

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: SE-09-035
)	
WOODLANDS BANK)	Effective Date: July 16, 2009
)	
Bluffton, South Carolina)	
OTS Docket No. 08464)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Woodlands Bank, Bluffton, South Carolina, OTS Docket No. 08464 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Southeast Region (Regional Director), is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about,

participating in, counseling or the aiding and abetting of any violation of applicable law, regulation, unsafe or unsound practice, and noncompliance with regulatory guidance including, but not limited to, the following:

- (a) operating the Association without an adequate and effective business plan;
- (b) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (c) operating the Association with an excessive level of nonresidential real estate loans,¹ construction loans,² land loans,³ loans secured by multi-family properties, and nonmortgage loans (hereinafter referred to as “non-homogenous loans”), and adversely classified and delinquent loans relative to the Association’s capital and allowance for loan and lease losses (ALLL) levels;
- (d) operating the Association with inadequate earnings to fund growth, support dividend payments and strengthen and enhance capital;
- (e) operating the Association without an effective loan review system that includes policies, procedures, and controls to ensure the accurate and timely identification and resolution of asset quality problems;
- (f) engaging in unsafe and unsound loan underwriting and monitoring practices, including, but not limited to:
 - (i) renewing or extending credit without performing adequate and appropriate loan underwriting and credit analysis consistent with applicable law, regulation, agency guidance and prudent banking practices and maintaining adequate and appropriate

¹ The term “nonresidential real estate loan” means a loan that is secured by nonresidential real estate as defined at 12 C.F.R. § 541.21.

² The term “construction loan” is defined at 12 C.F.R. § 560.101 – Interagency Guidelines.

³ The term “land loan” is defined at 12 C.F.R. § 561.26.

supporting documentation;

(ii) inaccurate calculation and consideration of cash flows;

(iii) failing to monitor and control the disbursement of loan proceeds to ensure that loan proceeds are used for the approved purpose of the loan, including, but not limited to land acquisition, development, and construction loans;

(iv) operating with poor credit administration practices; and

(v) extending, modifying and/or renewing credit in noncompliance with the Association's loan policies and without adequate analysis or updating of collateral values to identify loans with well-defined weaknesses;

(g) creating and maintaining excessive and unsafe or unsound concentrations of credit.

(h) operating the Association with excessive growth in higher-risk non-homogeneous loan types without regard to capital and ALLL levels.

(j) operating in contravention of supervisory policy statements and other guidance, including, but not limited to:

(i) 12 C.F.R. § 560.101 (Real Estate Lending Standards);

(ii) 12 C.F.R. Part 570, Appendix A – Interagency Guidelines Establishing Standards for Safety and Soundness;

(iii) 12 C.F.R. §§ 572.3(a), 572.9(b), and 572.9(c) (Loans in Areas Having Special Flood Hazards);

(iv) 12 C.F.R. § 560.160 (Asset Classification);

(v) 12 C.F.R. § 203.4(a) (Home Mortgage Disclosure – Compilation of Loan Data); and

(vi) 12 C.F.R. §§ 202.9(a), 202.12(b), and 202.13(a) (Equal Credit Opportunity Act – Regulation B).

Capital.

2. By December 31, 2009, the Association shall have and maintain a Tier 1 capital ratio equal to or greater than eight percent (8%) and a total risk-based capital ratio equal to or greater than twelve percent (12%).
3. By September 30, 2009, the Board shall prepare and submit for Regional Director review and comment a written plan to achieve and maintain the Association’s capital at the levels prescribed in Paragraph 2 (Capital Plan). At a minimum, the Capital Plan shall:
 - (a) consider the requirements and restrictions imposed by this Order;
 - (b) consider and address different scenarios based on current asset quality trends and real estate market conditions;
 - (c) require the Senior Executive Officers⁴ (Management) to continually assess the sufficiency of the Association’s capital levels relative to the Association’s risk profile, classified asset levels, ALLL, earnings, level of construction loans, and trends in all of the above-listed areas;
 - (d) detail capital preservation and enhancement strategies with specific narrative goals;
 - (e) consider and address the amount of additional capital that would be necessary to meet the capital requirements of Paragraph 2 of this Order under different forward-looking scenarios involving progressively more challenging economic environments;

⁴ The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

- (f) detail the method by which the additional capital will be raised to maintain at least the capital levels required in Paragraph 2 under the different scenarios established pursuant to Paragraph 3.e of this Order;
- (g) identify the specific sources of additional capital;
- (h) detail timeframes by which the additional capital will be raised and specific target month-end capital levels; and
- (i) require Management to prepare and submit for Board review at each regular monthly Board meeting, a written report on the Association's compliance with the Capital Plan and the Association's current capital levels (Capital Status Report).

4. The Board shall make any changes to the Capital Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Capital Plan to the Regional Director for review. Upon receipt of non-objection to the revised Capital Plan from the Regional Director, the Board shall adopt the revised Capital Plan and the revised Capital Plan shall be incorporated herein by reference and become part of this Order and any violation of the revised Capital Plan shall be a violation of this Order. The Board shall ensure that the Association adheres to and implements the revised Capital Plan. A copy of the revised Capital 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.

5. On a monthly basis, beginning with the calendar month ending July, 2009, the Board shall: (a) review the Association's capital levels and the Capital Status Report at each regular monthly Board meeting; and (b) ensure that Management continually assesses the sufficiency of the Association's capital levels relative to the factors listed in Paragraph 3.c above. Management shall provide the Board with written updates on the status of its compliance with the Capital

Plan. The Board's review of items (a) and (b) above at each regular monthly Board meeting shall be fully detailed in the Board meeting minutes. A copy of each Capital Status Report, any 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.

6. After implementation of the Capital Plan, on a monthly basis, beginning with the month ending July 31, 2009, Management shall prepare monthly variance reports on the Association's compliance with the Capital Plan within thirty (30) days after the close of each calendar month starting with the month ending July 31, 2009 (Capital Variance Report). The Capital Variance Reports shall: (a) detail actual operating versus projected results; (b) include detailed explanations of any material deviations; and (c) include a description of the specific corrective actions or measures that have been implemented or are proposed to address each material deviation. A deviation shall be considered material under this Paragraph of the Order when the Association: (i) engages in any material activity, line of business, or operation that is inconsistent with the Capital Plan; (ii) exceeds the level of any activity or growth contemplated in the Capital Plan by more than ten percent (10%); or (iii) falls below or fails to meet the target amounts established in the Capital Plan by more than ten percent (10%).

7. The Board's review of the monthly Capital Variance Reports and evaluation of Management and the Association's compliance with the elements of the Capital Plan shall be thoroughly documented in the Board meeting minutes. A copy of the Capital Variance Report, any 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.

8. Within fifteen (15) days after the date the Association does not meet the Tier 1 capital ratio of eight percent (8%) and the total risk-based capital ratio of twelve percent (12%) or the Association is not in compliance with the Capital Plan implemented pursuant to Paragraph 3 of this Order, or within fifteen (15) days from any request by the Regional Director for the submission of a Contingency Plan, the Board shall prepare and submit for Regional Director review and comment a written Contingency Plan. The Contingency Plan shall detail the actions to be taken, within specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by another federally insured depository institution or holding company thereof; or (b) voluntary liquidation by filing an appropriate application with the OTS in conformity with federal laws and regulations.

9. The Board shall make any changes to the Contingency Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Contingency Plan to the Regional Director for review. Upon receipt of non-objection to the revised Contingency Plan from the Regional Director, the Board shall adopt the revised Contingency Plan and ensure that the Association adheres to and implements the revised Contingency Plan. The revised Contingency Plan shall be incorporated herein by reference and become part of this Order and any violation of the revised Contingency Plan shall be a violation of this Order. A copy of the revised Contingency 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.

10. The Association shall provide written status reports to the OTS detailing the Association's actions taken and progress in implementing the Contingency Plan by no later than the 1st and 15th

days of each calendar month following the implementation of the Contingency Plan and until such time as the Association has a Tier 1 capital ratio of at least eight percent (8%) and a total risk-based capital ratio of at least twelve percent (12%) and is in compliance with its Capital Plan. The bimonthly status reports shall detail: any contacts with investment bankers, any parties doing due diligence, any offers relating to an acquisition or a merger, the execution of binding letters of intent or purchase agreements, capital infusions from the Association's parent holding company, or any other capital raising activities. The Association shall provide the OTS with notification of the termination of negotiations with any party considering the acquisition of five percent (5%) or more of the stock of the Association or a subordinated debt offering within one (1) business day of the termination of the negotiations.

Growth.

11. 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 without the prior written approval of the Regional Director. The growth restrictions imposed by this Paragraph shall remain in effect until the OTS review and non-objection to the Association's Business Plan under Paragraph 12 of this Order.

Business Plan.

12. Within sixty (60) days, the Board shall prepare and submit to the Regional Director for review and comment a new comprehensive business plan that covers the fourth quarter of calendar year 2009 and calendar years 2010, 2011 and 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 and strengthen and improve the Association's earnings, net interest margin, and liquidity;
- (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) detailed breakdowns of all loan products and funding sources;
- (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.

13. 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 written 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 Order, and any violation of the revised Business Plan shall be a violation of this Order. A copy of the revised Business Plan adopted by the Board and the Board meeting minutes reflecting the Board's discussion and adoption of the Business Plan shall be provided to the Regional Director within ten (10) days after the Board meeting.

14. 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 the date of the proposed implementation of such modification. A modification shall be considered material under this section of the Order 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 ten percent (10%), unless the activity involves assets risk-weighted fifty percent (50%) or less, in which case a variance of more than twenty-five percent (25%) shall be deemed to be a material modification.

15. On a quarterly basis, beginning with the calendar quarter ending December 31, 2009, the Board shall require 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 December 31, 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.

16. The Board shall review each Quarterly Business Plan Variance Reports and conduct a thorough review and assessment of the Association's compliance with the revised Business Plan on a quarterly basis. The Board will take corrective actions as necessary to ensure the

Association's adherence to the revised Business Plan. The Board's review of the Quarterly Business Plan Variance Reports, assessment of the Association's compliance with the revised Business Plan, and any corrective actions taken by the Board shall be fully documented in the appropriate Board meeting minutes. A copy of each 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 review and corrective actions, if any, shall be provided to the Regional Director within ten (10) days after the Board meeting.

Lending.

17. Effective immediately, the Association shall not originate or purchase, or commit to originate or purchase, any new construction loans, land loans, land development loans, and nonresidential real estate loans, or extend additional funds to existing borrowers on or relating to any construction loan, land loan, and land development loan.

18. Effective immediately, Management shall ensure that all loans with loan-to-value (LTV) ratios in excess of the applicable regulatory guidelines are accurately and timely submitted to the Board for review.

19. Effective immediately, Management shall establish and adhere to additional processes and systems to ensure that the loans to one borrower (LTOB) tracking reports for the Board are complete and updated on at least a quarterly basis.

Loan Underwriting

20. Within sixty (60) days, the Board shall revise the Association's loan underwriting and credit administration policies, practices and controls to address all deficiencies and weaknesses discussed in the Association's February 9, 2009 Report of Examination (2009 Examination) regarding nonhomogeneous loans and ensure that adequate and appropriate underwriting and

credit analysis is performed consistent with applicable laws, regulations, agency guidance and prudent banking practices (Loan Underwriting Policies). At a minimum, the Board shall revise the Association's Loan Underwriting Policies to:

- (a) ensure that net income from partnerships and S-Corps is considered in the underwriting process only to the extent that it is likely to be available for debt service;
- (b) ensure that losses from partnerships and S-Corps are considered in the underwriting process if there is a strong likelihood that these losses will necessitate additional capital contributions that may adversely affect a borrower or guarantor's ability to fulfill his/her obligations to the Association;
- (c) ensure that the underwriting process includes an appropriate evaluation of the degree to which capital gains can reasonably be expected to recur and considered as a reliable future source of funds for debt service;
- (d) establish guidelines requiring that collateral properties be appropriately re-appraised anytime loans are modified, extended, or refinanced and that the appraisals be used to determine whether loans should be classified or designated special mention based upon the revised terms and any lower indicated collateral values;
- (e) restrict multiple loan renewals without principal reductions;
- (f) restrict the capitalization of interest, loan fees, late fees, loan costs, and collection costs of problem loans;
- (g) establish funding controls over hard and soft costs on construction projects and ensure that inspections are performed on construction projects to prevent over-disbursements of loan funds;

- (h) restrict additional advances to borrowers with problem loans and require Loan Committee approval of all renewals and extensions of problem loans;
- (i) establish credit qualification standards including, but not limited to, debt service to income ratios, and documentation requirements for all borrowers that demonstrate and support the borrower's ability to meet all contractual debt service obligations from current, verified net income and cash flow;
- (j) establish policies, procedures and systems to obtain and analyze, on an annual basis, updated borrower financial information on all loans (other than those secured by owner occupied single family dwellings and consumer loans) with an outstanding or committed balance greater than Two Hundred and Fifty Thousand Dollars (\$250,000);
- (k) provide for the classification of loans, including designation as special mention, or placement of loans on a watch list, if there is a significant decline in a borrower's financial standing whereby the borrower would not qualify under the Association's loan underwriting standards or no longer demonstrates the ability to meet global debt service obligations;
- (l) establish prudent underwriting standards and an internal review and approval process for all loans granted as exceptions to the Associations general lending policies and require such loans to be reported to the Board for review on a monthly basis; and
- (m). address all other underwriting and credit administration recommendations discussed in the 2009 Examination.

The Board shall adopt the revised Loan Underwriting Policies and ensure that the Association adheres to and implements the revised Loan Underwriting Policies.

Concentrations of Credit

21. Within thirty (30) days, the Board shall revise the Association's written program for identifying, monitoring, and managing the risks associated with concentrations of credit to address the deficiencies and weaknesses discussed in the 2009 Examination and ensure compliance with the requirements and guidelines contained in 12 C.F.R. § 560.101 and CEO Memorandum # 252 (Credit Concentration Program). At a minimum, the revised Credit Concentration Program shall:

- (a) establish specific limitations on concentrations of credit for all major loan categories (expressed as a percentage of the Association's total assets and total capital) to be implemented and adhered to by the Association;
- (b) provide for additional stratification of each major loan category into subcategories and the establishment of concentration sub-limits within each subcategory (such as per development, subdivision, geographic location, and builder);
- (c) provide for enhanced monitoring and risk analysis of all concentrations of credit;
- (d) require quarterly reviews of the Association's balance sheet to identify any new concentrations of credit requiring enhanced analysis and review consistent with the Credit Concentration Program; and
- (e) require written analysis and quarterly reports to the Board of identified concentrations of credit assessing credit, liquidity, interest rate, or other risks associated with such concentrations of credit.

The Board shall adopt the revised Credit Concentration Program and ensure that the Association adheres to and implements the revised Credit Concentration Program.

22. Within forty-five (45) days, the Board shall submit to the Regional Director for review and non-objection a written plan to reduce the Association's level and amount of construction loans, land loans, and land development loans (Loan Reduction Plan). At a minimum, the Loan Reduction Plan shall:

- (a) provide for the total amount of construction, land and land development loans to be reduced to a level that is below third hundred percent (300%) of the Association's Risk Based Capital not later than December 31, 2009.
- (b) establish a quarter end benchmark level September 30, 2009; and
- (c) require Management to prepare monthly reports to the Board regarding the Association's compliance with the Loan Reduction Plan.

Loan Modifications.

23. Within thirty (30) days, Management shall prepare and submit to the Regional Director for review a written schedule of all loans with a committed amount in excess of Two Hundred Fifty Thousand Dollars (\$250,000) that have been modified, extended or renewed (Loan Modification Schedule). At a minimum, the Loan Modification Schedule shall include for each loan with a committed amount in excess of Two Hundred Fifty Thousand (\$250,000) that has been modified, extended or renewed:

- (a) borrower(s) and guarantor(s) names;
- (b) borrower(s) and guarantor(s) type (partnership, LLC, C-Corp, S-Corp, individual, etc.);
- (c) loan number;
- (d) loan type as coded for the Thrift Financial Report (TFR):
- (e) specific collateral type and description (church, shopping center, home, etc.);

- (f) collateral location (city and state);
- (e) the value of the collateral and the date of the last appraisal; and
- (f) a detailed discussion of all modifications (extension of payment date, renewal, change in payment, principal reduction, etc.).

Interest Reserve Loans.

24. Within thirty (30) days, Management shall prepare and submit to the Regional Director for review a written schedule of all outstanding loans with interest reserves, regardless of the funding source for such reserves (Interest Reserve Schedule). At a minimum, the Interest Reserve Schedule shall include the following for each loan with interest reserves:

- (a) the total amount of interest reserves established, which shall include all prior interest reserve amounts;
- (b) the total amount of interest reserves available and remaining;
- (c) the loan maturity date and all renewal or extension dates;
- (d) the projected date that the interest reserves will be depleted; and
- (e) the funding source for the interest reserves.

25. Within thirty (30) days after the close of each calendar quarter, beginning with the calendar quarter ending June 30, 2009, the Board shall require Management to prepare and submit an updated Interest Reserve Schedule. The Board shall review the updated Interest Reserve Schedule and the Board's review, including any corrective actions adopted, shall be fully documented in the Board meeting minutes. A copy of the quarterly Interest Reserve Schedule 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.

Loan Review and Classification.

26. Within sixty (60) 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 2009 Examination and effectively identify the risks in the Association’s loan portfolio to ensure the appropriate classification and reporting of the Association’s assets and the maintenance of adequate 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.

Problem Assets.

27. Within sixty (60) days, the Board shall prepare and submit to the Regional Director for review and comment a detailed, written plan with specific strategies, targets and timeframes to reduce the Association’s level of criticized assets⁵ (Problem Asset Plan). For purposes of this Paragraph, “reduce” means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification. At a minimum, the Problem Asset Plan shall require Management to prepare and submit for Board review:

- (a) individual written asset resolution plans for each criticized asset and delinquent loan of Seven Hundred and Fifty Thousand Dollars (\$750,000) or greater (Asset Resolution Plans); and

⁵ The term “criticized assets” shall include all classified assets, assets designated special mention or watch, all nonperforming assets and all delinquent loans.

(b) a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall be submitted to the Board at the first regularly scheduled Board meeting following the end of each calendar quarter, beginning with the quarter ending September 30, 2009.

28. At a minimum, the Quarterly Asset Report shall include:

(a) a summary of and update on the current status of all Asset Resolution Plans for criticized assets and delinquent loans of Seven Hundred Fifty Thousand Dollars (\$750,000) or greater;

(b) a detailed analysis of the calculation and adequacy of the Association's ALLL levels and comparison of ALLL levels to the total level of classified assets;

(c) a comparison of classified assets to core and risk based capital;

(d) a comparison of classified assets at the current quarter end with the preceding quarter;

(e) a breakdown of classified assets by type (residential, acquisition and development, construction, land loans, etc.); and

(f) a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans and recommendations regarding any additional actions or steps that should be taken by Management in the future.

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.

29. The Board shall address any comments or concerns with the Problem Asset Plan identified by the Regional Director within forty-five (45) days after being notified of such

comments and concerns and provide a copy of a revised Problem Asset Plan to the Regional Director for review. Upon receipt of non-objection to the revised Problem Asset Plan from the Regional Director, the Board shall adopt the revised Problem Asset Plan and ensure that the Association adheres to and implements the revised Problem Asset Plan. A copy of the revised Problem Asset Plan adopted by the Board, and the Board meeting minutes reflecting the adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

30. Beginning with the calendar quarter ending September 30, 2009, the Board shall review the Association's compliance with the revised Problem Asset Plan and the Asset Resolution Plans within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending September 30, 2009 (Quarterly Problem Asset Plan Review). The Board's review of the Quarterly Problem Asset Plan Reviews and assessment of the Association's compliance with the revised Problem Asset Plan and the Asset Resolution Plans shall be fully documented in the appropriate Board meeting minutes. A copy of each Quarterly Problem Asset Plan Review 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.

Appraisals.

31. Within ninety (90) days, the Board shall review and revise the Association's appraisal policies and procedures to address the deficiencies discussed in the 2009 Examination (Appraisal Policy). At a minimum, the revised Appraisal Policy shall require collateral properties to be re-appraised when loans are modified, extended, or refinanced and that the new appraisals be utilized to determine whether loans should be classified or designated special mention based

upon the revised terms and any lower collateral values. The Board shall fully document its review and any revisions to the Association's Appraisal Policy in the Board meeting minutes.

Liquidity.

32. Within thirty (30) days, the Board shall revise its policies and procedures regarding liquidity management to comply with OTS Thrift Bulletin 77 and address all weaknesses and deficiencies discussed in the 2009 Examination (Liquidity Policies).

33. Within forty-five days (45), the Board shall prepare and adopt a liquidity plan to ensure that the Association maintains adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan). The Liquidity Plan shall, at a minimum, include the following:

- (a) a cash flow analysis that includes reasonable assumptions, identifies all anticipated funding needs and the sources to meet those needs, considers the level and maturity of any brokered deposits, and addresses any contingent liabilities;
- (b) identification of alternative funding sources in order to meet extraordinary demands or to provide liquidity in the event the sources identified in the Liquidity Plan are insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining lines of credit from correspondent banks, recovering charged-off assets, and injecting additional equity capital; and
- (c) specific actions and steps that will be taken to reduce large, uninsured and uncollateralized commercial deposits.

The Board shall ensure that the Association complies with the Liquidity Policies and Liquidity Plan.

34. Within thirty (30) days, the Board shall ensure that Management reviews and prepares a weekly analysis of the Association's liquidity that assesses the Association's compliance with its Liquidity Policies and the Liquidity Plan (Weekly Liquidity Review). The Weekly Liquidity Review shall evaluate and consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit;
- (d) an analysis of the continuing availability and volatility of present funding sources;
- (e) an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans; and
- (f) an analysis of the impact of decreased cash flow from the sale of loans or loan participations.

35. The Weekly Liquidity Reviews for the immediately preceding calendar month shall be submitted to the Board prior to each monthly Board meeting, beginning with the July 2009 meeting. Management also shall prepare and submit for Board review a written report identifying any funding needs (to repay loans or advances from correspondent banks or to pay off brokered deposits) relating to liquidity issues identified for the immediately preceding month (Monthly Liquidity Review). The Board's review of the Weekly Liquidity Reviews, the Monthly Liquidity Reviews, and any corrective actions adopted by the Board, shall be fully documented in the appropriate Board meeting minutes. The Board shall provide the Regional Director with quarterly updates on the Association's liquidity position and compliance with the Liquidity Plan within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009.

Interbank Liabilities Policy

36. Within forty-five days, the Board shall amend the Association's Interbank Liabilities Policy to clarify that any variance from the Interbank Liabilities Policy requires the prior approval of the full Board and that the Board's approval, including supporting analysis, shall be documented in the Board meeting minutes.

Flood Insurance.

37. Within sixty (60) days, the Association shall develop a written policy and implement adequate procedures to ensure that the Association addresses all violations identified and discussed in the 2009 Examination and complies with the requirements of the National Flood Insurance Act of 1968 and the Flood Disaster Protection Act of 1973, as amended, 42 USC §§ 4001-4129, as implemented by Part 572 of the OTS's Rules and Regulations, 12 CFR Part 572 (collectively, Flood Laws and Regulations) (Flood Policy and Procedures). At a minimum, the Flood Policy and Procedures shall include:

- (a) a detailed training plan to ensure that Association personnel receive appropriate training on the requirements of the Flood Laws and Regulations and the Association's Flood Policy and Procedures (Flood Training Plan);
- (b) systems and processes to ensure that adequate amounts of flood hazard insurance coverage are obtained in compliance with 12 CFR § 572.3;
- (c) systems and processes to ensure that required flood hazard insurance coverage remains in force throughout the life of a loan, as required by 12 CFR § 572.3(a);
- (d) policies, procedures and systems to ensure full and adequate documentation demonstrating compliance with the Flood Laws and Regulations is maintained in all loan files; and

(e) a process or procedure to ensure that the amount of flood hazard insurance coverage obtained satisfies the requirements of the Flood Laws and Regulations.

38. Within sixty (60) days, the Board shall engage a qualified independent third party (Consultant) to conduct a review of all loans originated by the Association on or after October 15, 2007 and secured by property located in a Special Flood Hazard Area (Relevant Loans) for compliance with the Flood Laws and Regulations. The Consultant shall identify all Relevant Loans that are secured by buildings or mobile homes located in special flood hazard areas and prepare a written report that, at a minimum, identifies all loans that do not comply with the Flood Act Laws and Regulations, details the specific provision(s) of the Flood Act Laws and Regulations not complied with, and sets forth recommended corrective actions to address noncompliance (Flood Loan Report).

39. Within seventy-five (75) days, the Board shall ensure that Management corrects all violations of the Flood Laws and Regulations identified in the 2009 Examination and the Flood Loan Report. The Board's review of the Flood Loan Report and corrective actions adopted by the Board shall be fully documented in the Board meeting minutes. A copy of the Flood Loan Report and the Board meeting minutes reflecting the Board's review of the Flood Loan Report shall be provided to the Regional Director within ten (10) calendar days after the Board meeting.

Home Mortgage Disclosure Act (HMDA).

40. Within sixty (60) days, the Board shall ensure that Management corrects all HMDA violations identified in the 2009 Examination and review and amend the Association's policies and procedures regarding HMDA and Regulation C to ensure that the Association complies with the requirements of HMDA, Regulation C and this Order (HMDA Policy). At a minimum, the Association's HMDA Policy shall:

- (a) designate an individual who shall be responsible for ensuring the accurate collection and recordation of all data and information required to be collected and maintained on the Association's Loan Application Register (LAR) by the provisions of the HMDA and Section 203.4 of Regulation C (HMDA Officer). The HMDA Officer shall be a member of Senior Management and shall be different from the person(s) responsible for inputting HMDA data into the LAR;
- (b) provide for the use of a HMDA summary sheet for each loan application file that identifies all information required to be entered and maintained on the Association's LAR to ensure accurate and timely entry of such data on the LAR; and
- (c) require Management to conduct a quarterly review of the Association's LAR to determine compliance with the Association's HMDA Policy and ensure that the LAR data matches the information in the loan application files by comparing entries on the LAR to an appropriate sample of loan files.

41. Within sixty (60) days, the Board shall ensure that all LAR errors identified in the Association's 2009 Examination have been corrected. The Board shall require Management to provide documentation to the Board demonstrating that all identified errors have been corrected.

Equal Credit Opportunity Act (ECOA)/Fair Lending.

42. Within sixty (60) days, the Board shall revise the Association's policies, procedures, systems, processes, and recordkeeping and documentation requirements to address the deficiencies, weaknesses and corrective actions identified by the OTS in the Association's 2009 Examination and ensure compliance with the requirements of ECOA, its implementing regulations at 12 CFR Part 202 (Regulation B), and the Interagency Fair Lending Examination Procedures (ECOA Policies).

Interest Rate Risk.

43. Within thirty (30) days, the Board shall develop a written plan with specific corrective actions and timeframes to ensure the Association's compliance with its net present value policy limits.

Severance Payments.

44. Effective immediately, the Association shall not make any golden parachute payment⁶ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

45. 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.

Brokered Deposits.

46. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b)(2) and shall not, without obtaining the prior written approval of the Federal Deposit Insurance Corporation pursuant to 12 C.F.R. § 337.6(c)(i): (a) accept, renew, or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2); or (b) act as a deposit broker, as that term is defined at 12 C.F.R. § 337.6(a)(5).

Dividends.

47. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for approval should be

⁶ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Third Party Contracts.

48. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant⁷ 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 arrangement or 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 guidelines set forth in Thrift Bulletin 82a (TB 82a); and (c) received written notice of non-objection from the Regional Director.

49. Effective immediately, the Association shall provide the OTS with written notice of all arrangements or contracts with third party service providers that are not subject to Paragraph 48 above 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 ensure that all arrangements or contracts with third party service providers covered by this Paragraph comply with TB 82a.

Employment Contracts and Compensation

50. 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

⁷ 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.

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.

Board Compliance Committee.

51. 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 Order and the completion of all corrective action required in the 2009 Examination.

52. 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 Order, the corrective actions required by the 2009 Examination, and the results of all such actions. The Board shall review the Regulatory Compliance Committee's progress report and adopt a resolution: (i) certifying that each director has reviewed the progress report; (ii) detailing the Association's compliance with the provisions of this Order and the corrective actions contained in the 2008 Examination; (iii) identifying each instance of noncompliance; and (iv) setting forth in detail additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance.

53. Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the Regional Director: (i) a copy of the Regulatory Compliance Committee's quarterly

progress report required by Paragraph 52 of this Order; and (ii) a copy of the Board resolution required by Paragraph 52 of this Order, 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 Order.

Effective Date, Incorporation of Stipulation.

54. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

55. This Order 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.

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

57. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

58. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

59. Except as otherwise provided herein, all submissions, requests, communications, 58 or other documents relating to this Order 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:
Regional Director
Office of Thrift Supervision
1475 Peachtree St., NE
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Association:
Board of Directors
c/o Michael J. Menzer, Chairman
Woodlands Bank
27 Towne Drive
Bluffton, South Carolina 29910

No Violations Authorized.

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

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/_____
Arthur W. Goodhand
Southeast Regional Director

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)	Order No.: SE-09-035
)	
)	
WOODLANDS BANK)	Effective Date: July 16, 2009
)	
Bluffton, South Carolina)	
OTS Docket No. 08464)	
)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Southeast Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Woodlands Bank, Bluffton, South Carolina, OTS Docket No. 08464 (Association), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs

1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).
2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

3. Based on its February 9, 2009 Report of Examination of the Association (2009 Examination), the OTS finds that the Association has engaged in unsafe or unsound banking practices including, but not limited to:
 - (a) operating the Association without an adequate and effective business plan;
 - (b) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
 - (c) operating the Association with an excessive level of nonresidential real estate loans, construction loans, land loans, loans secured by multi-family properties, and nonmortgage loans (hereinafter referred to as “non-homogenous loans”), and adversely classified and delinquent loans relative to the Association’s capital and allowance for loan and lease losses (ALLL) levels;
 - (d) operating the Association with inadequate earnings to fund growth, support

dividend payments and augment capital;

(e) operating the Association without an effective loan review system that includes policies, procedures, and controls to ensure the accurate and timely identification and resolution of asset quality problems.

(f) engaging in unsafe and unsound loan underwriting and monitoring practices, including, but not limited to:

(i) renewing or extending credit without performing adequate and appropriate loan underwriting and credit analysis consistent with applicable laws, regulations, agency guidance and prudent banking practices and maintaining adequate and appropriate supporting documentation;

(ii) inaccurate calculation and consideration of cash flows;

(iii) failing to monitor and control the disbursement of loan proceeds to ensure that loan proceeds are used for the approved purpose of the loan, including, but not limited to, land acquisition, development, and construction loans;

(iv) operating with poor credit administration practices; and

(v) extending, modifying and/or renewing credit in noncompliance with the Association's loan policies and without adequate analysis or updating of collateral values to identify loans with well-defined weaknesses;

(g) creating and maintaining excessive and unsafe or unsound concentrations of credit; and

(h) operating the Association with excessive growth in higher-risk non-homogeneous loan types (e.g., nonresidential real estate loans, construction loans, land loans, loans secured by multi-family properties, and nonmortgage loans) without regard to capital and ALLL levels;

4. The OTS also finds that the Association has engaged in other unsafe or unsound practices resulting in deficiencies in its management and operations and has violated various laws, regulations, and regulatory guidance including, but not limited to:

- (a) 12 C.F.R. § 560.101 (Real Estate Lending Standards);
 - (b) 12 C.F.R. Part 570, Appendix A – Interagency Guidelines Establishing Standards for Safety and Soundness;
 - (c) 12 C.F.R. §§ 572.3(a), 572.9(b), and 572.9(c) (Loans in Areas Having Special Flood Hazards);
 - (d) 12 C.F.R. § 560.160 (Asset Classification);
 - (e) 12 C.F.R. § 203.4(a) (Home Mortgage Disclosure – Compilation of Loan Data);
- and
- (f) 12 C.F.R. §§ 202.9(a), 202.12(b), and 202.13(a) (Equal Credit Opportunity Act – Regulation B).

Consent.

5. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

6. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

7. The Association waives the following:
- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
 - (c) 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
 - (d) any and all claims against the 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 common law, federal statutes or otherwise.

OTS Authority Not Affected.

8. Nothing in this Stipulation or accompanying Order 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.

9. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 8 above, 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.

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

11. If any provision of this Stipulation and/or the Order 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.

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

13. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

14. The terms of this Stipulation and of the Order 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.

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

Signature of Directors/Board Resolution.

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

WHEREFORE, the Association, by its directors, executes this Stipulation.

Accepted by:

WOODLANDS BANK
Bluffton, South Carolina

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Michael J. Menzer
Chairman

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

Date: See Effective Date on page 1

_____/s/
Max S. Crowe, Director

_____/s/
Clarence M. Ball, Jr., Director

_____/s/
Frederick J. Dumas, Director

_____/s/
Michael P. Scott, Director