

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

In the Matter of: )  
Worthington Federal Bank ) AA-EC-12-151  
Huntsville, AL )

CONSENT ORDER

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”), through his authorized representative, has supervisory authority over Worthington Federal Bank, Huntsville, Alabama (“Bank”), a federal stock savings bank;

**WHEREAS**, 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”), dated December 5, 2012, that is accepted by the Comptroller through his duly authorized representative; and

**WHEREAS**, by this Stipulation, which is incorporated by reference, the Bank, has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

**NOW THEREFORE**, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

## ARTICLE I

### COMPLIANCE COMMITTEE

(1) Within ten (10) days of the date of this Order, the Board shall appoint and maintain an active Compliance Committee of at least three (3) directors, of which at least two (2) shall not be employees, former employees, or controlling shareholders of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c and 12 C.F.R. § 223.2), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be immediately submitted in writing to the Director for Special Supervision (“Director”). The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Order.

(2) The Compliance Committee shall meet at least monthly.

(3) Within forty-five (45) days of the date of this Order, and every thirty (30) days thereafter or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each Article of this Order, Bank personnel responsible for implementing the corrective actions, and the timeframes for completion;
- (b) actions taken to comply with each Article of this Order; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Director within ten (10) days of receiving such report.

## ARTICLE II

### STRATEGIC PLAN

(1) Within sixty (60) days of the date of this Order, the Board shall forward to the Director for his review and determination of no supervisory objection pursuant to paragraph three (3) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a two (2) year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities, and threats that impact strategic goals and objectives;
- (d) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Order;

- (e) a description of the Bank's targeted market(s) and competitive factors in its identified target market(s) and a description of control systems to mitigate risks in the Bank's markets;
- (f) an assessment of the present and planned product lines (assets and liabilities) and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;
- (g) assigned responsibilities and accountability for the strategic planning process; and
- (h) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) If the Board's Strategic Plan under paragraph one (1) of this Article outlines a proposed sale or merger of the Bank, the Strategic Plan shall only address the steps that will be taken and the associated timeline to ensure that within ninety (90) days after the receipt of the Director's written determination of no supervisory objection to the written Strategic Plan, a definitive agreement for the sale or merger is executed.

(3) Prior to adoption by the Board, a copy of the Strategic Plan, and any subsequent amendments or revisions, shall be submitted to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan.

(4) The Bank may not initiate any action that deviates significantly from the Strategic Plan (that has received a no supervisory objection from the Director and that has

been adopted by the Board) without a written determination of no supervisory objection from the Director. The Board must give the Director at least thirty (30) days advance written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan. For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, products and services, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in the aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. The Board shall forward a copy of these quarterly reports to the Director within ten (10) days of completion of its review.

(6) The Board shall review and update the Strategic Plan at least annually, no later than January 31 and more frequently if necessary or if requested by the Director in writing.

(7) Until the Strategic Plan required under this Article has been submitted by the Bank for the Director's review, has received a written determination of no supervisory objection from the Director, and is being implemented by the Bank, the Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed before this Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must be submitted to the Director at least 30 days in advance of the significant deviation, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change.

### ARTICLE III

#### CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by March 31, 2013, and thereafter maintain the following capital ratios (as defined in 12 C.F.R. Parts 165 and 167):

- (a) Total risk-based capital at least equal to thirteen percent (13%);

(b) Tier 1 capital to adjusted total assets ratio at least equal to nine percent (9%);

(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 forty-five (45) days of the date of this Order, the Board shall develop and implement an effective internal capital planning process to assess the Bank’s capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall in no event be less than the requirements of paragraph one (1) of this Article. The capital planning process shall be consistent with *OCC Bulletin 2012-16* (Guidance for Evaluating Capital Planning and Adequacy) (June 7, 2012), and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Director in writing.

(4) Within sixty (60) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph seven (7) of this Article, a written Capital Plan for the Bank, consistent with the Strategic Plan pursuant to Article II, covering at least a two (2) year period. The written Capital Plan shall, at a minimum:

- (a) include specific plans for the maintenance of adequate capital, which shall in no event be less than the requirements of paragraph one (1) of this Article;
- (b) identify and evaluate all material risks;

- (c) determine the Bank's capital needs in relation to material risks and strategic direction;
- (d) identify and establish a strategy to maintain capital adequacy and strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
- (e) include detailed quarterly financial projections; and
- (f) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Order that will have an impact on the Bank's capital.

(5) If the Bank's written Capital Plan outlines a sale or merger of the Bank, the written Capital Plan shall only address the steps that will be taken and the associated timeline to ensure that within ninety (90) days after the receipt of the Director's written determination of no supervisory objection to the written Capital Plan, a definitive agreement for the sale or merger is executed.

- (6) The Bank may declare or pay a dividend or make a capital distribution only:
- (a) when the Bank is in compliance with its approved written Capital Plan and would remain in compliance with its approved written Capital Plan immediately following the declaration or payment of any dividend or capital distribution; and
  - (b) following the approval of the Director pursuant to 12 C.F.R. Part 163, Subpart E.

(7) Prior to adoption by the Board, a copy of the Bank's written Capital Plan shall be submitted to the Director for prior written determination of no supervisory

objection. The Board shall review and update the Bank's written Capital Plan at least annually, no later than January 31, and more frequently if required by the Director in writing. Revisions to the Bank's written Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall immediately implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

(8) At least monthly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the written Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board will require the Bank to take to address any deficiencies. At least quarterly the Board shall prepare a written evaluation of the Bank's performance against the written Capital Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies. The Board's monthly reviews and preparation of the quarterly written evaluations shall be documented in the Board meeting minutes. The Board shall retain a copy of these monthly reviews and Board meeting minutes and shall forward a copy of these quarterly written evaluations and Board meeting minutes to the Director within ten (10) days of completion of its quarterly written evaluations.

(9) If the Bank fails to maintain capital ratios required by paragraph one (1) of this Article or fails to implement a written Capital Plan to which the Director has provided a written determination of no supervisory objection, then the Bank may, in the Director's sole discretion, be deemed undercapitalized for purposes of this Order. The Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 165. For purposes of this requirement, an action "necessary to carry out the purpose of this section" under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank's capital to the minimum ratios required by paragraph one (1) of this Article, and any other action deemed necessary by the OCC to address the Bank's capital deficiency or the safety and soundness of its operations.

#### ARTICLE IV

##### BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Board shall adopt and take the necessary steps to implement corporate governance and decision-making processes to correct the Bank's deficiencies in management, leadership, and Board oversight as described in the most recent Report of Examination ("ROE"). At a minimum, the Board shall ensure and document the following:

- (a) executive officers are capable of performing present and anticipated duties, factoring in each officer's past actual performance, experience, and qualifications, compared to their position description, duties and responsibilities, with particular emphasis on their proposed

responsibilities to execute the Strategic Plan and correct the concerns raised in the most recent ROE;

- (b) clear lines of responsibility and authority for each member of senior management, including but not limited to, the Chairman of the Board, Chief Executive Officer (“CEO”), President, Chief Credit Officer (“CCO”), and Chief Financial Officer (“CFO”);
- (c) a management employment and succession program to promote the retention and continuity of capable management;
- (d) that the Bank has sufficient policies, processes, personnel, and control systems to effectively implement and adhere to all provisions of this Order;
- (e) that the Bank has a comprehensive conflict of interest policy applicable to the Bank’s directors, principal shareholders, executive officers, affiliates, and employees (“Insiders”) and related interests of such Insiders.
- (f) Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order;
- (g) a process exists to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight and information systems, policies, procedures, and other risk management systems with time sensitive strategies to address any deficiencies;
- (h) a process exists to ensure that management appropriately responds to any audit or compliance or regulatory criticisms; and

- (i) that the Board receives and reviews sufficient Bank information from management (including scope, frequency, and content) on the operation of the Bank and compliance with this Order to enable them to provide oversight and fulfill their fiduciary duties and other responsibilities under the applicable laws, regulations, and OCC guidance for directors.

(2) The Board shall perform and prepare an annual written performance appraisal for each Bank senior executive officer that evaluates performance according to the position's description and responsibilities. Each annual written performance appraisal also must address the following as it applies to each senior executive officer:

- (a) compliance with objectives established by the Board;
- (b) compliance with Board approved policies and procedures;
- (c) compliance with Board approved strategic and capital plans;
- (d) compliance with action plans to remedy issues raised in ROEs or audit reports; and
- (e) compliance with laws, regulations, and regulatory guidance.

(3) The Board shall ensure that the Bank addresses any deficiencies identified pursuant to paragraph two (2) of this Article.

## ARTICLE V

### LOAN PORTFOLIO MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall adopt, and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a written program to improve the Bank's loan portfolio

management. The program and corresponding procedures shall be consistent with the “Loan Portfolio Management” booklet of the *Comptroller’s Handbook* (April, 1998).

The program shall include, but not be limited to, the following minimum requirements:

- (a) procedures to ensure conformance with sound loan underwriting and approval requirements for any extension of credit, including, but not limited to, commercial real estate, Small Business Administration (“SBA”) loans and working capital lines of credit;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to ensure that repayment terms are structured to coincide with the expected source of repayment;
- (d) procedures to ensure satisfactory collateral valuations and perfected collateral documentation;
- (e) procedures to track and analyze policy exceptions;
- (f) procedures to address troubled debt restructurings (“TDRs”), approvals and reporting of TDRs;
- (g) procedures to ensure timely, complete, and accurate internal loan portfolio management information systems; and
- (h) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation

standards, accuracy in credit grading, and other loan administration matters.

(2) The Board shall ensure that all Bank lenders or any other personnel performing credit analyses receive loan policy training at least annually and be adequately trained in cash flow analysis, particularly analysis using information on a global cash flow basis, evaluation of contingent liabilities, and verification of liquidity. Processes and procedures must be in place to ensure that additional training is provided as needed.

## ARTICLE VI

### PROBLEM ASSET MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a Problem Asset Reduction Plan (“PARP”) designed to eliminate the basis of criticism of those assets criticized as “doubtful,” “substandard,” or “special mention” in the most recent ROE, in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the OCC Examiners during any examination. The PARP shall include:

- (a) sufficient staff having the qualifications, skills, and experience to effectively manage and resolve problem assets;
- (b) adequate management information systems to measure the status of problem assets; and
- (c) the development of Asset Workout Plans (“AWPs”) identifying all credit relationships and other assets totaling in the aggregate two hundred fifty

thousand dollars (\$250,000) or more and have a credit risk rating of “special mention”, “substandard”, or “doubtful”, which must be updated and submitted to the Board or a committee designated by the Board monthly and to the Director quarterly.

(2) Each AWP shall cover an entire credit relationship and other assets, and include, at a minimum, analysis and documentation of the following:

- (a) the origination date and any renewal or extension dates, amount, purpose of the loan or other asset, and the originating and current handling officer(s);
- (b) the expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment source;
- (c) the appraised value of supporting collateral, along with the date and source of the appraisal, and the position of the Bank's lien on such collateral, as well as other necessary documentation to support the current collateral valuation;
- (d) an analysis of current and complete credit information, including a global cash flow analysis where loans are to be repaid from operations;
- (e) results of any impairment analysis as required under Accounting Standards Codification ( “ASC”) Topic 310;
- (f) accurate risk ratings consistent with the classification standards contained in the “Rating Credit Risk” booklet of the *Comptroller's Handbook* (April 2001);

- (g) appropriate accrual status pursuant to the FFIEC Instructions for the Preparation of Consolidated Reports of Condition and Income;
- (h) significant developments, including a discussion of changes since the prior AWP, if any; and
- (i) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including, if appropriate, an exit strategy.

(3) The Bank shall not extend credit, directly or indirectly, including renewals, modifications, or extensions, to borrowers whose loans or other extensions of credit that aggregate two hundred fifty thousand dollars (\$250,000) or more and have a credit risk rating of “special mention”, “substandard”, or” doubtful” as identified in any AWP, ROE, internal or external loan review, or in any list provided to management by the OCC Examiners during any examination, unless and until a majority of the Board, or a designated committee thereof, determines in writing that each of the following conditions are met:

- (a) the extension of additional credit is necessary to promote the best interests of the Bank;
- (b) a written credit and collateral analysis is performed; and
- (c) the AWP for that borrower will not be compromised by the extension of additional credit.

(4) At least quarterly, the Board or a committee thereof, shall review and evaluate the effectiveness of the PARP and the AWPs. The Board’s review shall include an assessment of the Bank’s compliance with the PARP and the AWPs. Written documentation shall be maintained of the factors considered and conclusions reached by

the Board in determining the Bank's compliance and progress in reducing the level of problem assets.

## ARTICLE VII

### CREDIT RISK RATINGS

(1) Within ninety (90) days, the Board shall adopt, and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written program designed to ensure that the risks associated with the Bank's loan portfolio are properly reflected and accounted for on the Bank's books and records. The program shall include, at a minimum, provisions requiring that:

- (a) The Bank's loans and other assets are appropriately and timely risk rated and charged off by the lending officers using a loan grading system that is based upon current facts and existing repayment terms, and that is consistent with the guidelines set forth in "Rating Credit Risk" booklet of the *Comptroller's Handbook* (April 2001); and,
- (b) officers and other appropriate personnel are held accountable, including in performance evaluations and compensation, for failing to appropriately and timely risk rate and/or place loans on nonaccrual.

## ARTICLE VIII

### LOAN REVIEW

(1) Within sixty (60) days, the Board shall employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans.

(2) Within ninety (90) days, the Board shall adopt, and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in "Rating Credit Risk" and "Allowance for Loan and Lease Losses" booklets of the *Comptroller's Handbook*. Such reports shall include, at a minimum, conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit-related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and

- (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require a quarterly report to the Board. At a minimum the program shall provide for an independent reviewer's assessment of the Bank's:

- (a) monitoring systems for early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, division, group, indirect dealer, and individual lending officer;
- (c) system for monitoring previously charged-off assets and their recovery potential;
- (d) systems for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) systems for monitoring the adequacy of credit and collateral documentation.

(4) The Board shall evaluate the loan review written report(s) and shall ensure that immediate, adequate, and continuing remedial action is taken to correct deficiencies noted in the report(s).

## ARTICLE IX

### CREDIT AND COLLATERAL EXCEPTIONS

(1) The Bank shall obtain current and complete credit information on all loans lacking such information, including those listed in the most recent ROE (within sixty (60) days from the effective date of this Order), in any subsequent ROE (within sixty (60) days from the issuance of such ROE), in any internal or external loan review (within sixty (60) days from the completion of such review), or in any listings of loans lacking such information provided to management by the OCC Examiners (within sixty (60) days from receipt of such listing). The Bank shall maintain a list of any credit exceptions that have not been corrected within the timeframe discussed above. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not yet been corrected, and a plan to correct the exception.

(2) The Bank shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the most recent ROE (within sixty (60) days from the effective date of this Order), in any subsequent ROE (within sixty (60) days from the issuance of such ROE), in any internal or external loan review (within sixty (60) days from the completion of such review), or in any listings of loans lacking such information provided to management by the OCC Examiners (within sixty (60) days from the receipt of such listing). The Bank shall maintain a list of any collateral exceptions that have not been corrected within the timeframe discussed above. This list

shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not been corrected, and a plan to correct the exception.

## ARTICLE X

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of the date of this Order, the Board shall maintain and adhere to a written policy and procedures for the maintenance of an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with generally accepted accounting principles (“GAAP”). The policy and procedures shall be consistent with 12 C.F.R. § 160.160 and the guidance on maintaining a proper ALLL found in the Interagency Policy Statement on the ALLL contained in OCC Bulletins 2001-37 (July 20, 2001) and 2006-47 (December 13, 2006) and with “Allowance for Loan and Lease Losses,” booklet A-ALLL of the *Comptroller's Handbook* (June 19, 1996, May 1998), and shall incorporate the following:

- (a) internal loan risk ratings;
- (b) results of the Bank’s independent loan review;
- (c) criteria for determining which loans will be reviewed under ASC Topic 310, how impairment will be determined, and procedures to ensure that the analysis of loans complies with ASC 310 requirements;
- (d) criteria for determining loan pools under ASC 450 and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with GAAP and regulatory guidance;
- (f) loan loss experience;

- (g) trends of delinquent and non-accrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and projected economic and market conditions.

(2) The policy and procedures shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to filing the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL shall be maintained.

## ARTICLE XI

### OTHER REAL ESTATE OWNED

(1) Within sixty (60) days of the date of this Order, the Board shall adopt, and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to an effective program that addresses all corrective actions in the most recent ROE relating to Other Real Estate Owned (“OREO”) and ensures that the Bank manages OREO in accordance with all applicable laws, rules, regulations, and regulatory guidance. The program shall, at a minimum, address and incorporate the following:

- (a) clear and centralized responsibility and authority for managing and authorizing transactions relating to the OREO properties;
- (b) proper accounting procedures for OREO properties in accordance with GAAP and the Consolidated Report of Condition and Income (Call Report) instructions;

- (c) procedures to require timely appraisals pursuant to 12 C.F.R. § 160.172;
- (d) written documentation supporting each appraisal review and analysis that shall be retained in the file for each OREO property, along with the appraisal;
- (e) a requirement for the Bank to produce a written analysis for each OREO property that compares the cost to carry the property against the financial benefits of a near-term sale of the property;
- (f) the exercise of diligent sales efforts;
- (g) accurate and timely reporting systems;

(2) Within sixty (60) days, the Board shall adopt, and the Bank (subject to Board review and ongoing monitoring) shall implement, and ensure adherence to written OREO action plans for each parcel of OREO with an on balance sheet book value in excess of one hundred thousand dollars (\$100,000) that address the requirements of paragraph one (1) (a) – (f) of this Article. At least quarterly (within thirty (30) days from quarter end), the Board or committee thereof, shall review and evaluate the effectiveness of each OREO action plan. This Board or Board committee review shall include a written assessment of the Bank’s compliance with the OREO action plan and the effectiveness of the OREO action plan.

## ARTICLE XII

### CONCENTRATION RISK MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall revise its written concentration management program for identifying, monitoring, and controlling risks associated with concentrations of credit to ensure that it addresses all concentrations of credit related corrective actions in the most recent ROE and is consistent with the guidance set forth in OCC Bulletin 2006-46 (December 6, 2006), *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices: Interagency Guidance on CRE Concentration Management*, and the “Concentrations of Credit” booklet of the *Comptrollers’ Handbook* (December 13, 2011). The program shall include, but is not limited to, the following:

- (a) policy guidelines addressing the level and nature of exposures acceptable to the institution and setting concentration limits, including limits on commitments to individual borrowers and appropriate sub-limits;
- (b) procedures to identify and quantify the nature and level of risk presented by concentrations, including review of changes in conditions in the Bank’s markets;
- (c) procedures to periodically review and revise, as appropriate, risk exposure limits and sub-limits to conform to any changes in the Bank’s strategies and to respond to changes in market conditions;

- (d) quarterly portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;
- (e) appropriate strategies for managing concentration levels, including a contingency plan to reduce or mitigate concentrations deemed imprudent for the Bank's earnings, capital, or in the event of adverse market conditions; and
- (f) quarterly reports to the Board, which shall at a minimum include the following:
  - (i) a summary of concentration levels, by type and subtype;
  - (ii) a summary of the Bank's market analysis;
  - (iii) discussion of recommended strategies when concentrations approach or exceed Board-approved limits; and
  - (iv) a summary of changes in risk levels by concentration type and subtype, with discussion of recommended changes in credit administration procedures (i.e., underwriting practices, risk rating, monitoring, and training).

(2) Upon completion, the Board shall thereafter adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the revised written concentration management program.

(3) Upon completion, the Board shall forward a copy of the program required in paragraph one (1) of this Article, and any concentration reports, studies, or analysis to the Director.

## ARTICLE XIII

### APPRAISALS AND EVALUATION PROCESS

(1) Within forty-five (45) days of the date of this Order, the Board shall revise and adopt, and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a revised real estate appraisal program that addresses appraisals and evaluations prior to and after the credit decision. The program shall be in consistent with 12 C.F.R. Part 164 and applicable regulatory guidance, including the Interagency Appraisal and Evaluation Guidelines, OCC 2010-42, dated December 10, 2010, and the “Commercial Real Estate and Construction Lending” booklet of the *Comptroller’s Handbook*. At a minimum, the real estate appraisal program shall incorporate specific guidelines that:

- (a) provide for the independence and qualifications of the person ordering, performing, and reviewing appraisals or evaluations;
- (b) establish selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations;
- (c) ensure that appraisals and evaluations contain sufficient information and detail in support of the value;
- (d) maintain criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices;
- (e) provide for the receipt and review of the appraisal or evaluation report in a timely manner;

- (f) develop criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction;
- (g) implement internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements;
- (h) establish criteria for collateral valuation monitoring; and
- (i) establish criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of 12 C.F.R. Part 164.

#### ARTICLE XIV

#### THIRD PARTY CONTRACTS INVOLVING SALE, MERGER, OR RECAPITALIZATION

(1) The Bank shall not enter into any contract with a third party, to assist in the sale, merger, or recapitalization of the Bank that requires the payment of anything other than expenses prior to such sale, merger, or recapitalization, or that requires the Bank to pay, directly or indirectly, the cost of performing due diligence, or other services related to the transaction, unless the Bank first receives the Director's written determination of no supervisory objection.

(2) Any request for the Director's written determination of no supervisory objection shall include:

- (a) a description of the due diligence credit review, fairness opinion, or any other services to be performed by the third party, including a copy of the proposed contract or engagement;

- (b) a description of the Bank's due diligence process for agreeing to the services to be performed by a potential purchaser or merger partner; and
- (c) a determination by the Board that:
  - i. the activities to be performed by the third party as part of the sale or merger requirements are fair and reasonable to the Bank;
  - ii. the parties are able to perform under the contract or commitment;
  - iii. the fees the Bank is required to pay to the third party are reasonable for the services provided; and
  - iv. the contract is in the best interests of the Bank.

(3) Following any written determination of no supervisory objection by the Director, the Board shall regularly monitor the third party provider's performance to ensure that the third party provider is complying with the written contract or engagement. The Board shall immediately take appropriate action if the third party provider is not complying with the written contract or engagement and shall maintain documentation of any such actions.

## ARTICLE XV

### VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent ROE, any subsequent ROE, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts.

(2) Within ninety (90) days of the date of this Order and thereafter within receipt of a ROE, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent violations as cited in the most recent ROE and to prevent future violations as cited in subsequent ROEs; and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

## ARTICLE XVI

### OTHER PROVISIONS

(1) Although the Bank 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 Director, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(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) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his 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.

(4) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(5) If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Order, the Board shall submit a written request to the Director asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a timeframe within this Order.

(6) The Director's decision concerning a request submitted pursuant to paragraph five (5) of this Article is final and not subject to further review.

(7) In each instance in this Order in which the Board or a Board committee 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.

(8) 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.

(9) The Office of Thrift Supervision (“OTS”) issued a Supervisory Agreement to the Bank on July 1, 2011. This Order replaces the OTS Supervisory Agreement in its entirety and, therefore, the OTS Supervisory Agreement is hereby terminated. Provided however, no provision in this Order shall bar or otherwise limit any enforcement action the OCC may choose to initiate, in its discretion, against the Bank or its institution-affiliated parties for any failure to comply with the OTS Supervisory Agreement while it was effective.

(10) All reports or plans which the Bank or Board has agreed to submit to the Director pursuant to this Order shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision  
Comptroller of the Currency  
250 E Street, SW  
Mail Stop 2-7  
Washington, D.C. 20219

*with a copy to:*  
Birmingham, Alabama Field Office  
Comptroller of the Currency  
3595 Grandview Pkwy, Suite 655  
Birmingham, AL. 35243

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

IT IS SO ORDERED, this 5th day of December, 2012.

\_\_\_\_\_/s/\_\_\_\_\_  
James R. Moore  
Director for Special Supervision

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

|                          |   |              |
|--------------------------|---|--------------|
| <b>In the Matter of:</b> | ) |              |
| Worthington Federal Bank | ) | AA-EC-12-151 |
| Huntsville, AL           | ) |              |

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

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against the Worthington Federal Bank, Huntsville, AL (“Bank”) pursuant to 12 U.S.C. § 1818, through the issuance of a Notice of Charges, for unsafe or unsound banking practices relating to asset quality, earnings, and management, for violation of law, and for failure to comply with the Supervisory Agreement dated July 1, 2011; and

**WHEREAS**, the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated December 5, 2012 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order (“Stipulation”).

**NOW THEREFORE**, in consideration of the above premises, the Comptroller, through his 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” within the meaning of 12 U.S.C. § 1462(3) and an “insured depository institution” within the meaning of 12 U.S.C. § 1813(c).

(2) Pursuant to Section 312 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, 12 U.S.C. § 5412, all powers, authorities, rights and duties relating to Federal savings associations that were vested in the Office of Thrift Supervision (“OTS”) and the Director of the OTS, transferred to the OCC on July 21, 2011.

(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).

(3) 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.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Order and/or execute the Order.

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

(6) The terms and provisions of this Stipulation and the Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim under this Stipulation or the Order.

### ARTICLE III

#### WAIVERS

- (1) The Bank, by signing this Stipulation, 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), 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.

ARTICLE IV

CLOSING PROVISIONS

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

(2) Nothing in this Stipulation shall preclude any proceedings brought by the Comptroller to enforce the terms of this Order, and nothing in this Stipulation constitutes, nor shall the Bank contend that it constitutes, a waiver of any right, power, or authority of any other representative of the United States or an agency thereof, including, without limitation, the United States Department of Justice, to bring other actions deemed appropriate.

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

\_\_\_\_\_  
/s/  
James R. Moore  
Director  
Special Supervision Division

\_\_\_\_\_  
12-5-12  
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank have hereunto set their hands on behalf of the Bank.

|   |                        |
|---|------------------------|
| <u>/s/</u><br>Steven R. Denny           | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>Mike W. Friday            | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>Keith S. Jones            | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>David K. Karabinos        | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>Timothy M. Singleton, Jr. | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>Janice F. Smith           | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>William L. Worthington    | <u>12-5-12</u><br>Date |
| <u>/s/</u><br>Shaul Zislin              | <u>12-5-12</u><br>Date |