

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

In the Matter of)	Order No.: SE-09-055
)	
FIRST FEDERAL BANK OF NORTH FLORIDA)	Effective Date: November 13, 2009
)	
Palatka, Florida)	
OTS Docket No. 02558)	

ORDER TO CEASE AND DESIST

WHEREAS, First Federal Bank of North Florida, Palatka, Florida, OTS Docket No. 02558 (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 with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (b) operating without an adequate business plan;
- (c) operating the Association with inadequate earnings to fund growth, support dividend payments, and augment capital;
- (d) operating the Association with an excessive level of adversely classified loans and assets;
- (e) operating with an inadequate allowance for loan and lease losses (ALLL) methodology;
- (f) operating with an inadequate level of ALLL for the volume, type, and quality of loans and leases held;
- (g) operating the Association with an excessive concentration of interest only and nonresidential real estate loans as described in the April 27, 2009 Report of Examination of the Association (2009 ROE);
- (h) operating the Association without adequate liquidity and funds management policies and practices in light of the Association's asset and liability mix;
- (i) operating the Association with a heavy reliance on short-term potentially volatile

deposits as a source for funding longer-term investments;

(j) violating 12 C.F.R. § 560.160 (Asset Classification); and

(k) operating in contravention of supervisory policy statements and other guidance, including, but not limited to, Interagency Guidelines Establishing Standards for Safety and Soundness at 12 C.F.R. Part 570 – Appendix A; Chief Executive Officer (CEO)

Memorandum No. 252 - Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (December 14, 2006), the CEO Memorandum No. 128 - Uniform Retail Credit Classification and Account Management Policy (July 27, 2000);

Interagency Guidelines for Real Estate Lending Policies at 12 C.F.R. § 560.101; and

CEO Memorandum No. 250 - Interagency Policy Statement on the Allowance for Loan and Lease Losses (December 13, 2006).

Capital.

2. By March 31, 2010, the Association shall have and thereafter maintain a Tier 1 Leverage Capital Ratio equal to or greater than seven percent (7%) and a Total Risk-Based Capital Ratio equal to or greater than 12 percent (12%).

3. Within forty-five (45) days, the Board shall prepare and submit to the Regional Director for 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) address the requirements and restrictions imposed by this Order;

(b) address the Association's current and projected levels of classified assets, ALLL, earnings, asset concentrations, liquidity needs, and trends in the foregoing areas;

(c) address current and projected trends in economic and real estate market conditions;

(d) detail the Association's capital preservation and enhancement strategies with specific narrative goals; and

(e) identify the specific sources of additional capital and the timeframes and methods by which additional capital will be raised, including specific target dates and capital levels.

4. Within fifteen (15) days after receipt of any comments from the Regional Director, the Board will revise the Capital Plan to incorporate any recommended changes by the Regional Director and adopt the Capital Plan as revised. The Board shall ensure that the Association and Management implements and adheres to the Capital Plan. A copy of the 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. The Board shall require Management to prepare and submit for Board review at each regular monthly Board meeting, beginning with the December 2009 meeting, a written report on the Association's compliance with the Capital Plan (Capital Status Report). The Capital Status Report shall include a variance report on the Association's compliance with the Capital Plan that, at a minimum:

(a) compares actual operating results to projected results;

(b) includes detailed explanations of any material deviations;¹ and

(c) describes the specific corrective actions or measures that have been implemented or are proposed to address each material deviation.

The Board's review of the monthly Capital Status Reports shall be documented in the Board

¹ A deviation shall be considered material under this Paragraph of the Order when the Association: (i) engages in any 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 10 percent; or (iii) falls below or fails to meet the target amounts established in the Capital Plan by more than 10 percent.

meeting minutes. A copy of the Capital Status Report 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. Within forty-five (45) days, the Association shall prepare and submit a written Contingency Plan that is acceptable to the Regional Director. The Contingency Plan shall detail the actions to be taken, with 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.

7. Upon receipt of notification from the Regional Director, the Association shall implement the Contingency Plan immediately. The Board shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the 1st and 15th of each calendar month following implementation of the Contingency Plan (Contingency Status Reports).

Growth.

8. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the previous quarter without the prior written non-objection of the Regional Director. The growth restrictions imposed by this Paragraph shall remain in effect until the Regional Director has notified the Association in writing that its Business Plan is acceptable pursuant to Paragraph 9 of this Order.

Business Plan.

9. Within sixty (60) days, the Association shall submit a new business plan and budget for calendar year 2010 (Business Plan) that is acceptable to the Regional Director. Thereafter, the Association shall submit a new one (1) year Business Plan at least sixty (60) days prior to the end of each calendar year. At a minimum, the Business Plan shall include:

- (a) plans and strategies to restructure the Association's operations, improve the Association's earnings, reduce expenses, and achieve positive core income;
- (b) strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan;
- (c) quarterly pro forma financial projections (balance sheet, capital forecasts, and income statement) and rolling four quarter budget consistent with the discussion in the 2009 ROE; and
- (d) identification of all relevant assumptions made in formulating the Business Plan and retention of documentation supporting such assumptions.

10. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement and adhere to the Business Plan. A copy of the 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.

11. Any material modifications² to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed modifications to the

² 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 modification of more than twenty-five percent (25%) shall be deemed to be a material modification.

Regional Director at least forty-five (45) days prior to the date of implementation of the proposed modifications.

12. Within thirty (30) days after the close of each calendar quarter, beginning with the calendar quarter ending March 31, 2010, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan and four quarter roll forward budget (Quarterly Business Plan Variance Reports). The Quarterly Business Plan Variance Reports shall:

- (a) identify material variances³ in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan and four quarter roll forward budget;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken to address identified variances.

13. The Board's review of the Quarterly Business Plan Variance Reports, including any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. A copy of the Quarterly Business Plan Variance Report 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.

Lending.

14. Effective immediately, the Association may only originate or purchase, or commit to originate or purchase Qualifying Mortgage Loans as defined at 12 C.F.R. § 567.1. This

³ A variance 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 variance.

Paragraph does not apply to any covered loans for which the Association has a legally binding commitment to originate or purchase dated on or before September 11, 2009.

15. Effective immediately, the Association shall not modify, renew, extend, or advance additional funds on any existing loans without prior Regional Director approval, unless all of the following conditions are met:

- (a) a principal reduction of at least five percent (5%) of the outstanding loan balance is obtained;
- (b) no new funds are advanced;
- (c) the terms of the renewed loan require amortizing principal and interest payments on an amortizing schedule not to exceed ten (10) years; and
- (d) existing interest reserves will not be replenished and new interest reserves will not be established.

The Association shall submit its request for Regional Director approval to modify, renew, or extend any construction, nonresidential and/or loan not permitted by this Paragraph not less than forty-five (45) days prior to the loan's maturity date. This Paragraph does not apply to any covered loans for which the Association has a legally binding commitment dated on or before September 11, 2009.

Internal Asset Review.

16. Within sixty (60) days, the Board shall revise the Association's policies and procedures for identifying and classifying problem assets (Internal Asset Review Program) to ensure that it provides for accurate and timely identification, classification, and reporting of the Association's assets. At a minimum, the Internal Asset Review Program shall:

- (a) address all deficiencies and weaknesses and incorporate all recommendations

made in the 2009 ROE;

- (b) comply with 12 C.F.R. § 560.160, Section II G of Appendix A to the Safety and Soundness Standards of 12 C.F.R. Part 570, Generally Accepted Accounting Principles (GAAP) and Statements of Financial Accounting Standards (SFAS), including requiring specific valuation allowances or charge-offs for assets classified loss;
- (c) conform to the guidance contained in Section 260 of the Examination Handbook (Classification of Assets) and CEO Letter No. 140 (Effective Internal Asset Review Systems, May 17, 2001); and
- (d) require internal asset reviews and updates for income property loans, construction loans, and land loans to be conducted not less than every six (6) months.

The Board shall adopt the revised Internal Asset Review Program and ensure that Management adheres to and implements the Internal Asset Review Program.

Credit Administration.

17. Within sixty (60) days, the Board shall review and revise the Association's policies, procedures, systems and internal controls governing credit administration and documentation (Credit Administration Program) to address the deficiencies and incorporate the recommendations discussed in the 2009 ROE. At a minimum, the Credit Administration Program shall:

- (a) comply with Section II G of Appendix A to the Safety and Soundness Standards of 12 C.F.R. Part 570; CEO Letter No. 140 (Effective Internal Asset Review Systems, May 17, 2001); and Section 200 of the OTS Examination Handbook;
- (b) establish policies, procedures, and systems to obtain and analyze, on an annual basis, updated collateral values and borrower financial information and documentation

for all loans with originated amounts of Five Hundred Thousand Dollars (\$500,000) or greater;

- (c) establish policies, procedures and systems to obtain and review updated information on the status of all real estate projects and income properties;
- (d) require loan personnel to prepare credit memorandums, at origination and during annual reviews, with complete and meaningful information accurately detailing the current financial condition of the borrower;
- (e) 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;
- (f) require a monthly report to the Board on the status of all loans designated special mention or placed on a watch list; and
- (g) establish an effective system for the retention, review, renewal, and updating by the Association of all required records, liens, filings and other credit related documents.

Problem Assets.

18. Within sixty (60) days, the Association shall submit a detailed, written plan with specific strategies, targets, and timeframes to reduce⁴ the Association's level of criticized assets⁵ (Problem Asset Plan). At a minimum, the Problem Asset Plan shall include the preparation of

⁴ 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.

⁵ The term "criticized assets" shall include all classified assets, assets designated special mention, all nonperforming assets and all delinquent loans.

individual written specific workout plans for each criticized asset and delinquent loan or group of loans to any one borrower or loan relationship of Five Hundred Thousand Dollars (\$500,000) or greater (Asset Workout Plans).

19. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 2009, Management shall prepare and the Board shall review a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Asset Workout Plans;
- (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.);
- (f) an assessment of the Association's compliance with the Problem Asset Plan; and
- (g) a discussion of the actions taken during the preceding quarter to reduce the Association's level of criticized assets and delinquent loans.

20. 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 Report 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.

Management.

21. Within sixty (60) days, the Board shall review existing staff and ensure that the Association has in place adequate full-time personnel with the requisite knowledge, skills, qualifications, and experience to comply with this Order and address the findings and corrective actions discussed in the 2009 ROE (Management Review). The Management Review shall:

- (a) identify the type and number of personnel needed to manage and supervise the affairs of the Association taking into consideration the Association's business operations, complexity, size, lending activities, asset quality, and financial position;
- (b) establish policies and procedures to ensure that responsibility for any vacant position is immediately assigned to another employee until the vacant position is filled;
- (c) provide for a management succession plan;
- (d) require periodic evaluations of each member of Management to determine whether the individual possesses the knowledge, skills, abilities, and experience necessary to competently perform all present and anticipated duties including, but not limited to, the ability to: (i) adhere to applicable laws and regulations and the Association's established policies and procedures; (ii) ensure that the Association operates in a safe and sound condition; and (iii) comply with the requirements of this Order.

Allowance for Loan and Lease Losses.

22. Within forty-five (45) days, the Board shall revise the Association's policies, procedures, and methodology to ensure the timely establishment and maintenance of adequate ALLL levels in accordance with applicable laws, regulations, and regulatory guidance (ALLL Policy). At a minimum the ALLL Policy shall:

- (a) address the deficiencies and weaknesses and adopt the recommendations contained in the 2009 ROE;
- (b) incorporate the results of all internal loan reviews and classifications;
- (c) address the historical loan loss rates of the Association for the preceding twelve (12) months covering an expanded segmentation of the Association's loan portfolio, updated quarterly with heavier weighting assigned to rates of the most recent quarters;
- (d) include an estimate of the potential loss exposure on each significant⁶ credit;
- (e) analyze and address the impact of concentrations of credit, including geographic concentrations;
- (f) consider current and prospective market and economic conditions; and
- (g) conform to the regulatory requirements and guidance contained in: 12 C.F.R. § 560.160(b); the OTS Examination Handbook; the December 13, 2006 Interagency Policy Statement on ALLL (CEO Memorandum No. 250); the July 27, 2000 Uniform Retail Credit Classification and Account Management Policy (CEO Memorandum No. 128); GAAP; and SFAS.

23. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 2009, the Association shall analyze the adequacy of the ALLL consistent with the ALLL Policy (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including all qualitative factors considered in determining the adequacy of the Association's ALLL, shall be fully documented in the Board meeting minutes. Any deficiency in the ALLL shall be remedied by the Association in the quarter in which it is discovered and

⁶ A credit shall be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it is/was \$500,000 or greater at origination.

before the Association files its Thrift Financial Report (TFR) with the OTS. A copy of the Quarterly ALLL Report 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.

Liquidity.

24. Within sixty (60) days, the Board shall submit to the Regional Director for review and comment a revised liquidity management policy for the Association that addresses the deficiencies discussed in the 2009 ROE and ensures conformance with the guidance contained in OTS Thrift Bulletin 77 and Sections 530 and 560 of the OTS Examination Handbook (Liquidity Policy). The Liquidity Policy will include a written plan to ensure the maintenance of adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan).

25. The Liquidity Plan shall, at a minimum:

- (a) include a cash flow analysis that contains reasonable assumptions, identifies anticipated funding needs under varying economic and market conditions and scenarios, discusses the funding sources to meet identified funding needs, identifies those funding sources that are subject to formal arrangements, considers the level and maturity of any brokered deposits, and addresses any contingent liabilities; and
- (b) identify alternative funding sources for meeting extraordinary demands or to provide liquidity in the event the sources identified in subparagraph (a) above 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.

26. Within thirty (30) days after the receipt of any comments from the Regional Director, the

Board will revise the Liquidity Policy to incorporate any recommended changes by the Regional Director and adopt the Liquidity Policy. The Board shall ensure that the Association implements and adheres to the Liquidity Policy. The Association shall not modify the Liquidity Policy without the prior written non-objection of the Regional Director.

27. Effective immediately, Management shall review the Association's liquidity on a weekly basis and, upon adoption, assess the Association's compliance with the Liquidity Policy and the Liquidity Plan (Liquidity Reviews). The Liquidity Reviews shall 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.

28. At each monthly Board meeting, beginning with the November 2009 meeting, Management shall submit copies of the Liquidity Reviews for the preceding month to the Board for review. The Board's review of the Liquidity Reviews, and any corrective actions adopted by the Board, shall be fully documented in the Board meeting minutes. The Board will provide the Regional Director with copies of the monthly Board meeting minutes within ten (10) days after the Board meeting.

Brokered Deposits.

29. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b).

Severance and Indemnification Payments.

30. Effective immediately, the Association shall not make any golden parachute payment⁷ or any prohibited indemnification payment⁸ 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.

Directorate and Management Changes.

31. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁹ set forth in 12 C.F.R. Part 563, Subpart H.

Dividends.

32. 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 written approval should be submitted to the Regional Director at least forty-five (45) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Employment Contracts and Compensation Arrangements.

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

⁷ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁸ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁹ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

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.

Third Party Contracts.

34. Effective immediately, the Association shall not enter into any new arrangement or contract with a third party service provider 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; and (b) received written notice of non-objection from the Regional Director.

Violations of Law.

35. Within sixty (60) days, the Board shall ensure that all violations of law, rule, and/or regulation discussed in the Association's 2009 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.

36. Within thirty (30) days of receipt of any subsequent Report of Examination, 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 violations of law, rule, or regulation, the Board shall prepare, adopt, and thereafter ensure the Association adheres to specific procedures to correct such violations and prevent future violations.

Board Compliance Committee.

37. 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 ROE.

38. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending December 31, 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 ROE, 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 2009 ROE; (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.

39. 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 38 of this Order; and (ii) a copy of the Board resolution required by Paragraph 38 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.

40. 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.

41. 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.

42. 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.

43. 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.

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

45. Except as otherwise provided herein, all submissions, requests, communications, consents 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., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)

- (b) To the Association:
Tito S. Smith, Chairman
First Federal Bank of North Florida
511 St. Johns Avenue
Palatka, FL 32177-4641
386.329.1133 (Fax)

No Violations Authorized.

46. 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/ _____
James G. Price
Regional Director, Southeast Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)	Order No.: SE-09-055
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FIRST FEDERAL BANK OF)	Effective Date: November 13, 2009
NORTH FLORIDA)	
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Palatka, Florida)	
OTS Docket No. 02558)	
)	

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 First Federal Bank of North Florida, Palatka, Florida, OTS Docket No. 02558 (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 April 27, 2009 Report of Examination of the Association (2009 ROE), the OTS finds that the Association has engaged in violations of applicable laws and regulations, failed to comply with regulatory guidelines, and engaged in unsafe or unsound banking practices including, but not limited to:
 - (a) operating the Association with an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
 - (b) operating without an adequate business plan;
 - (c) operating the Association with inadequate earnings to fund growth, support dividend payments, and augment capital;
 - (d) operating the Association with an excessive level of adversely classified loans and assets;

- (e) operating with an inadequate allowance for loan and lease losses (ALLL) methodology;
- (f) operating with an inadequate level of ALLL for the volume, type, and quality of loans and leases held;
- (g) operating the Association with an excessive concentration of interest only and nonresidential real estate loans as described in the 2009 ROE;
- (h) operating the Association without adequate liquidity and funds management policies and practices in light of the Association's asset and liability mix;
- (i) operating the Association with a heavy reliance on short-term potentially volatile deposits as a source for funding longer-term investments; violating 12 C.F.R. § 560.160 (Asset Classification); and operating in contravention of supervisory policy statements and other guidance, including, but not limited to, Interagency Guidelines Establishing Standards for Safety and Soundness at 12 C.F.R. Part 570 – Appendix A; Chief Executive Officer (CEO) Memorandum No. 252 - Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (December 14, 2006), the CEO Memorandum # 128 - Uniform Retail Credit Classification and Account Management Policy (July 27, 2000); Interagency Guidelines for Real Estate Lending Policies at 12 C.F.R. § 560.101; and CEO Memorandum No. 250 - Interagency Policy Statement on the Allowance for Loan and Lease Losses (December 13, 2006).

Consent.

4. 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.

5. 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.

6. 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.

7. 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.

8. 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 7 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.

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

10. 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.

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

12. 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.

13. 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.

14. 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.

