

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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| In the Matter of |) | |
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| MUTUAL COMMUNITY SAVINGS |) | |
| BANK, SSB |) | ORDER TO CEASE AND DESIST |
| DURHAM, NORTH CAROLINA |) | |
| |) | FDIC-07-072b |
| |) | |
| (Insured State Savings Bank) |) | |
| _____ |) | |

Mutual Community Savings Bank, SSB, Durham, North Carolina ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("Consent Agreement") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and with the North Carolina Commissioner of Banks ("Commissioner"), dated June 14, 2007, whereby solely for the purpose of this proceeding and without admitting or denying any of the charges of unsafe or unsound banking practices and violations of law and regulations, the Bank has consented to the issuance of an ORDER TO CEASE AND DESIST ("Order") by the FDIC and the Commissioner. The Commissioner may issue an order to cease and desist pursuant to N.C. Gen. Stat. § 54C-76(a) (2005).

The FDIC and the Commissioner considered the matter and determined there is reason to believe the Bank had engaged in unsafe or unsound banking practices and committed violations of law and regulations. The FDIC and the Commissioner, therefore, accepted the Consent Agreement and issued the following:

ORDER TO CEASE AND DESIST

It is HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns cease and desist from the following unsafe and unsound banking practices and violations of law and regulations:

- (a) operating with inadequate management;
- (b) operating with a board of directors that has failed to provide adequate supervision over and direction to the active management of the Bank;
- (c) operating with inadequate equity capital and reserves in relation to Bank's weak earnings;
- (d) operating in such a manner as to produce net operating losses;
- (e) operating with inadequate provisions and policies for liquidity and funds management;
- (f) operating with an inadequate information technology program; and
- (g) violating law, regulations, and/or statements of policy as identified on pages 15 through 17 of the FDIC Report of Examination of the Bank dated October 16, 2006 ("Report").

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns take affirmative action as follows:

MANAGEMENT

1. (a) Within 90 days from the effective date of this Order, the Bank shall have and retain qualified management with the qualifications and experience commensurate with assigned duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's board of directors ("Board") to implement the provisions of this Order. At a minimum, management shall include the following:

(i) a chief executive officer responsible for supervision of the lending function and with oversight responsibility for all other areas of bank operations. This individual must have proven ability in managing a bank of comparable size and in effectively implementing lending, investment and operating policies in accordance with sound banking practices; and

(ii) a chief financial officer with appropriate and proven experience in bank financial reporting and accounting, budgeting, funds management, and strategic planning.

(b) The qualifications of management shall be assessed on each person's ability to:

(i) comply with the requirements of this Order;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws and regulations; and

(iv) restore capital adequacy, earnings, and management effectiveness.

(c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner (collectively, "Supervisory Authorities") in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition of any individual to the

Bank's Board or the employment of any individual as a senior executive officer, as that term is defined in Part 303 of the FDIC Rules and Regulations, 12 C.F.R. § 303.12, the Bank shall comply with the requirements of Section 32 of the Act, 12 U.S.C. § 1831(i), and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. § 303.100-303.104. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed. When the Supervisory Authorities have issued their nonobjections to the proposed changes or appointments, the proposed individual(s) may begin serving in their designated capacities.

(d) The Bank may not add any individual to its Board or employ any individual as a senior executive officer if the Regional Director issues a notice of disapproval pursuant to section 32 of the Act, 12 U.S.C. § 1831(i).

(e) Within 60 days from the effective date of this Order, the Board shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purposes of providing qualified management for the Bank. The Management Plan shall include, at a minimum:

- (i) identification of both the type and number of officer positions needed to manage and supervise properly the affairs of the Bank;
- (ii) identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (ii) evaluation of each Bank officer to determine whether these individuals possess the ability, experience and other qualifications required to perform present

and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and

(iii) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications, that the Board determines are necessary to fill the Bank officer positions consistent with the Board's analysis, evaluation and assessment as contained in the Management Plan.

(f) The written Management Plan and any subsequent modification thereto shall be submitted to the Supervisory Authorities for review and comment. No more than 30 days from the receipt of any comment(s) from the Supervisory Authorities, and after consideration of such comment(s), the Board shall approve the written Management Plan and/or any subsequent modification.

COMPLIANCE COMMITTEE

2. Within 30 days from the effective of this Order, the Board shall establish a Board committee ("Compliance Committee"), consisting of at least three (3) members, responsible for ensuring compliance with the Order, overseeing corrective measures with respect to the Order, and reporting to the Board. More than fifty (50) percent of the members of the Compliance Committee shall be independent directors as defined herein. The Compliance Committee shall monitor compliance with this Order and, within 60 days from the effective date of this Order, and every 30 days thereafter, shall submit a written report ("Compliance Report") detailing the Bank's compliance with this Order to the Board for review and consideration during its regularly scheduled meeting. The Compliance Report and any discussion related to the report or Order shall be incorporated into the minutes of the meeting of the Board. Nothing contained herein

shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this Order. For the purposes of this Order, an "independent director" shall be an individual who:

- (a) is not employed in any capacity by the Bank, any of its subsidiary, or affiliated organizations, other than as a director;
- (b) does not own or control more than 10 percent of the outstanding shares of the Bank or its parent company;
- (c) is not related by blood or marriage to an officer or director of the Bank or its affiliates, or to any shareholder owning more than 10 percent of the outstanding shares of the Bank or its parent company, and who does not otherwise share a common financial interest with such officer, director or shareholder;
- (d) is not indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 15 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses ("ALLL"); and
- (e) is a resident of, or engaged in business in, the Bank's trade area; or is otherwise deemed to be an independent director for purposes of this Order by the Supervisory Authorities.

BOARD OF DIRECTORS

3. Within 90 days from the effective date of this Order, the Bank's Board shall develop and adopt an educational program for periodic training for each member of the Board. The educational program shall include, at a minimum:

- (a) specific training in the areas of lending, operations, and compliance with laws, rules and regulations applicable to banks chartered in the state of North Carolina; and,

(b) specific training in the duties and responsibilities of the Board in connection with the safe and sound operation of the Bank.

Upon adoption of the educational program, it shall be submitted to the Supervisory Authorities for review and comment. The Board shall document the training activities in the minutes of the next Board meeting following completion of the training. The Board's actions as required by this paragraph shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations.

CAPITAL

4. (a) Within 60 days from the effective date of this Order, the Bank shall develop and adopt a Capital Plan to meet the minimum Tier 1 capital and risk-based ratios set forth in Paragraph 4(b) and 4(c) of this Order. The Capital Plan shall be submitted to the Supervisory Authorities for review and comment.

(b) During the life of this Order, the Bank shall maintain Tier 1 capital in such an amount as to equal or exceed 7.0 percent of the Bank's total assets ("Tier 1 capital ratio"). If, after the end of any calendar quarter, the Bank's Tier 1 capital ratio falls below 7.0 percent, the Bank shall implement its written plan for restoring the Bank's Tier 1 capital ratio to 7.0 percent within 90 days of the prior quarter end.

(c) During the life of this Order, the Bank shall maintain risk-based capital ratios such as will cause the Bank to be "well capitalized" for purposes of section 38 of the Act, 12 U.S.C. § 1831o and Subpart B of Part 325 of the FDIC Rules and Regulations, 12 C. F. R. Part 325, Subpart B. The ratios shall be calculated pursuant to the FDIC Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, Appendix A. If, after the end of any calendar quarter, the Bank's risk-based

capital ratio falls below this requirement, the Bank shall implement its written plan for restoring the Bank's risk based capital ratio to the required minimum within 90 days of the prior quarter end.

(d) The level of Tier 1 capital to be maintained during the life of this Order pursuant to Subparagraph 4(b) shall be in addition to a fully funded ALLL, the adequacy of which shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(e) Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 4 of this Order may be accomplished by the following:

- (i) sale of common stock; or
- (ii) the sale of noncumulative perpetual preferred stock; or
- (iii) direct contribution of cash by the Board and/or shareholders of the Bank; or
- (iv) other means acceptable to the Supervisory Authorities; or
- (v) any combination of the above means.

Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 4 of this Order may not be accomplished through a deduction from the Bank's ALLL.

(f) For the purposes of this Order, the terms "Tier 1 capital" and "total assets" shall have, the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. §§ 325.2(t) and 325.2(v).

(g) If all or part of any necessary increase in Tier 1 capital required by this Paragraph is accomplished by the sale of new securities, the Board shall forthwith take all necessary steps to adopt and implement a plan for the sale of such additional securities, including

the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with any applicable securities laws. Prior to the implementation of the plan and, in any event, not less than 15 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, and the Commissioner, 4309 Mail Service Center, Raleigh, North Carolina 27699-4309. Any changes requested to be made in the plan or materials shall be made prior to their dissemination.

(h) In complying with the provisions of Paragraph 4 of this Order, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this Paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

DEFERRED TAX ASSETS

5. Prior to filing the June 30, 2007 Consolidated Reports of Condition and Income, the Bank shall review Deferred Tax Assets and, if required by Financial Accounting Standards

109 and by the Consolidated Reports of Condition and Income Instructions issued by the Federal Financial Institutions Examination Council, establish a valuation allowance. The determination of the need for a valuation allowance shall be made based on total deferred tax assets and not deferred tax assets net of deferred tax liabilities. In addition, the evaluation shall be made on a jurisdiction-by-jurisdiction basis.

CASH DIVIDENDS

6. The Bank shall not pay cash dividends without the prior written consent of the Supervisory Authorities.

BUDGET/PROFIT PLAN

7. (a) Within 60 days from the effective date of this Order, the Bank shall formulate and fully implement a written plan to improve earnings. This plan shall be forwarded to the Supervisory Authorities for review and comment and shall, at a minimum:

- (i) identify goals and strategies for improving and sustaining the earnings of the Bank;
- (ii) identify the major areas in, and means by which, the Board will seek to improve the Bank's operating performance;
- (iii) require realistic and comprehensive budgets;
- (iv) describe the operating assumptions that form the basis for, and adequately support, major projected income and expense components; and
- (v) require a budget review process to monitor the income and expenses of the Bank to compare the actual figures with budgetary projections.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan required by this paragraph and shall record the

results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting when such an evaluation is undertaken.

(c) Thereafter, the Bank shall formulate such a plan and budget by November 30 of each subsequent year and submit the plan and budget to the Supervisory Authorities for review and comment by December 15 of each subsequent year.

VIOLATIONS

8. Within 60 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of law and regulations and contraventions of policy which are more fully set out on pages 15 through 17 in the October 16, 2006 Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

ASSET AND LIABILITY MANAGEMENT

9. Within 90 days from the effective date of this Order, the Bank shall review its written Interest Rate Risk Policy and Liquidity Risk Management Policy to provide effective guidance and control over the Bank's funds management activities, and at a minimum, shall revise the policies to address all items of criticism enumerated on pages 5 and 12 of the Report.

INFORMATION TECHNOLOGY (IT)

10. (a) Within 90 days from the effective date of this Order, the Bank shall develop and fully implement an appropriate Customer Information Security Program Policy and Procedures to meet all the requirements of Part 364, Appendix B of the FDIC Rules and Regulations--Interagency Guidelines Establishing Information Security Standards. It shall at a minimum, address:

- (i) bank wide risk assessment of all information assets;
- (ii) appropriate controls to properly safeguard information assets;

- (iii) periodic independent testing of controls;
- (iv) employee training to ensure controls are properly implemented,
- (v) effective vendor management;
- (vi) incident response program; and
- (vii) at least annual Board reporting.

(b) Within 120 days from the effective date of this Order, the Bank shall develop a bank-wide business continuity plan in accordance with the Federal Financial Institution Examination Council guidance outlined in the Business Continuity Planning IT Examination Handbook.

(c) Within 90 days from the effective date of this Order, the Bank shall correct all other IT deficiencies noted in the Report.

NOTICE TO SHAREHOLDERS

11. Following the effective date of this Order, the Bank shall send to its shareholders or otherwise furnish a description of this Order in conjunction with the Bank's next shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the Order in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, at least 15 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

PROGRESS REPORTS

12. Within 30 days of the end of the first calendar quarter following the effective date of this Order, and within 30 days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Supervisory Authorities have released the Bank in writing from making further reports.

This Order shall become effective 10 days from the date of its issuance.

The provisions of this Order shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this Order shall have been modified, terminated, suspended, or set aside by the Supervisory Authorities.

Pursuant to delegated authority.

Dated at Atlanta, Georgia, this 14th day of June, 2007.

Mark S. Schmidt
Regional Director
Division of Supervision and Consumer
Protection
Atlanta Region
Federal Deposit Insurance Corporation

The North Carolina Commissioner of Banks having duly approved the foregoing Order, and the Bank, through its Board, agree that the issuance of the said Order by the Federal Deposit Insurance Corporation shall be binding as between the Bank and the Commissioner to the same degree and legal effect that such Order would be binding on the Bank if the Commissioner had issued a separate Order that included and incorporated all of the provisions of the foregoing Order pursuant to the provisions of N. C. Stat. § 54C-76(a) (2005).

Dated this 8th day of June, 2007.

Joseph A. Smith, Jr.
Commissioner of Banks
State of North Carolina