

**UNITED STATES OF AMERICA**  
**Before The**  
**OFFICE OF THRIFT SUPERVISION**

**In the Matter of** )  
 )  
**JOHN SCOTT RAINES,** )  
 )  
**A Former Officer of** )  
 )  
**SECURITY FEDERAL TRUST, INC.,** )  
**An operating subsidiary of** )  
**SECURITY FEDERAL BANK,** )  
**Aiken, South Carolina (OTS No. 06380)** )

Re: Order No. ATL-2005-25  
Dated: September 28, 2005

**STIPULATION AND CONSENT TO ISSUANCE OF**  
**AN ORDER OF PROHIBITION**

WHEREAS, the Office of Thrift Supervision ("OTS"), based upon information derived from the exercise of its regulatory responsibilities, has informed John Scott Raines ("RAINES"), formerly a vice president and trust officer of Security Federal Trust, Inc. ("SF Trust"), an operating subsidiary of Security Federal Bank, Aiken, South Carolina (OTS No. 06380), that the OTS is of the opinion that grounds exist to initiate administrative enforcement proceedings against RAINES pursuant to provisions of Section 8 of the Federal Deposit Insurance Act (the "FDI Act"), 12 U.S.C. § 1818,<sup>1</sup> and

WHEREAS, RAINES, desires to cooperate with the OTS and to avoid the time and expense of such administrative proceedings; and

WHEREAS, RAINES, while admitting that the OTS has jurisdiction with respect to this matter (as addressed in Paragraph 1 below), neither admits nor denies (i) that the above-mentioned grounds exist, or (ii) the OTS Findings of Fact (in Paragraph 2 and Appendix A below), and, is of the understanding that this settlement is subject to Rule 408 of the Federal Rules of Evidence.

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<sup>1</sup> All references in this Stipulation and Consent to Issuance of an Order of Prohibition ("Stipulation") and in the related order are to the United States Code as amended.

NOW, THEREFORE, RAINES hereby stipulates and agrees to the following:

1. Jurisdiction.

(a) Security Federal Bank is, and at all times relevant hereto has been, a "savings association" within the meaning of 12 U.S.C. §§ 1462(4) and 1813(b). Accordingly, Security Federal Bank is and has been an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c). SF Trust is and has been an OTS-regulated "subsidiary" of Security Federal Bank within the meaning of 12 U.S.C. §§ 1464(d)(7) and 1813(w)(4).

(b) RAINES, having been a vice president and trust officer of a wholly owned operating subsidiary of Security Federal Bank at all times relevant hereto, is and has been an "institution-affiliated party" as that term is defined in 12 U.S.C. § 1813(u). Also see 12 U.S.C. § 1464(d)(7)(C).

(c) Pursuant to 12 U.S.C. § 1813(q), the OTS is the "appropriate Federal banking agency" with jurisdiction to initiate and maintain administrative enforcement proceedings against institution-affiliated parties of savings associations, their subsidiaries, and their affiliates, pursuant to 12 U.S.C. § 1818.

(d) RAINES, having been an "institution-affiliated party" of OTS-regulated entities within six years of the date hereof, is subject to the authority of the OTS to initiate and maintain administrative proceedings against him pursuant to 12 U.S.C. § 1818, including, but not limited to, 12 U.S.C. § 1818(e). See 12 U.S.C. § 1818(i)(3).

2. OTS Findings of Fact.

The OTS finds as follows:

RAINES, while a Vice President and managing Trust Officer of SF Trust, engaged in breaches of fiduciary duty and unsafe or unsound practices relative to the business of SF Trust. As described further in Appendix A (attached to this Stipulation and incorporated by reference herein), RAINES did this by, *inter alia*: (i) engaging in *ultra vires* acts, (ii) violating written policies and procedures, (iii) providing false and/or misleading information to SF Trust's board of directors, Trust Advisory Committee, staff, and others, and (iv) failing to disclose material information to SF Trust's board of directors and its Trust Advisory Committee. By reason of the unsafe or unsound practices and breaches of fiduciary duty, SF Trust and Security Federal Bank have suffered financial loss or other damage, and have been exposed to other probable and ascertainable financial loss or damage. In addition, such practices and/or breaches involved personal dishonesty on the part of RAINES, or demonstrated his willful or continuing disregard for SF Trust's safety or soundness.

3. Consent.

RAINES consents to the issuance by the OTS of the accompanying Order of Prohibition (the "Order"). RAINES further agrees to comply with the terms of the Order upon its issuance and stipulates that the Order complies with all requirements of law.

4. Finality.

The Order is issued by the OTS under the authority of 12 U.S.C. § 1818(e). Upon issuance of the Order by the OTS (acting through its Regional Director for the Southeast Region), the Order shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

5. Waivers.

RAINES waives the following:

- (i) The right to be served with a written notice of the OTS's charges against him;
- (ii) The right to an administrative hearing of the OTS's charges against him;
- (iii) The right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (iv) Any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under federal statutes (*e.g.*, the Equal Access to Justice Act, 5 U.S.C. § 504, or 28 U.S.C. § 2412), under common law, or otherwise.

6. Indemnification.

RAINES shall neither cause nor permit Security Federal Bank (or any successor institution, holding company, subsidiary, or service corporation thereof) to incur, directly or indirectly, any expense for any legal or other professional expenses incurred relative to the negotiation and issuance of the Order and this Stipulation. RAINES also shall not obtain any indemnification (or other reimbursement) from Security Federal Bank (or any successor institution, holding company, subsidiary, or service corporation thereof) with respect to such amounts. Any such payments received by or on behalf of RAINES in connection with this action shall be returned to Security Federal Bank (or the successor institution, holding company, subsidiary, or service corporation thereof).



7. Other Government Actions Not Affected.

RAINES acknowledges and agrees that: (i) his consent to the issuance of the Order is for the purpose of resolving any and all administrative actions or other causes of action that the OTS has or may have against RAINES relating to the matters described in the OTS Findings of Fact (at Paragraph 2 hereof), and (ii) neither this Stipulation nor the Order release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of RAINES that arise relative to the aforesaid Findings of Fact or otherwise, and that may be or have been brought by any other government entity other than the OTS.

8. Miscellaneous.

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and the Order.

(b) All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

(c) The section and paragraph headings in this Stipulation and in the Order are for convenience only, and such headings shall not affect the interpretation of this Stipulation or the Order.

(d) The terms of this Stipulation and of the Order represent the final written agreement of the parties with respect to the subject matters hereof, and constitute the sole agreement of the parties with respect to such subject matters.

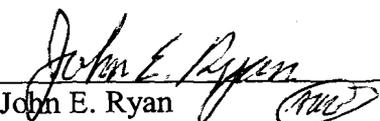
(e) The Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

WHEREFORE, on this 22<sup>nd</sup> day of September, 2005, JOHN SCOTT RAINES executes this Stipulation, intending to be legally bound hereby.

  
JOHN SCOTT RAINES

Attachment: Appendix A

Accepted by:  
OFFICE OF THRIFT SUPERVISION

By:   
John E. Ryan  
Regional Director, Southeast Region



## APPENDIX A TO RAINES STIPULATION – ADDITIONAL OTS FINDINGS

From May 2001 until his termination in April 2004, RAINES was a Vice President and managing Trust Officer of SF Trust. During 2001, RAINES assisted Security Federal Bank with its application to the OTS for authorization to exercise trust powers through SF Trust pursuant to 12 C.F.R. Part 550 (the “Application”). Included with the Application were written policies and procedures that, *inter alia*, provided that SF Trust would not serve as a fiduciary on behalf of any party except with the prior approval of SF Trust’s Trust Advisory Committee. The OTS, in reliance on such policies and procedures and other application-related submission, granted the Application, and SF Trust commenced operations on November 26, 2001.

In about February 2002, an attorney representing the remainder beneficiaries of the Trust of F.A. Greene, Jr. (the “Greene Trust”) asked RAINES to consider having SF Trust assume responsibility as successor trustee for the Greene Trust. The Greene Trust is a complicated trust whose assets include two closely held consumer finance businesses. RAINES sought guidance from SF Trust’s outside trust counsel, who advised RAINES against arranging for SF Trust to accept fiduciary responsibilities for the Greene Trust. RAINES, on June 2, 2002, appeared at a probate court hearing during which he acquiesced to the court’s issuance of an order appointing SF Trust as successor trustee for the Greene Trust. RAINES appeared before the court without prior authorization from SF Trust’s Trust Committee, and he disregarded the advice provided by SF Trust’s outside trust counsel.

RAINES did not mention the Greene Trust to the Trust Advisory Committee during its meetings during June and July 2002. On August 22, 2002, RAINES submitted papers to the Trust Advisory Committee about a proposed trust account: the Greene Trust. RAINES recommended that the Trust Advisory Committee authorize SF Trust’s acceptance of the proposed trust, and he did not disclose to the committee the existence of the previously issued probate court order appointing SF Trust as successor trustee for the Greene Trust. On August 22, 2002, the Trust Advisory Committee formally declined to accept fiduciary responsibility for the Greene Trust. The committee advised RAINES that, if the trust’s closely held businesses were sold, it would reconsider the matter.

Subsequent to August 2002, RAINES had much contact with counsel for all of the beneficiaries to the Greene Trust, and he appeared at two additional probate court hearings regarding the trust. As a result of a Greene-Trust-related hearing held on November 26, 2002, the probate court appointed a retired college professor to serve as co-trustee with responsibility for the closely held businesses owned by the trust. However, the closely held businesses of the Greene Trust have never been sold, and RAINES never made a presentation to SF Trust’s Trust Advisory Committee requesting it to reconsider whether it would authorize SF Trust’s acceptance of the Greene Trust. RAINES also refrained from arranging for the Greene Trust to be listed on SF Trust’s electronic systems for tracking trust accounts.

Notwithstanding the fact that SF Trust's Trust Advisory Committee explicitly declined to accept the Greene Trust, during 2003 and 2004 RAINES engaged in various acts with respect to the Greene Trust. In early 2003, RAINES became an authorized user of a Greene-Trust-related checking account established years before at a commercial bank. Thereafter, RAINES used that commercial bank checking account to pay expenses incurred by the Greene Trust. He did this notwithstanding the fact that it was SF Trust's procedure to use the SunGard trust accounting system and checking accounts at Security Federal Bank for the payment of expenses incurred by trust clients. RAINES also signed and filed federal income tax returns on behalf of the Greene Trust. When RAINES's subordinates saw Greene-Trust-related papers at the SF Trust, he told them that the Greene Trust was not a trust account for which SF Trust had responsibility.

In or about March 2004, officers of Security Federal Bank discovered that RAINES might have engaged in activities relating to the Greene Trust. On April 1, 2004, SF Trust's Trust Advisory Committee held a meeting and asked RAINES about the Greene Trust. RAINES told the Trust Advisory Committee that the Greene Trust was not a trust account of SF Trust, and that he had assumed personal responsibility as a fiduciary for the Greene Trust. A few days later, members of the bank's management obtained a copy of the 2002 probate court order appointing SF Trust as successor trustee for the Greene Trust, and shortly thereafter RAINES's employment was terminated.

In September 2004, the lawyer represented the remainder beneficiaries of the Greene Trust commenced a lawsuit against SF Trust. The lawsuit alleges that the interests of the remainder beneficiaries were harmed subsequent to the date of the probate court order appointing SF Trust to serve as trustee for the Greene Trust. The remainder beneficiaries seek actual and punitive damages from SF Trust. SF Trust, which has not received any trustee fees from the Greene Trust, has paid substantial legal fees to outside counsel in connection with the litigation and with the related inquiry about the Greene Trust. In addition, in view of RAINES's improper acts and omissions relative to the Greene Trust and other trusts, the reputations of SF Trust and Security Federal Bank have been injured, and SF Trust has been required to defer acceptance of any new trust business.

By virtue of the foregoing, RAINES engaged in unsafe or unsound banking practices, and breached his fiduciary duties owed to SF Trust and its sole stockholder, Security Federal Bank. By reason of the unsafe or unsound practices and breaches of fiduciary duty, SF Trust and Security Federal Bank have suffered financial loss or other damage, and have been exposed to other probable and ascertainable financial loss or damage. In addition, such practices and/or breaches involved personal dishonesty on the part of RAINES, or demonstrated his willful or continuing disregard for SF Trust's safety or soundness.

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**UNITED STATES OF AMERICA**  
**Before The**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	
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JOHN SCOTT RAINES,	)	Order No. ATL-2005-25
	)	
A Former Officer of	)	Dated: <b>September 28, 2005</b>
	)	
SECURITY FEDERAL TRUST, INC.,	)	
An operating subsidiary of	)	
SECURITY FEDERAL BANK,	)	
Aiken, South Carolina (OTS No. 06380)	)	

**ORDER OF PROHIBITION**

WHEREAS, JOHN SCOTT RAINES (“RAINES”) has executed the accompanying Stipulation and Consent to the Issuance of an Order of Prohibition (“Stipulation”); and

WHEREAS, RAINES, by his execution of the Stipulation has consented and agreed to the issuance of this Order of Prohibition (“Order”) by the Office of Thrift Supervision (“OTS”), pursuant to Section 8(e) of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1818(e).

**NOW THEREFORE, IT IS ORDERED that:**

**1. Prohibition.**

(a) RAINES is prohibited from further participation, in any manner, in the conduct of the affairs of Security Federal Bank, Aiken, South Carolina (OTS No. 06380), and of its operating subsidiary, Security Federal Trust, Inc.

(b) RAINES, except upon the prior written consent of the OTS (acting through its Director or an authorized representative thereof) and any other “appropriate Federal financial institutions regulatory agency,” for purposes of 12 U.S.C. § 1818(e)(7)(B)(ii), shall not hold any office in, or participate in any manner in the conduct of the affairs of, any institution or agency specified in 12 U.S.C. § 1818(e)(7)(A), including, but not limited to:

- i. Any insured depository institution, e.g., savings and loan associations, savings banks, national banks, trust companies, and other banking institutions;
- ii. Any institution treated as an insured bank under 12 U.S.C. §§ 1818(b)(3) and 1818(b)(4), or as a savings association under 12 U.S.C. § 1818(b)(9), e.g., subsidiaries and holding companies of banks or savings associations;

- iii. Any insured credit union under the Federal Credit Union Act (12 U.S.C. § 1781 et seq.);
  - iv. Any institution chartered under the Farm Credit Act of 1971 (12 U.S.C. § 2001 et seq.);
  - v. Any appropriate Federal depository institution regulatory agency, within the meaning of 12 U.S.C. § 1818(e)(7)(A)(v); and
  - vi. The Federal Housing Finance Board and any Federal Home Loan Bank.
- (c) **RAINES**, in view of 12 U.S.C. § 1818(e)(6), also shall not –
- i. Solicit, procure, transfer, attempt to transfer, vote, or attempt to vote any proxy, consent, or authorization with respect to any voting rights in any institution identified in 12 U.S.C. § 1818(e)(7)(A) (and also identified in Paragraph 1(a) above);
  - ii. Violate any voting agreement previously approved by the “appropriate Federal banking agency” (within the meaning of 12 U.S.C. § 1813(q)); or
  - iii. Vote for a director, or, except as otherwise provided by Paragraph 1(a) hereof, serve or act as an “institution-affiliated party”, as that term is defined at 12 U.S.C. § 1813(u), e.g., a director, officer, employee, controlling stockholder of, or agent for, an insured depository institution.

2. This Order is subject to and hereby provides notice of the provisions of Section 8(j) of the FDI Act, 12 U.S.C. § 1818(j).

3. **RAINES** shall promptly respond to any request from the OTS for documents or information that the OTS reasonably requests to demonstrate compliance with this Order.

4. The Stipulation is made a part hereof and is incorporated herein by this reference.

5. This Order is and shall become effective on the date it is issued, which date is shown in the caption hereof. The Stipulation and this Order shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

**OFFICE OF THRIFT SUPERVISION**

By:   
John E. Ryan  
Regional Director, Southeast Region