

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

STATE OF FLORIDA
OFFICE OF FINANCIAL REGULATION

TALLAHASSEE, FLORIDA

_____)	
In the Matter of)	
)	CONSENT ORDER
GULF STATE COMMUNITY BANK)	
CARRABELLE, FLORIDA)	FDIC-09-520b
)	OFR 0678-FI-09/09
)	
(Insured State Nonmember Bank))	
_____)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Gulf State Community Bank, Carrabelle, Florida (“Bank”) under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation to the Issuance of a Consent Order” (“Stipulation”), dated November 19, 2009, that is accepted by the FDIC and the Division of Financial Institutions of the Florida Office of Financial Regulation (“OFR”). The OFR may issue an order pursuant to Chapter 120 and Section 655.033, Florida Statutes (2009).

With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk, to the issuance of this Consent Order (“ORDER”) by the FDIC and the OFR.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Chapter 120 and Section 655.033, Florida Statutes (2009) have been satisfied, the FDIC and the OFR hereby order that:

DIRECTORS

1. (a) Immediately upon the effective date of this ORDER, the Board shall enhance its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives, and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. At each Board meeting (to be held no less frequently than monthly), this enhanced participation shall include, at a minimum, the following areas which shall be reviewed and approved: capital adequacy; liquidity; classified and criticized assets; reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of the ORDER, the Board shall establish a Board committee ("Directors' Committee"), consisting of at least four members, to oversee the Bank's compliance with the ORDER. All of the members of the Directors' Committee shall be independent directors of the Bank. The Directors' Committee shall receive from Bank management monthly reports regarding the Bank's actions with respect to compliance with this ORDER. The Directors' Committee shall present a report regarding the Bank's adherence to the ORDER to the Board at each regularly scheduled Board meeting. Such report shall be recorded in appropriate minutes of the Board's meeting and shall be retained in the Bank's records. Establishment of this committee does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

MANAGEMENT

2. Within 60 days of the effective date of this ORDER, the Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the chief executive officer, senior lending officer, and chief financial officer. All management officials shall have an appropriate level of experience and expertise that is needed to perform his or her duties. Each member of management shall be provided appropriate written authority from the Bank's Board to implement the provisions of this ORDER.

- (b) The qualification of management shall be assessed on their ability to:
- (i) comply with the requirements of this ORDER;
 - (ii) operate the Bank in a safe and sound manner;
 - (iii) comply with applicable laws, regulations and statements of policy; and
 - (iv) restore all aspects of the Bank to a safe and sound condition, including asset quality (e.g. upgrading a low quality loan portfolio), capital adequacy, earnings, risk management, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall provide written notice to the FDIC and the OFR (collectively, "Supervisory Authorities") when it proposes to add any individual to the Bank's Board or employ any individual as a senior executive officer as that term is defined in Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. § 303.101, or executive officer as that term is defined and applied in Chapter 655 and Section 655.0385, Florida Statutes, and Rule 69U-100.03852, Florida Administrative Code. The notification to the Supervisory Authorities shall comply with the requirements set forth in 12 C.F.R. Part 303, Subpart F, and Rule 69U-

100.03852, Florida Administrative Code. The notification should include a description of the background and experience of the individual or individuals to be added or employed and must be received at least 60 days before such addition or employment is intended to become effective. If the Regional Director or OFR issues a notice of disapproval pursuant to section 32 of the Act, 12 U.S.C. § 1831i, or Section 655.0385(2) or (3), Florida Statutes, with respect to any proposed individual, then such individual may not be added or employed by the Bank.

CAPITAL

3. (a) Within 90 days from the effective date of this ORDER, the Bank shall have Tier 1 Capital in such an amount as to equal or exceed 8 percent of the Bank's total assets and total risk-based capital in such an amount as to equal or exceed 12 percent of the Bank's total risk-weighted assets. Thereafter, the Bank shall maintain Tier 1 Capital and total risk based capital ratios equal to or exceeding 8 percent and 12 percent, respectively, during the life of this ORDER. Tier 1 Capital and total risk based capital ratios shall be calculated at the end of each calendar quarter utilizing the definitions contained in 12 C.F.R. § 325.2. In the event these capital ratios fall below the required percentages at the end of any calendar quarter, the Bank shall notify the Supervisory Authorities of the capital deficiency in writing within ten days and shall increase capital by an amount sufficient to raise the ratio to the required percentages prior to the next calendar quarter end.

(b) The level of Tier 1 Capital and total risk-based capital to be maintained during the life of this ORDER pursuant to subparagraph 3(a) shall be in addition to an adequately funded allowance for loan and lease losses ("ALLL"), the adequacy of which shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(c) Any increase in Tier 1 Capital and total risk based capital necessary to meet the requirements of subparagraph 3(a) of the ORDER may be accomplished by the following:

- (i) sale of common stock;
- (ii) direct contribution of cash by the Board, shareholders, and/or parent holding company;
- (iii) any other means acceptable to the Supervisory Authorities; or
- (iv) any combination of the above means.

(d) Any increase in Tier 1 Capital necessary to meet the requirements of paragraph 3 of this ORDER shall not be accomplished through a deduction from the Bank's ALLL.

(e) If all or part of any necessary increase in capital required by paragraph 3 of this ORDER is accomplished by the sale of new securities, the Board shall forthwith take all necessary steps to adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan.

Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with any applicable securities laws. Prior to the implementation of a plan involving the public distribution of the Bank's securities and, in any event, not less than 15 days prior to the dissemination of the materials to be used in the public distribution, the plan and any materials to be used in the public distribution of the Bank's securities shall be submitted to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429, and the OFR, 200 East Gaines Street, Suite 624, Tallahassee, Florida 32399-0371, for review. Any changes requested to be made in the plan or materials shall be made prior to their dissemination.

(f) For the purposes of this ORDER, the terms “Tier 1 Capital,” “total risk-based capital,” “total assets,” and “total risk-weighted assets” shall have the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325.

DIVIDENDS

4. While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Supervisory Authorities.

CONCENTRATIONS OF CREDIT

5. Within 60 days from the effective date of this ORDER, the Bank shall perform a risk segmentation analysis with respect to the concentrations of credit listed on the Concentrations page of the FDIC Report of Examination dated as of June 8, 2009 (“Report”) and any other concentration deemed important by the Bank and develop a written plan approved by its Board to systematically reduce and monitor the Bank’s level of concentration risk. A copy of the plan and the analysis will be provided to the Supervisory Authorities for review and approval. The plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations. At a minimum, the plan shall include:

- (a) amounts and percent of total risk based capital to which the Bank shall reduce each concentration;
- (b) timeframes for achieving the reduction in dollar levels identified in response to subparagraph 5(a);
- (c) provisions for the submission of monthly written progress reports to the Board for review and notation in the minutes of its meetings; and
- (d) procedures for monitoring the Bank’s compliance with the plan.

CHARGE-OFF

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of all assets or portions of assets classified "Doubtful" in the Report that have not been previously collected or charged-off unless otherwise approved in writing by the Supervisory Authorities. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph.

(b) Additionally, while this ORDER remains in effect, the Bank shall, within 30 days from the receipt of any official Report of Examination of the Bank from the FDIC or the OFR, eliminate from its books, by collection, charge-off, or other proper entries, the remaining balance of any asset classified "Loss" and 50 percent of those classified "Doubtful" unless otherwise approved in writing by the Supervisory Authorities. Elimination or reduction of assets through proceeds of other loans made by the Bank is not considered collection for purposes of this provision.

ALLOWANCE FOR LOAN AND LEASE LOSSES

7. Within 60 days from the effective date of this ORDER, the Board shall review and revise its policy for determining the adequacy of the ALLL, ensuring that such policy is comprehensive. For the purpose of this determination, the adequacy of the ALLL shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the ALLL at least once each calendar quarter in order that the findings of the Board with respect to the ALLL may be properly reported in the quarterly Reports of Condition and Income. The review should focus on the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of

potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. The Bank's policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

LOAN POLICY

8. (a) Within 90 days from the effective date of this ORDER, the Bank shall review, revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. Such policies and their implementation shall be in a form and manner acceptable to the Supervisory Authorities.

(b) The Board shall adopt procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in the minutes of a Board meeting and the vote of each is noted.

(c) Within 90 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report. The Bank shall initiate and implement a program to ensure its credit files contain complete, adequate, and current documentation.

ADVERSELY CLASSIFIED ASSETS

9. (a) Within 45 days from the effective date of this ORDER, the Bank shall formulate a written plan to reduce the Bank's risk exposure in each asset, or relationship in excess of \$500,000 and classified "Substandard" or "Doubtful" in the Report. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Supervisory Authorities. In developing

the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

- (i) a quarterly schedule for reducing the outstanding dollar amount of adversely classified assets;
- (ii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Bank's projected Tier 1 Capital plus the ALLL;
- (iii) a provision for the Bank's submission of monthly written progress reports to its Board; and
- (iv) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the Board meeting.

(c) The plan mandated by this provision shall further require a reduction in the aggregate balance of assets classified "Substandard" and "Doubtful" in the Report in accordance with the following schedule. For purposes of this subparagraph, "days" means the number of days from the effective date of this ORDER.

- (i) within 90 days, a reduction of ten percent (10%) in the balance of assets classified "Substandard" or "Doubtful";
- (ii) within 180 days, a reduction of twenty percent (20%) in the balance of assets classified "Substandard" or "Doubtful";

(iii) within 360 days, a reduction of forty-five percent (45%) in the balance of assets classified “Substandard” or “Doubtful”;

(iv) within 540 days, a reduction of sixty percent (60%) in the balance of assets classified “Substandard” or “Doubtful”; and

(v) within 720 days, a reduction of seventy-five percent (75%) in the balance of assets classified “Substandard” or “Doubtful.”

(d) The requirements of subparagraph 9(c) do not represent standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets.

(e) Within 45 days of the effective date of this ORDER, the Bank shall submit the written plan to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan.

RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

10. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, “Loss” or “Doubtful” and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after collection in cash of interest due from the borrower) any credit already extended to any borrower.

(b) Additionally, as of the effective date and during the life of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower

who has a loan or other extension of credit from the Bank that has been classified, in whole or part, “Substandard” or is listed for “Special Mention” and is uncollected.

(c) Subparagraph 10(b) shall not apply if the Bank’s failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to the extending of any additional credit pursuant to this subparagraph, either in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by a majority of the Board or a designated committee thereof, who shall certify in writing as follows:

- (i) why the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;
- (ii) that the Bank’s position would be improved thereby, including an explanatory statement of how the Bank’s position would be improved;
- (iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and
- (iv) the signed certification shall be made a part of the minutes of the Board or its designated committee and a copy of the signed certification shall be retained in the borrower’s credit file.

OTHER REAL ESTATE

11. Within 60 days from the effective date of this ORDER, the Board shall develop a written policy for managing the Other Real Estate (“ORE”) of the Bank. The Bank shall submit the policy to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after due consideration of any recommended changes, the Bank shall so revise and then approve the policy, which approval shall be recorded in the Board minutes. Thereafter, the Bank shall implement and fully comply with the policy.

VIOLATIONS OF LAW AND REGULATION

12. Within 45 days from the effective date of this ORDER, the Bank shall take steps necessary consistent with safe and sound banking practices to correct all violations of laws, regulations, and/or contraventions of statements of policy on pages 14 - 15 in the Report and shall adopt and implement appropriate procedures to ensure future compliance with all such applicable federal and state laws, regulations and/or statements of policy.

INTERNAL LOAN REVIEW

13. Within 90 days from the effective date of this Order, the Bank shall review and revise its internal loan review grading system to provide for periodic review of the Bank's loan portfolio in order to identify and categorize the Bank's loans, and other extensions of credit which are carried on the Bank's books as loans, on the basis of credit quality. Such system and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

PLAN FOR EXPENSES AND PROFITABILITY

14. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and fully implement a written plan and a comprehensive budget for 2010 for all categories of income and expense. The plan and budget required by this paragraph shall include formal goals and strategies, consistent with sound banking practices and taking into account the Bank's other written policies, to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, control overhead, and improve and sustain earnings of the Bank. The plan shall include a projected balance sheet and a description of the operating assumptions that form the basis for and adequately support major projected income and expense components. Thereafter, the Bank shall formulate such an annual plan and budget for the forthcoming year by November 30 of each subsequent year. The plan and budget required by this subparagraph shall

be acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan and budget required by subparagraph 14(a) of this ORDER and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

WRITTEN STRATEGIC BUSINESS PLAN

15. Within 90 days from the effective date of this ORDER, the Bank shall prepare and submit to the Supervisory Authorities a revised written strategic plan consisting of long-term goals designed to improve the condition of the Bank and strategies for achieving those goals. The plan shall be in a form and manner acceptable to the Supervisory Authorities, but at a minimum shall cover three years and provide specific objectives for asset growth, market focus, earnings projections, capital needs, and liquidity position.

LIQUIDITY AND FUNDS MANAGEMENT

16. (a) Within 60 days from the effective date of this ORDER, the Bank shall review, revise, adopt, and implement a written plan to improve liquidity, contingency funding, interest rate risk, and asset liability management, and to reduce the Bank's dependency on volatile liabilities.

(b) The plan shall incorporate the guidance contained in Financial Institution Letter (FIL) 84-2008, dated August 26, 2008, entitled *Liquidity Risk Management*. The plan shall provide restrictions on the use of brokered and Internet deposits consistent with safe and sound banking practices.

(c) A copy of the plan shall be submitted to the Supervisory Authorities upon its completion for review and comment. Within 30 days from the receipt of any comments from the

Supervisory Authorities, the Bank shall incorporate those recommended changes. Thereafter, the Bank shall implement and follow the plan, and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

BROKERED DEPOSITS

17. (a) Throughout the effective life of this ORDER, the Bank shall not accept, renew, rollover any brokered deposit, as defined by 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b), governing solicitation and acceptance of brokered deposits by insured depository institutions.

(c) The Bank shall comply with the restrictions on the effective yields on deposits as described in 12 C.F.R. § 337.6.

INTEREST RATE RISK

18. Within 60 days from the effective date of this ORDER, the Bank shall review, revise, adopt, and implement a written policy for managing interest rate risk in a manner that is appropriate to the size of the Bank and the complexity of its assets. The policy shall comply with the Financial Institution Letter (FIL) 52-96, dated July 12, 1996, entitled *Joint Inter-Agency Policy Statement on Interest Rate Risk*, shall be consistent with the comments and recommendations detailed in the Report and shall include, at a minimum, the means by which the interest rate risk position will be monitored, the establishment of risk parameters, and provision for periodic reporting to management and the Board regarding interest rate risk with adequate information provided to assess the level of risk. The Bank shall also submit the policy to the Supervisory Authorities for review and comment. Such policy and its implementation shall be satisfactory to the Supervisory Authorities. The Board shall review the Bank's interest rate risk position monthly and this review shall be noted in the Board minutes.

PROGRESS REPORTS

19. (a) Within 30 days after the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such written reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of this ORDER. The reporting requirements shall continue for the life of this ORDER unless modified or terminated in writing by the Supervisory Authorities.

(b) All progress reports and other written responses to this ORDER shall be reviewed by the Board and be made a part of the minutes of the appropriate Board meeting.

DISCLOSURE TO SHAREHOLDERS

20. Following the issuance of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER (i) in conjunction with the Bank's next shareholder communication or (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 and to the Director of the OFR, 200 East Gaines Street, Suite 624, Tallahassee, FL 32399-0371 to review at least twenty (20) days prior to dissemination to shareholders. Any changes requested to be made by the Supervisory Authorities shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority.

Dated this 20th day of November 2009.

/s/

Doreen R. Eberley
Acting Regional Director
Division of Supervision and Consumer
Protection
Atlanta Region
Federal Deposit Insurance Corporation

The Commissioner of the Florida Office of Financial Regulation having duly approved the foregoing ORDER, and the Bank, through its Board, having agreed that the issuance of said ORDER by the FDIC shall be binding as between the Bank and the OFR to the same degree and legal effect that such ORDER would be binding upon the Bank if the OFR had issued a separate order that included and incorporated all of the provisions of the foregoing ORDER pursuant to Chapters 120, 655, and 658, including specifically Sections 655.033 and 655.041, Florida Statutes (2009).

Dated this 20th day of November, 2009.

/s/

Linda B. Charity
Director
Division of Financial Institutions
Office of Financial Regulation
By Delegated Authority for the
Commissioner, Office of Financial
Institutions