

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

\_\_\_\_\_  
IN THE MATTER OF: )  
 )  
Carolina Federal Savings Bank ) AA-EC-12-38  
Charleston, South Carolina )  
\_\_\_\_\_ )

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Carolina Federal Savings Bank, Charleston, South Carolina (“Bank”), is a significantly undercapitalized federal savings association pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 165;

WHEREAS, the Office of the Comptroller of the Currency (“OCC” or “Comptroller”) is authorized, pursuant to 12 U.S.C. § 1831o, to take certain supervisory actions against significantly undercapitalized federal savings associations;

WHEREAS, on February 27, 2012, the OCC issued a Notice of Intent to Issue a Prompt Corrective Action Directive (“Notice”) to the Bank to pursuant to 12 C.F.R. § 165.7(a)(1);

WHEREAS, on March 23, 2012, the Bank submitted a written response to the Notice pursuant to 12 C.F.R. § 165.7(c);

WHEREAS, the OCC has carefully considered the Bank’s response to the Notice;

WHEREAS, the Comptroller finds it necessary in order to carry out the purpose of 12 U.S.C. § 1831o to issue this Prompt Corrective Action Directive (“Directive”), requiring the Bank to immediately follow proscriptions and take actions;

NOW THEREFORE, pursuant to the authority in 12 U.S.C. § 1831o, the Comptroller hereby issues this Directive.

## ARTICLE I

### JURISDICTION

- (1) The Bank is a federal savings association supervised and examined by the Comptroller pursuant to 12 U.S.C. § 5412(b).
- (2) The OCC is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1831o.
- (3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1831o.
- (4) This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).
- (5) A violation of this Directive constitutes a violation of a final order under 12 U.S.C. § 1831o and is subject to the assessment of civil money penalties under 12 U.S.C. § 1818(i)(2).

## ARTICLE II

### COMPLIANCE COMMITTEE

- (1) Within five (5) days of issuance of the PCA Directive, the Board’s Compliance Committee shall include the actions taken to ensure compliance with the PCA Directive in regular written progress reports to the Board. The Board shall also include information about the Bank’s compliance with the PCA Directive in monthly reports to the OCC.

(2) All reports or plans which the Bank or Board is required to submit to the Director pursuant to this Directive shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision  
Comptroller of the Currency  
250 E Street, S.W.  
Mail Stop 2-7  
Washington, DC 20219

*with a copy to*  
Comptroller of the Currency  
212 South Tryon  
Suite 700  
Charlotte, NC 28281

### ARTICLE III

#### BOARD TO ENSURE COMPETENT MANAGEMENT

(1) The Board shall ensure that the Bank has competent management in place on a full-time basis in all executive officer positions to carry out the Board's policies; correct the concerns raised in the 2011 ROE and the July 27, 2010 Consent Order; ensure compliance with the PCA Directive and any other supervisory directives; ensure compliance with all applicable laws, rules, and regulations; and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) The Board shall ensure that the Bank has sufficient processes, personnel, and control systems to effectively implement and adhere to all provisions of this Directive, and that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Directive.

### ARTICLE IV

#### PRESERVATION OF BOOKS AND RECORDS

(1) Immediately upon issuance of the PCA Directive, the Board shall ensure

that all of the Bank's documents, books, and records are accurately maintained and preserved and shall ensure that no Bank documents, books, or records are destroyed, altered, or removed.

(2) For purposes of this Article, "documents, books, and records" shall have the broadest possible meaning reasonably imaginable and shall include, without limitation, paper and electronic records of all kinds, reports, notes, calendars, phone logs, e-mails, voice-mails, financial instruments, and tapes.

(3) The Bank shall provide OCC personnel with prompt and unrestricted access to the documents, books, records, directors, officers, and staff of the Bank. The Board shall also ensure all agents and representatives of the Bank provide OCC personnel with prompt and complete access to the documents, books, and records of the Bank.

(4) The Bank shall provide full and complete details of the purpose of the transactions by and between the Bank and any of its customers and by and between the Bank and any of its directors, officers, and staff, to OCC personnel upon inquiry.

## ARTICLE V

### SEVERANCE PAYMENTS AND INDEMNIFICATION

(1) The Bank shall make no severance or indemnification payments to, or on behalf of, any institution-affiliated party unless such payments fully comply with 12 U.S.C. § 1828(k), 12 C.F.R. Part 359, and 12 C.F.R. § 145.121 and receive the prior, written non-objection of the OCC.

(2) Any request for the OCC's supervisory non-objection shall include a legal opinion from independent counsel setting forth the basis under which such

indemnification payments fully satisfy the requirements of 12 U.S.C. § 1828(k), 12 C.F.R. Part 359, and 12 C.F.R. § 145.121.

## ARTICLE VI

### 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 OCC's written determination of no supervisory objection.

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

- (a) The Board's written analysis of why the proposed contract is in the best interests of the Bank;
- (b) 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;
- (c) 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
- (d) 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 OCC, the Board shall regularly monitor the contractor or service provider's performance to ensure that the contractor or service provider is complying with the written contract or engagement. The Board shall immediately take appropriate action if the contractor or service provider is not complying with the written contract or engagement and shall maintain documentation of any such actions.

## ARTICLE VII

### RESTRICTION ON LENDING ACTIVITIES

(1) The Bank shall not make, renew, refinance, purchase or commit to make, renew, refinance, or purchase any loan or extension of credit, as defined in 12 C.F.R. § 160.93(b)(4) and 12 C.F.R. § 32.2(k), in an amount greater than fifty thousand dollars (\$50,000), except for certain Permitted Loans.

(2) For purposes of this Directive, the term "Permitted Loans" includes:

- (a) An advance of funds under a legally binding written commitment existing prior to the OCC's January 12, 2012 letter, provided that such commitment complied with the Bank's lending limit in 12 C.F.R. § 160.93 and all other applicable regulatory requirements at the date of the commitment;
- (b) A renewal of loans that are performing and are not criticized assets, provided that the renewal does not constitute a new loan or extension of credit under 12 C.F.R. 160.93(b)(4) and 12 C.F.R. § 32.2(k) and the transaction complies with all applicable regulatory requirements;
- (c) Qualifying mortgage loans, as defined in 12 C.F.R. § 167.1, secured by 1-4 family residential homes, provided that loan does not exceed the lending limit set forth in 12 C.F.R. § 160.93(c) and the loan complies with all applicable regulatory requirements; and
- (d) The loans that are fully secured by segregated deposit accounts, provided that the Bank has a security interest in the deposit perfected under applicable law and the loan complies with all applicable regulatory requirements.

(3) For Permitted Loans, the Bank remains subject to the general lending limitations set forth in 12 C.F.R. § 160.93, except that the Bank may not rely on the lending limit exceptions set forth in 12 C.F.R. § 160.93(d) for any loan, regardless of whether or not it is considered a Permitted Loan.

## ARTICLE VIII

### APPRAISALS OF REAL PROPERTY

(1) Within thirty (30) days of the date of the Directive, the Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal, in accordance with 12 C.F.R. Part 164, on any loan exceeding one hundred thousand dollars (\$100,000) that is security by real property:

- (a) where the loan's appraisal was found to violate 12 C.F.R. Part 164;
- (b) where the loan criticized in the most recent ROE, in any subsequent ROE, or by the Bank's internal or external loan review and the most recent independent appraisal is more than twelve (12) months old; or
- (c) where the borrower has failed to comply with the contractual terms of the loan agreement and the loan officer's analysis of current financial information does not support the ongoing ability of the borrower or guarantor(s) to perform in accordance with the contractual terms of the loan agreement and the most recent independent appraisal is more than twelve (12) months old.

(2) Going forward, appraisals required by this Article shall be ordered within thirty (30) days following the event triggering the appraisal requirement, for delivery to the Bank within sixty (60) days of the date the appraisal was ordered.

(3) Written documentation supporting each appraisal review and analysis shall be retained in the loan file, along with the appraisal.



## ARTICLE IX

### CRITICIZED ASSETS

(1) Within thirty (30) days, the Board shall reaffirm and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written program designed to protect the Bank's interest in those assets criticized as "doubtful," "substandard," or "special mention" in the most recent Report of Examination ("ROE"), in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) The program shall: (i) contain sufficient checks and balances to ensure reasonable independence from the loan origination and approval functions; (ii) include sufficient staff having the qualifications, skills, and experience to effectively manage and resolve problem assets, who will be held accountable by the Board to successfully execute their assigned duties; (iii) include adequate management information systems to measure the status of workout plans on each problem asset; and (iv) include the development of Criticized Asset Reports ("CARs") for all credit relationships and other assets totaling in aggregate one hundred thousand dollars (\$100,000) or more that are criticized as "doubtful," "substandard," or "special mention."

(3) The CARs must be updated and submitted to the Board and the Director monthly. Each CAR 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) Timely identification of the risk ratings of the loans or other assets;
- (c) The expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment sources;
- (d) The appraised value of supporting collateral, with the date and source of the appraisal, and the position of the Bank's lien on such collateral, where applicable, as well as other necessary documentation to support the current collateral valuation;
- (e) An analysis of current and complete credit information, including a global cash flow analysis where loans are to be repaid from operations;
- (f) Results of any ASC-310 impairment analysis;
- (g) Appropriate accrual status pursuant to the FFIEC Instructions for the preparation of Call Reports;
- (h) Significant developments, including a discussion of changes since the prior CAR, if any; and
- (i) The proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including an appropriate exit strategy.

## ARTICLE X

### CONTINUING OBLIGATION TO SUBMIT AN ACCEPTABLE CAPITAL

#### RESTORATION PLAN

(1) The Bank first became undercapitalized as of September 16, 2011, and the OCC confirmed this status to the Bank by letter dated November 3, 2011.

(2) For purposes of 12 U.S.C. §§ 1831o(f)(1)(B)(i) and 1821(c)(5)(K)(iii), the Bank is considered to have failed to submit a CRP acceptable to the OCC within the time prescribed until such time as, pursuant to 12 U.S.C. § 1831o(e)(2):

- (a) The Bank submits a new or revised CRP that complies with the requirements of 12 U.S.C. § 1831o(e)(2)(B), 12 C.F.R. § 165.5(b), and the November 3, 2011 letter; and
- (b) The OCC reviews the new or revised CRP and advises the Bank in writing that it accepts and approves the new or revised CRP.

## ARTICLE XI

### OTHER ACTIONS REQUIRED

(1) Immediately upon issuance of the PCA Directive, the Bank shall not do any of the following without the prior, written approval of the Bank's Board and prior, written supervisory non-objection of the OCC:

- (a) Enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, or other similar action;
- (b) Engage in the sale or transfer of any Bank-owned other real estate

- exceeding a fair market value of two hundred fifty thousand dollars (\$250,000), or engage in the sale or transfer of any other Bank asset or pool of assets, excluding other real estate owned, exceeding a fair market value of one hundred thousand dollars (\$100,000). Any other real estate owned sale or transfer less than \$250,000, and any other asset sale or transfer less than \$100,000 must be reported to the OCC within five (5) days after the sale;
- (c) Transfer any asset to an institution-affiliated party, as defined by 12 U.S.C. § 1813(u), or to an affiliate, as defined by 12 U.S.C. § 371c;
  - (d) Amend the Bank's charter or bylaws, except to the extent necessary to carry out any other requirement of law, regulation, or order;
  - (e) Make any material change in accounting methods, except to the extent necessary to carry out any other requirement of law, regulation, or order;
  - (f) Increase compensation or other payments, including bonuses, to the Bank's employees, directors, agents or independent contractors;
  - (g) Pay any bonus to any senior executive officer; and
  - (h) Enter into any new product or service, or undertake a significant expansion of any existing product or service.

## ARTICLE XII

### VIOLATIONS OF LAW

(1) Immediately upon issuance of the PCA Directive, the Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in any 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 fifteen (15) calendar days after the violation is cited or brought to the Board's attention, the Bank shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified date.

(3) The Board shall require and the Bank shall immediately take all necessary steps to comply with the requirements of the 2010 Consent Order, which shall remain in effect.

## ARTICLE XIII

### CLOSING

(1) This Directive is enforceable under 12 U.S.C. § 1818(i). Each provision of this Directive shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, subsidiaries, and other persons participating in the affairs of the Bank.

(2) Any time limitations imposed by this Directive shall begin to run from the effective date of this Directive. Such time limitations may be extended for good cause by the Director upon written application by the Board.

(3) The provisions of this Directive are effective upon issuance of this Directive 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 Directive shall have been amended, suspended, waived, or terminated in writing by the Director.

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

IT IS SO ORDERED, this 9th day of May, 2012.

/s/ Henry Fleming  
Henry Fleming  
Director  
Special Supervision Division