAL MINIMUMS AND PLAN

- (1) By March 31, 2012, the Bank shall achieve and thereafter maintain the following minimum capital levels (as defined in 12 C.F.R. Part 167<sup>2</sup>):
  - (a) Tier 1 Capital at least equal to nine percent (9%) of adjusted total assets; and
  - (b) Total Risk Based Capital at least equal to thirteen percent (13%) of risk-weighted assets.
  
- (2) The requirement in this Order to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 165 pursuant to 12 C.F.R. § 165.4(b)(1)(iv).
  
- (3) Within ninety (90) days, the Board shall develop a Capital Plan that covers, at a minimum, the next three years. The Capital Plan shall include:
  - (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1) of this Article;
  - (b) an assessment of the risks to capital, with particular emphasis on risks within the loan and real estate owned portfolios, especially those assets for which workout plans have been adopted pursuant to Article V of this Order;
  - (c) projections of the planned sources and timing of additional capital to meet the Bank’s current and future needs;

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<sup>2</sup> Effective July 21, 2011, to facilitate the OCC’s enforcement and administration of former OTS rules and to make appropriate changes to those rules to reflect OCC supervision of Federal savings associations as of the transfer date, the OCC republished and re-codified in 12 C.F.R. Chapter I all OTS regulations from 12 C.F.R. Chapter V that the OCC has the authority to promulgate and enforce, with appropriate nomenclature and other technical changes. 76 Fed. Reg. 48950 (August 9, 2011).

- (d) detailed quarterly financial projections of earnings and capital, including key assumptions;
- (e) the primary sources from which the Bank will seek to strengthen its capital structure to meet the Bank's needs; and
- (f) contingency plans that identify alternative methods should the primary source(s) under (e) above not be available.

(4) Within five (5) days of completion, the Bank's Capital Plan shall be submitted to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall ensure that the Bank immediately implements and adheres to the Capital Plan.

(5) The Board shall evaluate the effectiveness of the Bank's Capital Plan on a quarterly basis or more frequently if necessary and make a written determination whether the Capital Plan needs amendment or revision. Prior to adoption by the Board, any subsequent amendments or revisions to the Capital Plan shall be submitted to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall ensure that the Bank immediately implements and adheres to the Capital Plan, as amended or revised.

## ARTICLE II

### CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days, the Board shall ensure that the Bank obtains current and satisfactory credit information on all commercial borrowers with aggregate loans that equal or exceed two hundred and fifty thousand dollars (\$250,000) and all commercial borrowers listed in

the ROE, in any subsequent Report of Examination, in any internal or external loan review report, or in any listings of loans lacking such information provided to management by the examiners.

(2) Within sixty (60) days, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review report, or in any listings of loans lacking such information provided to management by the examiners.

(3) If the Bank is unable to obtain the credit information or collateral documentation required by paragraphs (1) or (2) of this Article within sixty (60) days, the Bank shall document its efforts to obtain such information or documentation, and maintain the documentation of its efforts in the loan file.

(4) Effective immediately, the Bank may grant, extend, renew, alter, or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the reason or purpose for the extension of credit and expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis;

- (i) Failure to obtain the information in (4)(d) shall require a majority of the full Board to certify in writing the specific reasons why obtaining and analyzing the information in (4)(d) would be detrimental to the best interests of the Bank.

- (ii) A copy of the Board certification required by subparagraph (4)(d)(i) shall be maintained in the credit file of the affected borrower(s) and a central file for review by examiners.
  - (e) documenting, with adequate supporting material, the current value of collateral and properly perfecting the Bank's lien on it where applicable; and
  - (f) determining and documenting whether the loan complies with the Bank's loan policies and, if it does not comply, identifying the exception and providing appropriate justification to support waiving the policy requirement.
- (5) The certification exception granted by paragraph (4)(d) of this Article is not available to any loan or other extension of credit to an Insider as defined by 12 C.F.R. § 215.2(h).

### ARTICLE III

#### CREDIT RISK RATING SYSTEM AND NONACCRUAL LOANS

- (1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial credit relationships that equal or exceed two hundred and fifty thousand dollars (\$250,000), as assigned by responsible loan officers or loan review, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in 12 C.F.R. § 160.160 and the OTS Examination Handbook § 260, "Classification of Assets."
- (2) Within sixty (60) days, the Board shall develop, adopt, implement, and ensure Bank adherence to written policies and procedures governing nonaccrual loans. Such policies and procedures shall:

- (a) address the identification of and accounting treatment for nonaccrual loans consistent with the guidance contained in the OTS's Thrift Financial Report Instruction Manual and TFR Q&As;<sup>3</sup> and
- (b) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

#### ARTICLE IV

##### ANNUAL CREDIT REVIEWS

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an annual credit review program for commercial credit relationships with balances over two hundred and fifty thousand dollars (\$250,000). The annual credit review shall document at a minimum:

- (a) the specific reason or purpose of the loan;
  - (b) the expected source of repayment;
  - (c) past repayment performance;
  - (d) terms and covenants related to each loan;
  - (e) an analysis of current and satisfactory credit information, including a global cash flow analysis of the guarantor's repayment ability where repayment is dependent in whole or in part on the guarantor;
  - (f) an analysis of collateral coverage and documentation of the Bank's lien position;
- and

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<sup>3</sup> For the reporting period beginning January 1, 2012, such policies and procedures shall address the identification of and accounting treatment for nonaccrual loans consistent with the guidance in the FFIEC Instructions for Preparation of Consolidated Reports of Condition and Income.

- (g) the assigned credit risk rating, including, if necessary, accrual designation and the amount of any impairment reserve.

## ARTICLE V

### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by examiners as “doubtful,” “substandard,” or “special mention.”

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to written individual workout plans designed to protect the Bank’s interest in assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by examiners rated as “doubtful,” “substandard,” or “special mention” equal to or exceeding five hundred thousand dollars (\$500,000). Each individual workout plan shall include at a minimum:

- (a) the name of the borrower(s) and, if applicable, the guarantor(s);
- (b) the risk rating;
- (c) a description of the basis of criticism for each asset;
- (d) if applicable, the past due status and accrual designation;
- (e) the amount of the asset charged off to date;
- (f) an identification of the expected sources of repayment;
- (g) the current value of supporting collateral and the position of the Bank’s lien on such collateral where applicable;

- (h) an analysis of current and satisfactory credit information, including a global cash flow analysis of the guarantor's repayment ability where repayment is dependent, in whole or in part, on the guarantor;
- (i) actions designed to protect the Bank's interest in the asset, including timeframes for implementing and evaluating the effectiveness of those actions; and
- (j) a historical record of the action(s) taken to protect the Bank's interest in the asset that, at a minimum, includes the date of the action, the identity of the party who took the action(s), and the rationale for any departure from approved proposed action(s).

(3) Upon adoption, a copy of the individual workout plans shall be forwarded to the Assistant Deputy Comptroller.

(4) The Board shall conduct a review, on at least a quarterly basis, to:

- (a) determine management's adherence to each individual workout plan;
- (b) evaluate the effectiveness of each individual workout plan; and
- (c) approve revisions to the plans or alternative action.

(5) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(6) The Bank may extend credit, directly or indirectly, including renewals or extensions, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by examiners during any examination and whose aggregate loans or other extensions exceed five hundred thousand dollars (\$500,000) only if prior to renewing,

modifying, or extending any additional credit, a majority of the full Board approves and records in writing the reason(s) the extension promotes the best interests of the Bank.

(7) A copy of the approval of the Board and shall be maintained in the file of the affected borrower.

## ARTICLE VI

### ASSET DIVERSIFICATION PROGRAM

(1) Within sixty (60) days, the Board shall develop, adopt, and implement a written asset diversification program. The program shall include, but not necessarily be limited to, the following:

- (a) an analysis of the risk of each of the Bank's concentrations of credit,<sup>4</sup> including but not limited to the Bank's concentrations identified in the ROE;
- (b) the establishment of an appropriate limit for each concentration of credit relative to the Bank's capital;
- (c) the rationale for each limit; and
- (d) an action plan with targets and timeframes approved by the Board to bring any concentration above the limit established by paragraph (1)(b) of this Article into conformance with the limit.

(2) Within ten (10) days of completion, a copy of the program, or any subsequent amendments or changes to the program, shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a

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<sup>4</sup> For purposes of this Article, a concentration of credit is defined in the Report of Examination dated January 31, 2011.

determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and ensure Bank adherence to the asset diversification program.

(3) Until the Board has received a determination of no objection from the Assistant Deputy Comptroller pursuant to paragraph (2) of this Article, the Bank shall not originate any new Commercial Real Estate loans.<sup>5</sup> This restriction shall not apply to:

- (a) the renewal, extension, or restructuring of any loan, provided no new funds are advanced;
- (b) a loan that has final approval prior to the date of this Order;
- (c) an advance under a legally binding written commitment to lend that was entered into prior to the date of this Order;
- (d) a loan to a qualified borrower to finance the sale of any parcel of Other Real Estate Owned;
- (e) a loan guaranteed by the United States Small Business Administration under the 7(a) Loan Program or by another Federal agency, provided the guaranty amount is at least 75% of the loan amount; or
- (f) the extension of additional credit in connection with the workout of an adversely classified asset, provided such extension is consistent with the “Interagency Policy Statement on Prudent Commercial Real Estate Loan Workouts” dated October 30, 2009 (OTS CEO Letter 325) and in compliance with the provisions of Articles II and V of this Order.

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<sup>5</sup> Commercial Real Estate loans are defined in the “OTS Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices” dated December 14, 2006 (OTS CEO Letter 252).

(4) The Board shall ensure that the risk in each concentration of credit is analyzed at least annually, the appropriateness of the limit on each concentration is approved by the Board, and a plan is implemented to bring any concentration in excess of the established limit into conformance.

## ARTICLE VII

### CLOSING

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Order shall begin to run from the effective date of this Order. Such time limitations may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through its authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Order in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Order;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States of America.

(7) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IT IS SO ORDERED, this 14<sup>th</sup> day of November, 2011.

/s/

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Curtis D. Schuman  
Assistant Deputy Comptroller  
Louisville Field Office



**UNITED STATES OF AMERICA  
DEPARTMENT OF THE TREASURY  
COMPTROLLER OF THE CURRENCY**

<b>In the Matter of:</b>	)	
First Federal Bank	)	AA-CE-11-96
Lexington, Kentucky	)	

**STIPULATION AND CONSENT TO THE ISSUANCE  
OF A CONSENT ORDER**

The Comptroller of the Currency of the United States of America (“Comptroller”) intends to initiate proceedings against First Federal Bank, Lexington, Kentucky (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges for unsafe and unsound banking practices relating to credit administration and capital adequacy.

The Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated November 14, 2011 (“Order”);

In consideration of the above premises, the Comptroller, through its authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

JURISDICTION

(1) The Bank is a Federal savings association chartered and examined prior to July 21, 2011, by the Office of Thrift Supervision (“OTS”) pursuant to the Home Owners’ Loan Act, as amended, 12 U.S.C. § 1461 *et seq.*

(2) Pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010), all functions of the OTS related to Federal savings

associations were transferred to the Office of the Comptroller of the Currency of the United States of America (“Comptroller”).<sup>6</sup>

(3) The Comptroller is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(4) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

## ARTICLE II

### AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i). Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(3) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other Federal bank regulatory agency or entity, or any

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<sup>6</sup> See Dodd-Frank Act § 312(b), 12 U.S.C. § 5412.

officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

### ARTICLE III

#### WAIVERS

- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
  - (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
  - (b) any and all procedural rights available in connection with the issuance of the Order;
  - (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i) and 12 C.F.R. Part 109;
  - (d) all rights to seek any type of administrative or judicial review of the Order; and
  - (e) any and all rights to challenge or contest the validity of the Order.

(f)

ARTICLE IV

OTHER ACTIONS

(1) The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set his hand on behalf of the Comptroller.

/s/

Nov. 14, 2011

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Curtis D. Schuman  
Assistant Deputy Comptroller  
Louisville Field Office

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Date

