

## SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 14<sup>th</sup> day of May, 2009 (Effective Date), by and between Carolina Federal Savings Bank, Charleston, South Carolina, OTS Docket No. 15721 (Association), a federal mutual savings bank, acting by and through the Association's Board of Directors (Board), and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting by and through its Regional Director for the Southeast Region or his designee (Regional Director).

**WHEREAS**, the OTS is the primary Federal regulator of the Association pursuant to the Home Owners' Loan Act (HOLA), 12 U.S.C. §§ 1461 *et seq.*, and is the Association's appropriate Federal banking agency for purposes of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. §§ 1811 *et seq.*; and

**WHEREAS**, based on its December 8, 2008 examination of the Association (2008 Examination), the OTS finds that the Association has failed to comply with the requirements of laws and regulations to which the Association is subject, failed to adopt and implement appropriate and comprehensive operational and risk management practices and strategies, and failed to identify and correct other deficiencies and weaknesses in its operations; and

**WHEREAS**, the Association, which is subject to examination, regulation and supervision by the OTS, is taking steps to address the violations of law and regulation, strengthen operational and risk management programs, and correct weaknesses and deficiencies identified by the OTS; and

**WHEREAS**, in furtherance of their common goal to ensure that the Association

continues to address the violations of law and regulation, inadequate risk management programs, and weaknesses and deficiencies identified by the OTS, the Association and the OTS have mutually agreed to enter into this Agreement; and

**WHEREAS**, on May 12, 2009, the Association's Board, at a duly constituted meeting adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each provision of this Agreement.

**NOW THEREFORE**, in consideration of the above premises, it is agreed as follows:

**Business Plan.**

1. Within ninety (90) days, the Board shall prepare and submit to the Regional Director for review and comment a new comprehensive business plan that covers the second half of calendar year 2009, all of calendar years 2010 and 2011, and the first half of calendar year 2012 (Business Plan). At a minimum, the Business Plan shall include:
  - a. a detailed and specific discussion of the Board's plans and strategies to restructure the Association's operations including, but not limited to, reviewing and restructuring the Association's branch or banking office locations, reducing general and administrative and operating expenses, and strengthening and improving the Association's operations, earnings, and asset quality;
  - b. a discussion of the Association's current financial position and resources and specific Board's strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately

support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, and maintain appropriate levels of liquidity;

c. consideration of the requirements and limitations contained in this Agreement;

d. quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) and a detailed budget for each period covered by the Business Plan; and

e. identification of all relevant assumptions made in formulating the Business Plan, as well as documentation supporting such assumptions.

2. The Board shall make any changes to the Business Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Business Plan to the Regional Director for review. Upon receipt of non-objection to the revised Business Plan from the Regional Director, the Board shall adopt the revised Business Plan and the revised Business Plan shall be incorporated herein by reference and become a part of this Agreement and any violation of the revised Business Plan shall be a violation of this Agreement. A copy of the revised Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

3. The Board shall ensure that the Association adheres to and implements the revised Business Plan. Any material modifications to the revised Business Plan shall be submitted to the Regional Director for review and written non-objection at least forty-five (45) days prior to implementation. A modification shall be considered material under this section of the Agreement if the Association plans to: (a) engage in any activity that is

inconsistent with the revised Business Plan; or (b) exceed the level of any activity contemplated in the revised Business Plan or fail to meet target amounts established in the revised Business Plan by more than 10%, unless the activity involves assets risk-weighted 50% or less, in which case a variance of more than 25% shall be deemed to be a material modification.

4. The Board shall require the Association's Senior Executive Officers<sup>1</sup> (Management) to prepare and submit to the Board quarterly variance reports on the Association's compliance with the revised Business Plan within thirty (30) days after the close of each calendar quarter (Quarterly Business Plan Variance Reports) beginning with the calendar quarter ending September 30, 2009. The Quarterly Business Plan Variance Reports shall: (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the revised Business Plan; (b) contain an analysis and explanation of the identified variances; and (c) detail the specific measures to be taken to address such variances, including adjustments to the underlying assumptions.

5. The Board shall review the Quarterly Business Plan Variance Reports and conduct a thorough review and assessment of the Association's compliance with the revised Business Plan and take corrective actions if necessary to ensure adherence to the revised Business Plan. The Board's review of the Quarterly Business Plan Variance Reports and assessment of the Association's compliance with the revised Business Plan shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Business Plan Variance Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's

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<sup>1</sup> The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

review and corrective actions, if any, shall be provided to the Regional Director within ten (10) days after the Board meeting.

**Nonresidential and Land Loans.**

6. Effective immediately, the Association shall not originate or purchase, commit to originate or purchase, or extend additional funds (except as discussed in Paragraph 7 of this Agreement) to existing borrowers on or relating to land loans or nonresidential real estate loans without the prior written non-objection of the Regional Director. Prior to requesting Regional Director non-objection to resume origination activity on land loans and nonresidential real estate loans, the Association shall have corrected all loan underwriting, administration, classification, and disbursement deficiencies discussed in the 2008 Examination. A list of all identified deficiencies and corrective measures, including process or policy changes, internal/external audit changes and the date such changes were made, shall be included with the Association's request to the Regional Director to resume land loan and nonresidential real estate loan origination activity.

7. The Association may fund legally binding commitments that were executed prior to the Effective Date of this Agreement. Within thirty (30) days, the Association shall provide the Regional Director with a schedule of all outstanding legally binding commitments. Prior to funding any commitment under this Paragraph, the Board shall ensure that the Association has and maintains the following: (a) a statement or opinion from legal counsel that the commitment in question is a legally binding commitment under applicable state law; and (b) documentation of the status and outcome of any negotiations between the Association and the requestor to limit or eliminate the Association's funding exposure.

### **Loan Review and Classification.**

8. Within seventy-five (75) days, the Board shall revise the Association's policies and procedures for identifying and classifying problem assets (Loan Review and Classification Program). The Loan Review and Classification Program shall address the deficiencies and incorporate the changes discussed in the 2008 Examination to provide an effective Internal Asset Review process that will ensure the appropriate classification and reporting of the Association's assets and maintenance of adequate Allowance for Loan and Lease Loss (ALLL) levels. The Loan Review and Classification Program shall comply with 12 C.F.R. Part 560, Section II G of Appendix A to the Safety and Soundness Standards of 12 C.F.R. Part 570, Generally Accepted Accounting Principles and Statements of Financial Accounting Standards. The Board shall adopt the Loan Review and Classification Program and ensure that Management adheres to and implements the Loan Review and Classification Program.

### **Classified Assets.**

9. Within sixty (60) days, the Board shall prepare detailed written asset resolution plans for each criticized asset<sup>2</sup> and delinquent loan of Five Hundred Thousand Dollars (\$500,000) or greater (Asset Resolution Plans). At the first regularly scheduled Board meeting following the end of each calendar quarter, beginning with the quarter ending September 30, 2009, Management shall prepare and submit to the Board for review a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall provide a summary of and update on the current status of all Asset Resolution Plans and a discussion of any other actions taken by Management during the

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<sup>2</sup> The term "criticized asset" shall mean any asset classified as Special Mention, Substandard, Doubtful or Loss in the 2008 Examination or by the Association's internal or external loan review and classification processes.

preceding quarter to reduce the Association's level of classified assets and delinquent loans.

10. The Board's review of the Quarterly Asset Reports, and any corrective actions adopted by the Board, shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Asset Reports and supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

**Documentation and Recordkeeping.**

11. Effective immediately, the Board shall ensure that the Audit Committee operates in a manner that is independent of senior management officials and other directors and that detailed minutes are prepared and maintained documenting the Audit Committee meetings. The Audit Committee meeting minutes shall be retained and made available to the OTS examiners in compliance with the requirements of 12 C.F.R. § 563.170.

12. Effective immediately, the Board shall ensure that adequate and specific file maintenance policies and procedures are developed and implemented to address the weaknesses and deficiencies discussed in the 2008 Examination.

**Violations of Law and/or Deficiencies and Weaknesses.**

13. Within sixty (60) days, the Board shall ensure that all violations of law, rule, regulation, noncompliance with applicable OTS and Interagency Guidelines, and other deficiencies and weaknesses discussed in the Association's 2008 Examination are corrected. Within ninety (90) days, the Board shall prepare, adopt, and thereafter ensure

that the Association adheres to specific procedures to prevent future violations, noncompliance, or deficiencies and weaknesses.

14. Within thirty (30) days following receipt of any internal audit report, independent external audit report, or other report prepared by the Association's employees, agents, or independent contractors, which cites or discusses any weakness, deficiency, or violation of law, rule, or regulation, the Board shall ensure that such weakness, deficiency or violation is corrected and prepare, adopt, and thereafter ensure the Association adheres to procedures to prevent future weaknesses, deficiencies, and violations.

**Growth.**

15. Effective immediately, the Association is subject to and shall comply with the requirements and provisions of OTS Regulatory Bulletin (RB) 3b. Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter, beginning with the quarter ending June 30, 2009, in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph shall remain in effect until the OTS review and approval of the Association's Business Plan under Paragraph 1 of this Agreement.

**Management Changes.**

16. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H, 12 C.F.R. §§ 563.550 through 563.590.

**Employment Contracts and Compensation Arrangements.**

17. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior

Executive Officer or director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

**Severance and Indemnification Payments.**

18. Effective immediately, the Association shall not make any golden parachute payment<sup>3</sup> or prohibited indemnification payment<sup>4</sup> unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

**Third Party Contracts.**

19. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant<sup>5</sup> to the overall operation or financial condition of the Association or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the OTS with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and

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<sup>3</sup> The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

<sup>4</sup> The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

<sup>5</sup> A contract shall be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two (2) percent of the Association's total capital.

guidelines set forth in Thrift Bulletin 82a (TB 82a); and (c) received written notice of non-objection from the Regional Director.

20. Effective immediately, the Association shall provide the OTS with written notice of all arrangements or contracts with third party service providers consistent with the requirements of 12 U.S.C. § 1464(d)(7)(D)(ii). Such notice shall be provided to the Regional Director not later than thirty (30) days after the earlier of: (a) the date on which the Association enters into the contract; or (b) the date on which the performance of the service is initiated. The Board shall review all arrangements or contracts with third party service providers covered by this Paragraph to ensure compliance with the standards and guidelines set forth in TB 82a.

**Brokered Deposits.**

21. Effective immediately, the Association is prohibited from increasing the dollar amount of brokered deposits<sup>6</sup> at the Association without receiving the prior written non-objection of the Regional Director. The Association's written request for such non-objection should be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of acceptance of additional brokered deposits.

22. Within forty-five (45) days after the end of each calendar quarter, beginning with the calendar quarter ending September 30, 2009, Management shall submit to the Board for review a written report detailing the level of brokered deposits for each month within the quarter (Brokered Deposit Report). The Board shall review the Brokered Deposit Report to ensure the Association's compliance with this Agreement. A copy of the Board meeting minutes detailing the Board's review, including any corrective actions, and a copy of the Brokered Deposit Report shall be provided to the Regional Director within

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<sup>6</sup> The term "brokered deposit" is defined at 12 C.F.R. § 337.6(a)(2).

ten (10) days after the Board meeting.

**Affiliate and Insider Transactions.**

23. Effective immediately, the Association shall not engage in any transaction with an Affiliate<sup>7</sup> unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which notice also shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate complies with the requirements of 12 C.F.R. § 563.41, 12 C.F.R. Part 223 (Regulation W), and the guidance contained in Section 310 of the OTS Examination Handbook. The Board shall ensure that documentation demonstrating such compliance is maintained in the Association's files and records.

24. Effective immediately, the Association shall not make any loans to or enter into any contracts or agreements with any Insiders except in compliance with all applicable laws, rules, and regulations including, but not limited to, 12 C.F.R. Part 215 and 12 C.F.R. § 564.43, and Section 310 of the OTS Examination Handbook. The Board shall ensure that the Association complies with the requirements of this Paragraph and that documentation demonstrating such compliance is maintained in the Association's files and records.

**Board Compliance Committee.**

25. Within thirty (30) days, the Board shall appoint a committee (Regulatory Compliance Committee) comprising three or more non-employee directors to monitor and coordinate the Association's compliance with the provisions of this Agreement and the completion of all corrective action required in the 2008 Examination.

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<sup>7</sup> 12 C.F.R. § 223.2

26. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending June 30, 2009, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Agreement, the corrective actions required by the 2008 Examination, and the results of all such actions. The Board shall review the Regulatory Compliance Committee's progress report and adopt a resolution: (a) certifying that each director has reviewed the progress report; (b) detailing the Association's compliance with the provisions of this Agreement and the corrective actions contained in the 2008 Examination; (c) identifying each instance of noncompliance; and (d) setting forth in detail additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance.

27. Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the Regional Director: (a) a copy of the Regulatory Compliance Committee's quarterly progress report required by Paragraph 26 of this Agreement; and (b) a copy of the Board resolution required by Paragraph 26 of this Agreement, including the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Agreement.

**Effective Date.**

28. This Agreement is effective on the Effective Date as shown on the first page.

**Duration.**

29. This Agreement shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

30. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

31. The Regional Director may extend any of the deadlines set forth in the provisions of this Agreement upon written request by the Association that includes reasons in support for any extension. Any OTS extension shall be made in writing.

**Submissions and Notices.**

32. All submissions, including progress reports, to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

33. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

- a. To the OTS:  
Arthur W. Goodhand, Acting Regional Director  
Office of Thrift Supervision  
1475 Peachtree St., NE  
Atlanta, Georgia 30309  
404.897.1861 (Fax)
  
- b. To the Association:  
James Wojewodka, President  
Carolina Federal Savings Bank  
1106 St. Andrews Boulevard  
Charleston, South Carolina 29407  
843.556.0449

**No Violations Authorized.**

34. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

**OTS Authority Not Affected.**

35. Nothing in this Agreement shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

36. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

37. The laws of the United States of America shall govern the construction and validity of this Agreement.

38. If any provision of this Agreement is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

39. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

40. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

41. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

**Enforceability of Agreement.**

42. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. §§ 1818(b)(1), 1818(e)(1), 1818(i)(2), and 1818(u)(1)(A).

**Signature of Directors/Board Resolution.**

43. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement.

**WHEREFORE**, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

**CAROLINA FSB  
Charleston, South Carolina**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
Thomas Lawrence Young  
Chairman

By: \_\_\_\_\_ /s/  
Arthur W. Goodhand  
Acting Southeast Regional Director

Date: See Effective Date on page 1

\_\_\_\_\_/s/  
R. Patrick Welch, Director

\_\_\_\_\_/s/  
James F. Wojewodka, Director

/s/            
Daniel L. Croghan, Director

          /s/            
Archie D. Willis, III, Director