UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

In the Matter of:	)	
Grant Thornton LLP	)	
External Auditor for	)	**AA-EC-04-02**
The First National Bank of Keystone (Closed),	)	
Keystone, West Virginia	)	

NOTICE OF CHARGES FOR ISSUANCE OF AN ORDER TO CEASE AND DESIST

TAKE NOTICE that on the 4th day of May, 2004, or such other date as determined by the Administrative Law Judge, a hearing will commence at 10:00 a.m. in Charleston, West Virginia, pursuant to 12 U.S.C. § 1818(b), concerning the charges set forth herein to determine whether an Order to Cease and Desist should be issued against Grant Thornton LLP ("Respondent"), external auditor, accountant, and independent contractor for the First National Bank of Keystone, Keystone, West Virginia ("Keystone" or "Bank"), requiring Respondent to take affirmative and corrective action pursuant to 12 U.S.C. § 1818(b)(6).

The hearing afforded the Respondent shall be open to the public unless the agency, in its discretion, determines that holding an open hearing would be contrary to the public interest.

After examination and investigation into the affairs of the Bank, the Comptroller is of the opinion that Respondent knowingly or recklessly participated in unsafe and unsound practices with respect to the Bank. As a result, the Comptroller intends to order Respondent to cease and desist from certain activities and intends to order Respondent to take affirmative corrective

action with respect to audits or accounting services it performs for insured depository institutions, as described in the attached Proposed Order to Cease and Desist. In support of this Notice of Charges (Notice), the Comptroller charges the following:

ARTICLE I

JURISDICTION

At all times relevant to the charges set forth below:

(1) The Bank was a national banking association, chartered and examined by the Comptroller, pursuant to the National Bank Act of 1864, 12 U.S.C. § 1 et seq., until closed by the Comptroller on September 1, 1999.

(2) The Bank was an "insured depository institution" as defined in 12 U.S.C. § 1813(c)(2) and within the meaning of 12 U.S.C. § 1818(i)(2).

(3) The Office of the Comptroller of the Currency ("OCC") is the "appropriate Federal banking agency" within the meaning of 12 U.S.C. § 1813(q)(1) and for purposes of 12 U.S.C. § 1818(b), to initiate and maintain an enforcement proceeding against an institution-affiliated party of the Bank.

(4) While serving as an external auditor, accountant and independent contractor for the Bank, Grant Thornton knowingly or recklessly participated in unsafe and unsound practices

that caused more than a minimal financial loss to, or significant adverse effect on, the Bank. Respondent is thus an "institution-affiliated party" of the Bank as that term is defined in 12 U.S.C. § 1813(u)(4), having served in such capacity within six (6) years from the date hereof (see 12 U.S.C. § 1818(i)(3)). Therefore, Respondent is subject to the authority of the Comptroller to initiate and maintain an enforcement proceeding against Respondent pursuant to 12 U.S.C. § 1818.

ARTICLE II

GRANT THORNTON'S ROLE AT KEYSTONE

A. Keystone's Loan Securitization Program

(5) Keystone was a small community bank in an impoverished area in rural West Virginia. In 1993, the Bank began a loan securitization program in an effort to boost declining revenues.

(6) The securitization program involved Keystone purchasing loans (generally sub-prime and/or high loan-to-value ("HLTV") second mortgage loans) from loan originators, including many originated through the Federal Housing Authority's Title I home improvement loan program. With the assistance of outside parties such as investment bankers, Keystone packaged the loans into pools, set up trusts, and sold pools of loans to the trusts. Keystone and/or the outside parties then converted the assets of the trust into securities and sold

certificates that conferred upon the certificate holders ownership in the trust, and the right to receive income from borrowers' payments of principal and interest of the loans contained in the trusts. Keystone retained a residual ownership interest in each securitization, subordinated to that of other investors.

(7) From 1993 to 1998, Keystone completed nineteen securitizations collectively containing more than $2.6 billion in sub-prime and/or HLTV loans. The securitizations undertaken by Keystone and its wholly owned subsidiary, Keystone Mortgage, quickly became the largest line of business and source of revenue for the Bank. As a result of these activities, Keystone reported significant growth, increasing from $107 million in assets in 1992 to $1.1 billion by 1999.

(8) Although Keystone reported to shareholders, regulators, and the public that its securitization program and the Bank were highly profitable, these representations were actually false. In fact, Keystone lost millions of dollars in the 1990's through embezzlement by Bank officers (several of whom have been convicted of felonies in United States District Court) and extensive losses in the Bank's securitization program. Keystone misrepresented the Bank's financial condition through fraudulent recordkeeping, including misstating that Keystone owned hundreds of millions of dollars in loans as assets when in fact the Bank did not own the loans. When the OCC discovered these misstatements in the summer of 1999, the OCC determined that

the Bank was actually insolvent. It closed the Bank on September 1, 1999 and appointed the Federal Deposit Insurance Corporation (FDIC) as receiver.

B. The 1998 Formal Agreement with OCC

(9) The OCC expressed concern about Keystone's management of and recordkeeping for its securitization program shortly after the Bank closed its first securitization of FHA Title I loans in 1993. Over the next several years, the OCC's Reports of Examination ("ROE") for the Bank repeatedly identified deficiencies in the Bank's recordkeeping and accounting, including many problems related to its securitization program.

(10) These and other concerns led the OCC to enter into a supervisory Formal Agreement ("Formal Agreement") with the Board of Directors of Keystone on May 28, 1998. Under one provision of the Formal Agreement, Keystone agreed to engage a nationally recognized independent accounting firm with expertise in securitizations and FHA mortgage banking operations to perform an annual audit, as well as certain specific accounting procedures. These procedures included "determin[ing] the appropriateness of the Bank's accounting for . . . (c) reconciliations between the Bank's records and loan servicer records."

C. Grant Thornton's Engagement by the Bank

(11) In July of 1998, Keystone accepted Grant Thornton's offer to provide accounting services to the Bank for the purpose of enabling the Bank to comply with the terms of the Formal Agreement. Respondent assigned a Grant Thornton partner, Stanley J. Quay, as the engagement partner for the engagement, and assigned a Grant Thornton employee, Susan Buenger ,as audit manager for the Keystone engagement. At all times relevant to this Notice, Buenger and Quay acted in their capacity as agents for Grant Thornton during Respondent's engagement with Keystone.

(12) Respondent, through Quay and Buenger, began performing services for Keystone in or about August of 1998, and continued to perform work for the Bank until it closed. In addition to the specific accounting procedures required by the Formal Agreement, the Bank also engaged Grant Thornton to re-audit its 1997 financial statements, and to perform a variety of other services, including "representation before the OCC." In performing accounting services for the Bank, Grant Thornton was required to follow Generally Accepted Accounting Principles ("GAAP"), and was required to conduct audits in accordance with Generally Accepted Auditing Standards ("GAAS").

(13) In commencing its audit of the financial statements of Keystone for year-end 1998, Grant Thornton was required to conduct a review of the internal controls of the Bank, and of the risk that the Bank's financial statements contained material misstatements. This risk assessment was required by the terms of a settlement that Grant Thornton entered into on

October 3, 1995, with the Office of Thrift Supervision relating to accounting services performed by a predecessor firm of Grant Thornton for San Jacinto Savings Association of Bellaire, Texas ("OTS Order"). This settlement order, which was in effect for five years (until 2000), required Grant Thornton to perform certain procedures for each insured depository institution audit engagement that it undertook, including:

> [P]erforming an assessment of the risks associated with the client. The risk assessment shall include an assessment of the risk that errors and irregularities may cause the financial statements to contain a material misstatement and, based on that assessment, Grant Thornton shall design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements in accordance with SAS No. 53 (AU § 316). The risk assessment also shall include obtaining an understanding of the institution's internal control structure, including its loan underwriting policies. The audit plan shall include the plan for identifying and testing internal controls for the purpose of determining the nature, timing, and extent of the substantive tests to be performed.

(OTS Order at ¶ 5(a); attached as Exhibit A).

(14) In performing this required risk assessment, Grant Thornton had access to information indicating that:

(a) The OCC had repeatedly criticized Keystone's bookkeeping and internal controls, including in the OCC's recently completed 1998 Report of Examination;

(b) That the Bank and the OCC had entered into the 1998 Formal Agreement for the purpose of addressing these and other deficiencies;

(c) That the Bank entered into its engagements with Grant Thornton in order to comply with the Formal Agreement's requirement that the Bank hire a national accounting firm to address the deficiencies; and

(d) That the OCC had assessed civil money penalties against directors of the Bank in March 1998, for filing inaccurate Reports of Condition and Income in violation of 12 U.S.C. § 161.

(15) As a result of this assessment, Grant Thornton determined that the Keystone audit presented "maximum" risk that errors and irregularities could cause the financial statements to contain a material misstatement, and "maximum" risk that Keystone's internal controls were inadequate to detect material misstatements. This "maximum/maximum" assessment was the highest risk assessment provided for in Grant Thornton's procedures. Under Grant Thornton procedures, this rating required the firm to perform additional procedures to ensure that there were no material misstatements, including substantive testing of documents underlying the Bank's financial statements.

D. Confirmation Process

(16) As part of its year-end 1998 audit of the Bank, Grant Thornton sought to verify the amounts of assets presented on Keystone's financial statements. By year-end 1998, over

40% of Keystone's reported $1.1 billion in assets were managed by outside companies known as loan servicers. As part of the securitization program, Keystone arranged for servicers to manage its purchased portfolios of loans, both before and after they were securitized. These servicers would collect loan payments from borrowers, remit funds to the appropriate party, and maintain and supplement records of the loans.

(17) By the end of 1998, two businesses serviced most of Keystone's loans: Advanta Mortgage Corp. USA ("Advanta") and Compu-Link Loan Service, Inc. ("Compu-Link"). Keystone's books and records represented that Advanta and Compu-Link collectively serviced approximately $469 million in loans as of year-end 1998. Therefore, Susan Buenger of Grant Thornton prepared and sent confirmation letters to Advanta and Compu-Link. The requests, which were drafted by Susan Buenger and mailed on Bank letterhead, asked the servicers to provide Respondent "with the balance as of December 31, 1998 of the loans serviced by you."

(18) In verifying these assets, Grant Thornton was required to follow GAAS and GAAP. The third standard of audit fieldwork under GAAS requires that an auditor obtain sufficient competent evidential matter through inspection, observation, inquiry and confirmation to afford a reasonable basis for his opinion regarding the financial statements under audit. With respect to a management assertion of ownership, GAAS requires an auditor to verify both the existence and ownership of an asset.

(19) GAAS also required Grant Thornton to obtain an adequate understanding of Keystone's business and relationships with third parties and to use that understanding in designing the confirmation process. This requirement is found in AU § 330.25: "The auditor's understanding of the client's arrangements and transactions with third parties is key to determining the information to be confirmed. The auditor should obtain an understanding of the substance of such arrangements and transactions to determine the appropriate information to include on the confirmation request."

(20) Contrary to this provision, Grant Thornton did not gain sufficient understanding of Keystone's business and its relationships with other companies before undertaking the confirmation process. In particular, Buenger has admitted in sworn testimony that she was unaware of a "warehousing" relationship between Keystone and United National Bank of Wheeling, West Virginia ("United"), whereby Keystone would buy loans using United funds—a relationship that was critical to understanding Keystone's securitization process and to the way records of the securitization program were kept.

E. United National Bank Relationship

(21) To fund its securitization program, Keystone developed relationships with other financial institutions, including agreements for them to provide the Bank with "warehousing"

lines of credit. In such arrangements, Keystone would purchase the loans with funds borrowed from the other banks, and these banks would retain ownership of ("warehouse") them while Keystone prepared a securitization. Keystone then purchased the loans from the bank just before the securitization closed and transferred them to the securitization trust. The purchase would be funded by the expected proceeds Keystone would receive from selling the loans to the trust.

(22) In March of 1998, United and Keystone began a relationship that allowed Keystone and its loan originators to purchase HLTV and Title I mortgage loans as an agent for United. In this relationship, Keystone would notify United of potential loans for purchase, and United would wire funds to a clearing account at Keystone. Keystone would then wire the funds provided by United to the loan originators to purchase loans, as authorized by a power of attorney arrangement. Keystone would receive loan files and hold them until they could be sent to Compu-Link for servicing.

(23) Under this arrangement, the loans purchased by Keystone with United funds belonged to United and were recorded by Compu-Link as United-owned loans. During this period, Keystone also purchased loans using its own funds, and those loans were recorded by Compu-Link as Keystone-owned loans. These loan pools were separately identified, serviced, and segregated by Compu-Link. In late 1998, the United-owned pool of loans was designed to be part of a planned Keystone securitization, but that securitization never took place. Consequently, Keystone never purchased these loans from United.

(24) By late 1998, the market for the sub-prime, HLTV loans that constituted Keystone's securitization program had deteriorated such that Keystone could no longer complete securitizations. As a result, both Keystone and United owned leftover pools of loans that had been planned for securitizations. In December of 1998, Compu-Link transferred control over, and servicing rights to, over $200 million in the United-owned loans to Advanta. Compu-Link retained servicing rights to a substantial number of United-owned loans, and a much smaller number of Keystone-owned loans. Advanta designated this newly transferred pool of loans #406 and clearly identified it as owned by United. Advanta kept this loan pool separate from Keystone-owned loans now serviced by Advanta (#405).

(25) Despite the clear segregation and identification of the ownership of loans by servicers, Keystone's senior management falsely claimed United-owned loans serviced by Compu-Link and Advanta as assets owned by the Bank. They did so in order to cover the Bank's losses that resulted from embezzlement by Keystone insiders and losses incurred by the Bank's securitizations. Nevertheless, while the Bank's internal records falsely indicated Keystone owned these loans, the servicers' own records clearly identified them as owned by United.

(26) Grant Thornton's failure to gain an understanding of Keystone's relationship with United as required by AU § 330.25 violated GAAS and contributed to Grant Thornton writing a general confirmation letter requesting that Advanta and Compu-Link provide Grant Thornton

"with the balance as of December 31, 1998 of the loans serviced by you." This general letter did not appropriately address the relationship with United, whereby loans related to Keystone's securitization business and serviced by United or Compu-Link were actually owned by United. Had Grant Thornton followed GAAS, it would have understood that a more specific confirmation request was necessary to distinguish Keystone-owned loans from United-owned loans.

F. Advanta Confirmation Letter

(27) Grant Thornton's failure to follow GAAS (including AU § 330.25) was particularly evident with respect to the handling of the confirmation process with loan servicer Advanta. After Buenger failed to receive a response to Respondent's first confirmation request to Advanta, she mailed a second request to Advanta on or about March 16, 1999. Advanta responded by sending Grant Thornton a December 31, 1998 ,Advanta servicing report that showed an inventory of $6 million in loans owned by Keystone (account #405). As this amount was significantly different than the $242 million in Keystone-owned loans that Bank records indicated Advanta was servicing, Buenger telephoned an Advanta employee on April 7, 1999 concerning the discrepancy.

(28) Buenger's telephone call with Advanta employee Patricia Ramirez lasted only three minutes. Shortly afterward, Ramirez sent Buenger an email that showed that Advanta serviced $236 million in loans held by United National Bank (account #406). The email did not

state that Keystone owned these loans, nor even mention Keystone. However, Buenger added a handwritten note on a copy of this email that, according to a conversation with Ramirez, "the loans coded under the 'United' name actually belong to Keystone as of December 31, 1998." Grant Thornton took no further action to verify Keystone's purported ownership of the $236 million in Advanta-serviced loans until OCC examiners ultimately obtained contradictory documentation directly from Advanta in August of 1999.

(29) Grant Thornton's failure to follow up on the conversation with an Advanta employee, and the reliance on oral evidence rather than written evidence contained in the email, also violates AU § 330.29 of GAAS: "If the information in the oral confirmation is significant, the auditor should request the parties involved to submit written confirmation of the specific information directly to the auditor."

(30) Had Grant Thornton followed AU § 330 and obtained sufficient understanding of Keystone's "warehousing" relationship with United, Grant Thornton would have seen an even more obvious need to investigate further and obtain additional information as to who owned the $236 million in loans.

(31) In failing to follow GAAS with respect to the Advanta confirmation request, and in failing to pursue information strongly suggesting that the assets stated on Keystone's financial statements were materially misstated, Grant Thornton consciously disregarded a known or apparent risk. Grant Thornton also knew, or should have known, that the consequences of

disregarding this risk were unquestionably material because the amount of the apparent discrepancy between Keystone's financial statements and records obtained from Advanta amounted to over $200 million dollars, or approximately 20% of the reported assets of the Bank.

G. Compu-Link Confirmation

(32) In January of 1999, Buenger mailed a confirmation request to Compu-Link that contained language identical to that in the Advanta confirmation request. Compu-Link sent a confirmation response to Grant Thornton on January 13, 1999 stating that "the total balance of Keystone loans" serviced by Compu-Link as of December 31, 1998 was $227 million. This number included loans connected to the Keystone/United relationship—both loans owned by United as well as loans owned by Keystone. In actuality, over $200 million of these loans belonged to United, with the rest belonging to Keystone. By failing to design the confirmation process for the Compu-Link confirmation appropriately, Grant Thornton violated GAAS and ignored a known or obvious risk that the confirmation could be materially misstated.

H. Interest Income Verification

(33) Also as part of its 1998 audit, Grant Thornton sought to verify Keystone's reported receipt of approximately $99 million from loan servicers, which purportedly represented borrowers' repayment of loans owned by Keystone. In actuality, Keystone had

received far less in interest income since it did not actually own the loans for which borrowers were making payments.

(34) In an attempt to verify the $99 million figure, Susan Buenger undertook analytical tests that sought to determine whether the amounts of interest income stated by Keystone were reasonable, considering other factors, such as the volume of loans stated by Keystone on its Reports of Condition and Income.

(35) Buenger did so despite Grant Thornton's determination that the Keystone audit presented "maximum" risk that errors and irregularities could cause the financial statements to contain a material misstatement, and "maximum" risk that Keystone's internal controls were inadequate to detect material misstatements. Under the San Jacinto Settlement Order, Grant Thornton was required to "design the audit to provide reasonable assurance of detecting errors and irregularities that are material to the financial statements." Such procedures were also required by AU § 316. However, the procedures employed by Grant Thornton simply used Bank records to confirm the accuracy of other Bank records. Grant Thornton relied upon internal Bank records, including Reports of Condition and Income, even though it knew in performing its risk assessment that the OCC has assessed civil money penalties against the Bank's directors in 1998 for filing inaccurate Reports. None of the procedures involved "substantive" tests such as review of checks, remittances, wire receipts, or other external documents. Such procedures were necessary and appropriate under GAAS due to the high risk of material misstatements. Grant

Thornton's failure to perform such procedures ignored a significant known or obvious risk that the financial statements were materially misstated and that Grant Thornton's procedures would not detect such misstatements. Had Grant Thornton attempted to perform substantive testing of documents to verify the Bank's interest income, Grant Thornton would have discovered that such documents did not exist because the Bank had not received the interest income claimed on its financial statements.

I. Audit Opinion

(36) After Grant Thornton's audit manager for the Keystone engagement, Susan Buenger, completed work relating to the year-end 1998 audit, including the loan confirmation and interest income verification procedures described above, Grant Thornton's partner for the Keystone engagement, Stanley Quay, reviewed and approved her workpapers. Subsequently, other accountants at Grant Thornton reviewed and approved the workpapers before the audit was completed.

(37) In April of 1999, Grant Thornton issued an unqualified audit opinion on the year-end 1998 financial statements of Keystone to the Bank. By issuing this unqualified opinion, Grant Thornton opined that the financial statements of the Bank were fairly represented in accordance with GAAS and GAAP, and that the financial statements contained no material misstatements. However, in actuality, the financial statements overstated the Bank's assets by approximately $500 million – the amount of United-owned loans that Keystone insiders falsely

represented as owned by the Bank. The financial statements also materially misstated the amount of interest income received by Keystone during 1998 by millions of dollars.

(38) Had Grant Thornton followed GAAS and GAAP in conducting its audit, and had Grant Thornton not disregarded a known or obvious risk that the Bank's financial statements contained material misstatements, Grant Thornton would have discovered that the Bank did not own over $500 million in loans stated on the Bank's financial statements and was in fact insolvent. Had Grant Thornton discovered this fact, and upheld its duty to convey this fact to the Bank's Board of Directors and the OCC, the OCC would have closed the Bank prior to September 1, 1999 and avoided further dissipation of the bank's assets

(39) Between April of 1999, when Grant Thornton issued its unqualified audit opinion on the financial statements of Keystone, and September 1, 1999, the Bank declared and paid dividends and incurred operating losses and costs amounting to millions of dollars.

J. Insolvency Uncovered by OCC

(40) In the summer of 1999, examiners from the OCC and the Federal Deposit Insurance Corporation (FDIC) began a full scope regulatory examination of Keystone. During this examination, examiners discovered certain discrepancies in Bank records and sought to resolve the discrepancies by obtaining information directly from the Bank's primary loan servicers, Advanta and Compu-Link.

(41) In late August of 1999, Advanta and Compu-Link provided documentation directly to the OCC that indicated they were servicing hundreds of millions of dollars less in Keystone-owned loans than the Bank had reported on its records and financial statements.

(42) This documentation indicated that the Bank's liabilities significantly outweighed its assets. As a result, the OCC declared the Bank insolvent, closed it, and appointed the FDIC as receiver on September 1, 1999.

(43) Between Grant Thornton's issuance of its unqualified audit opinion in April of 1999, and the OCC's closure of the Bank on September 1, 1999, the Bank experienced significant losses (including dividend payments and operating losses) that it would not have experienced had Grant Thornton properly performed its audit and discovered the fraud earlier. In fact, had the OCC and FDIC not uncovered the fraud on or about September 1, 1999, the Bank would have remained open and would have continued to suffer additional losses for an undetermined period of time.

ARTICLE III

UNSAFE AND UNSOUND PRACTICES

(44) This Article repeats and realleges all previous Articles.

(45) Grant Thornton's conduct of its audit of the Bank's year-end 1998 financial

statements, with respect to its process for confirming ownership of loans serviced by others which Keystone purported to own, violated GAAS and constituted reckless participation in unsafe or unsound banking practices in that it facilitated the continued false and fraudulent representation of the Bank's assets.

(46) Grant Thornton's conduct of its audit of the Bank's year-end 1998 financial statements, with respect to its verification of interest income purportedly received by Keystone, as reported on the Bank's year-end 1998 financial statements, violated GAAS and constituted reckless participation in unsafe or unsound banking practices in that it facilitated the continued false and fraudulent representation of the Bank's income.

Respondent is directed to file a written answer to this Notice within twenty (20) days from the date of service of this Notice in accordance with 12 C.F.R. § 19.19(a) and (b). The original and one copy of any answer shall be filed with the Office of Financial Institution Adjudication, 1700 G Street, N.W., Washington, D.C. 20552. A copy of any answer shall also be served with the Hearing Clerk, Office of the Chief Counsel, Office of the Comptroller of the Currency, Washington, D.C. 20219 and with the OCC attorney whose name appears on the accompanying certificate of service. **Failure to answer within this time period shall constitute a waiver of the right to appear and contest the allegations contained in this Notice, and shall, upon the OCC's motion, cause the Administrative Law Judge or the**

Comptroller to find the facts in this Notice to be as alleged, upon which an appropriate order may be issued.

The hearing afforded to Respondent shall be open to the public, unless the agency, in its discretion, determines that holding an open hearing would be contrary to the public interest.

PRAYER FOR RELIEF

The Comptroller prays for relief in the form of the issuance of a final Order to Cease and Desist, in substantial conformity to the attached Proposed Order.

Witness, my hand on behalf of the Office of the Comptroller of the Currency, given at Washington, D.C. this 5th day of March, 2004.

/s/ *Timothy W. Long*

Timothy W. Long
Senior Deputy Comptroller
Mid-Size/Community Bank Supervision

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

In the Matter of:	)	
	)	
Grant Thornton LLP	)	AA-EC-04-02
Former External Auditor for	)	
The First National Bank of Keystone	)	
(in receivership),	)	
Keystone, West Virginia	)	

ORDER TO CEASE AND DESIST

The Comptroller of the Currency ("Comptroller") has examined the affairs of the First National Bank of Keystone, Keystone, West Virginia ("Bank"), prior to placing that Bank into receivership on September 1, 1999. As a result of his examinations, and pursuant to the authority vested in him by the Federal Deposit Insurance Act, 12 U.S.C. § 1818(b), the Comptroller hereby orders that:

ARTICLE I

SCOPE OF INSURED DEPOSITORY INSTITUTION ENGAGEMENTS

(1) Grant Thornton shall provide audits services to insured depository institutions in accordance with this Order to Cease and Desist ("Order") for six (6) years from the effective date of this Order.

(2) Except as provided in paragraph (3) of this Article, Grant Thornton shall not provide, contemporaneously with any audit for an insured depository institution, any of the following non-audit services for that client:

(a) bookkeeping or other services related to the accounting records or financial statements of the institution;

(b) financial information systems design and implementation;

(c) appraisal or valuation services, fairness opinions, or contribution-in-kind reports;

(d) actuarial services;

(e) internal audit outsourcing services;

(f) management functions or human resources;

(g) broker or dealer, investment adviser, or investment banking services;

(h) legal services and expert services unrelated to the audit; and

(i) any other service determined by the Public Company Accounting Oversight Board ("PCAOB"), by regulation, to be impermissible for a registered public accounting firm to perform for any issuer contemporaneously with an audit pursuant to 15 U.S.C. § 78j-1(g).

(3) Grant Thornton may engage in any non-audit service, including tax-related services, that is not described in the preceding paragraph (2) of this Article for an insured depository institution that is an audit client, only after first notifying the audit committee (or a representative of that committee designated by the committee to receive such notifications), or the board of directors, if the institution does not have an audit committee, of the nature and scope of the non-audit service to be performed.

(4) Grant Thornton shall not provide audit services to an insured depository institution if the Audit Engagement Partner, or the partner responsible for reviewing the audit, has performed audit services for that institution in each of the five (5) previous fiscal years (or calendar years, if that institution does not use fiscal year reporting).

(5) Grant Thornton shall not perform any audit for an insured depository institution if

a chief executive officer, controller, chief financial officer, chief accounting officer, or any person serving in an equivalent position for the institution, was employed by Grant Thornton and participated in any capacity in the audit of that institution during the one (1)-year period preceding the date of the initiation of the audit.

ARTICLE II

ACCEPTANCE OF INSURED DEPOSITORY INSTITUTION ENGAGEMENTS

(1) Prior to agreeing to perform an audit for an insured depository institution for the first time, Grant Thornton shall document and retain:

(a) The reasons provided for the change in auditors, including the specific nature of disagreements, if any, between the predecessor auditor and the prospective audit client;

(b) A preliminary assessment of audit risks, the specific steps taken in designing the scope of the audit to address those risks as required by AU §§ 312 and 316, and an estimate of the hours of work required to perform the audit in light of these risks; and

(c) Its determination that the required technical expertise is available within Grant Thornton and the identity of the Grant Thornton personnel who have expertise in areas, if any, which present significant technical complexity. If such expertise is not available at the office leading the engagement, Grant Thornton shall specify persons or offices within Grant Thornton that have the necessary expertise. Grant Thornton shall decline

any engagement if the required technical expertise is not available within its organization.

ARTICLE III

CONDUCT OF INSURED DEPOSITORY INSTITUTION ENGAGEMENTS

(1) Grant Thornton shall require that an Audit Engagement Partner and an Impartial Reviewer, who shall concur with the Audit Engagement Partner in the audit opinion, perform the procedures described in this Article III with respect to each insured depository institution audit engagement undertaken by Grant Thornton.

(2) Audit Engagement Partner. The Audit Engagement Partner shall review and approve audit plan documentation before any significant audit procedures are performed. The audit plan documentation shall be completed after performing an assessment of the risks associated with the client. The risk assessment shall include an assessment of the risk that errors, fraud, and irregularities may cause the financial statements to contain a material misstatement and, based on that assessment, Grant Thornton shall design the audit to provide reasonable assurance of detecting errors, fraud, and irregularities that are material to the financial statements in accordance with AU § 316. The risk assessment also shall include obtaining an understanding of the institution's internal control structure, including its loan underwriting policies. The audit plan shall include the plan for identifying and testing internal controls for the purpose of determining the nature, timing, and extent of the substantive tests to be performed. The Audit Engagement Partner shall be responsible for determining that the audit is conducted in accordance with GAAS and the audit plan, as appropriately modified and approved in response to information obtained during the course of the audit, and shall be satisfied that the audit is

conducted with an independence in mental attitude and due professional care as required by AU § 150. The Audit Engagement Partner shall be responsible for determining that:

(a) sufficient competent evidential matter is obtained to afford a reasonable basis for an opinion regarding the financial statements under audit, as required by AU § 150; and

(b) the documentation referred to in Article V of this Order has been prepared and included in the working papers.

(3) In addition, the Audit Engagement Partner shall review and approve the following:

(a) a summary of significant matters;

(b) important working papers, including related consultation memoranda, in technically difficult or highly judgmental areas;

(c) documentation of external confirmation of all assets of the institution valued in excess of $100 million dollars; and

(d) other working papers the Audit Engagement Partner considers necessary to obtain a clear understanding of the accounting, auditing, and reporting matters discussed in the summary of significant matters.

(4) <u>Impartial Reviewer</u>. Each audit of an insured depository institution must be reviewed by an Impartial Reviewer. For insured depository institutions with assets in excess of $250,000,000, the Impartial Reviewer shall be a partner and shall perform all the functions set forth in this paragraph (4). However, for insured depository institutions with assets not in excess of $250,000,000, the Impartial Reviewer need not be a partner and need not perform the function

set forth below in paragraph (4)(a). In reviewing each audit of an insured depository institution, the Impartial Reviewer shall:

(a) review and concur with conclusions in the key working papers (including the audit plan documentation) relating to significant accounting, auditing, and reporting matters, as considered appropriate;

(b) review and concur with the conclusions in the summary of significant matters after discussing with the engagement team any significant accounting, auditing, and reporting matters; and

(c) review and concur with the conclusions in additional working papers considered necessary by the Impartial Reviewer based upon the reviews described in (a) or (b) above.

(5) Before the issuance of an opinion by Grant Thornton, the Audit Engagement Partner and Impartial Reviewer shall sign the Grant Thornton Report Guide sheet or other document. Completion of this document shall indicate that the Audit Engagement Partner has concluded, and that the Impartial Reviewer concurs with the Audit Engagement Partner's conclusion, that (1) the audit was performed in accordance with GAAS; (2) the application of GAAP to significant accounting or reporting matters was proper; (3) the issuance of Grant Thornton's report on the financial statements is approved; and (4) the audit was performed in compliance with the terms of this Order in all respects material to the financial statements.

(6) Grant Thornton shall perform audits of insured depository institutions in accordance with GAAS, including making appropriate use of:

(a) Audit procedures that give due consideration to the possibility that the substance of a particular transaction may be materially different from its form

and that acknowledge that generally accepted accounting principles recognize the importance of reporting transactions and events in accordance with their substance as described in AU § 411; and

(b) When providing audit services to an insured depository institution, Grant Thornton shall follow the hierarchy of established accounting principles as set forth in paragraph AU § 411. If, due to new developments such as legislation or the evolution of a new type of business transaction, there are no established accounting principles for reporting a specific transaction or event, then Grant Thornton shall give consideration to whether it might be possible to report the event or transaction by selecting an accounting principle that appears appropriate when applied in a manner similar to the application of an established principle to an analogous transaction or event in accordance with AU § 411.

(7) In conducting audits of insured depository institutions, Grant Thornton shall obtain sufficient competent evidential matter through independent inspection, observation, and confirmation, and written representations from the client, so as to afford a reasonable basis for an opinion regarding the financial statements under audit in accordance with AU § 326.

(8) Confirmations. Grant Thornton shall ensure that confirmations it performs as part of audits for insured depository institutions are in accordance with GAAS, including but not limited to AU § 330. Grant Thornton shall, in accordance with GAAS, obtain and retain written documentation provided by persons or businesses other than the client sufficient to verify the ownership of assets as part of the working papers for that audit or engagement. Additionally, when oral representations by a confirming party or its representative alter the substance of a

confirmation, Grant Thornton shall procure written verification and explanation of this alteration from the confirming party.

(9) In performing an audit of an insured depository institution, Grant Thornton shall, in accordance with GAAS, take such steps as are necessary to gain an understanding of all financial relationships between the institution and other persons or entities that have or could reasonably be expected to a material effect on the financial statements of the institution.

(10) Each audit of the financial statements of an insured depository institution by Grant Thornton shall include, in accordance with GAAS:

(a) procedures designed to provide reasonable assurance of detecting illegal acts that would have a direct and material effect on the determination of financial statement amounts;

(b) procedures designed to identify related-party transactions that are material to the financial statements or otherwise require disclosure therein; and

(c) an evaluation of whether there is substantial doubt about the ability of the institution to continue as a going concern during the ensuing fiscal year.

(11) If, in the course of conducting an audit of an insured depository institution, Grant Thornton detects or otherwise becomes aware of information indicating that an illegal act (whether or not perceived to have a material effect on the financial statements of the institution) has or may have occurred, the firm shall, in accordance with GAAS:

(a) determine whether it is likely that an illegal act has occurred; and

(b) if so, determine and consider the possible effect of the illegal act on the financial statements of the institution, including any contingent monetary effects, such as fines, penalties, and damages; and

(c) as soon as practicable, inform the appropriate level of the management of the institution and assure that the audit committee of the institution, or the board of directors of the institution in the absence of such a committee, is adequately informed with respect to illegal acts that have been detected or have otherwise come to the attention of such firm in the course of the audit, unless the illegal act is clearly inconsequential.

(12) If, after determining that the audit committee of the institution, or the board of directors of the institution in the absence of an audit committee, is adequately informed with respect to illegal acts that have been detected or have otherwise come to the attention of the firm in the course of the audit of such institution, Grant Thornton concludes that--

(a) the illegal act has a material effect on the financial statements of the institution;

(b) the senior management of the institution has not taken, and the board of directors has not caused senior management to take, timely and appropriate remedial actions with respect to the illegal act; and

(c) the failure to take remedial action is reasonably expected to warrant departure from a standard audit report by Grant Thornton, when made, or warrant resignation from the audit engagement;

Grant Thornton shall, as soon as practicable, directly report its conclusions to the board of directors of the institution.

(13) When Grant Thornton performs an audit for an insured depository institution, Grant Thornton shall timely report to the audit committee of the institution (or to the board of

directors, if the institution does not have an audit committee):

(a) all critical accounting policies and practices to be used;

(b) all alternative treatments of financial information within GAAP that have been discussed with management officials of the institution, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by Grant Thornton; and

(c) other material written communications between Grant Thornton and the management of the institution, such as any management letter or schedule of unadjusted differences.

(14) When Grant Thornton performs an audit for an insured depository institution, Grant Thornton shall timely report all adjustments suggested by Grant Thornton and not made by management, regardless of whether they are material, to the audit committee or to the board of the directors of the institution.

(15) Grant Thornton shall not permit an accountant associated with the firm to participate in any manner in an audit or the performance of non-audit services for an insured depository institution if that accountant has been censured or denied (temporarily or permanently) the privilege of appearing or practicing before the Securities and Exchange Commission pursuant to 15 U.S.C. § 78d-3, unless, prior to that accountant performing any services for the institution, Grant Thornton:

(a) notifies the insured depository institution of the action of the Securities and Exchange Commission with respect to the accountant; and

(b) obtains the written consent of the audit committee of the institution (or, if there is no audit committee, of the board of directors of the institution) to have

the accountant perform specified services for the institution.

ARTICLE IV

MININUM ACCOUNTANT QUALIFICATIONS

(1) Grant Thornton shall ensure that accountants (including Audit Engagement Partners, Impartial Reviewers, senior managers, and managers) assigned to perform accounting services for or audits of insured depository institutions have sufficient skill, professional competence, and experience in relevant matters to perform each of the tasks undertaken by them competently and in accordance with GAAP (and GAAS, if applicable).

(2) Each Grant Thornton partner, senior manager and manager assigned to audits of insured depository institutions shall:

(j) have completed sixteen (16) hours of a Grant Thornton approved professional development accounting and auditing course(s) relating to insured depository institutions;

(ii) undergo, in each fiscal year commencing after the date of this Order, training totaling twenty (20) hours per year in one or more subjects relevant to audits of insured depository institutions.

(3) For audits of insured depository institutions with assets in excess of $250,000,000, each of (1) the Audit Engagement Partner and (2) collectively, the senior managers and managers assigned to such audit examinations shall each have had at least 300 chargeable hours in connection with insured depository institution audits.

(4) For audits of insured depository institutions with assets in excess of $250,000,000, either the Audit Engagement Partner or the senior manager (or manager, if a

senior manager is not assigned) assigned to each such audit, or the two of them together, shall have had a total of at least 1,000 chargeable hours of relevant audit experience during the immediately preceding three (3) year period, of which 300 hours are on the audits of insured depository institutions. For the purpose of this Order, "relevant audit experience" may have been obtained in connection with audits of insured depository institutions and their non-diversified holding companies, or audits of real estate companies, investment companies, insurance companies, securities companies, investment banking companies, universities, trusts, ESOPs, benefit plans, and not-for-profit exempt entities and similar companies whose principal business involves utilizing funds obtained from and held for the public.

(5) As part of its annual national practice program, Grant Thornton shall include in its practice review a sample of Audit Engagement Partners assigned to audits of insured depository institutions. The practice review with respect to those Audit Engagement Partners shall include a review of a sample of the audits of insured depository institutions performed by those Audit Engagement Partners. The sample of Audit Engagement Partners shall include in each year at least twenty-five (25%) percent of the partners assigned as Audit Engagement Partners to audits of insured depository institutions and result in the inclusion of one hundred (100%) percent of such partners over the course of a three (3) year audit practice review cycle. This practice review shall be performed by qualified personnel.

ARTICLE V

WORKING PAPERS

(1) Grant Thornton shall preserve all working papers (as described in AU § 339) prepared in connection with audit, accounting, or consulting work, all engagement planning

documentation, and all papers (including emails) documenting the acceptance of insured depository institution audit engagements, including those presently held by Grant Thornton and those generated in the future, for a period of six (6) years from the end of the fiscal period in which the audit or service performed for the insured depository institution was concluded. This paragraph does not apply in connection with audit or other services commenced prior to sixty (60) days from the date of this Order.

(2) Grant Thornton shall promptly provide reasonable and prompt access to its working papers at the request of the appropriate banking agency or the Federal Deposit Insurance Corporation ("FDIC"), and shall provide, at its own expense, copies of its working papers at the request of the appropriate banking agency or the FDIC.

(3) Grant Thornton's working papers for all insured depository institution audit engagements:

(a) Shall be designed to meet the circumstances of a particular engagement and constitute the principal record of the work that Grant Thornton has performed and conclusions that it has reached concerning significant matters. However, as permitted by AU § 339, Grant Thornton may support its report by other means in addition to working papers;

(c) Shall document the procedures applied, the tests performed, the information obtained, and the pertinent conclusions reached in the engagement, including facts obtained during interviews with insured depository institution personnel and responses to significant issues identified during the review of the working papers.

(4) If workpapers are modified, altered or supplemented after forty-five (45) days from the issuance of an audit opinion, then as soon as is practicable, such changes shall be clearly identified and the reason for the changes explained in a document to be retained with the supplemental workpapers and signed and dated by the person making the change and the person approving such change. In implementing this paragraph, Grant Thornton shall take steps to limit access to workpapers following the completion of an audit or engagement.

ARTICLE VI

PEER REVIEW

(1) Grant Thornton shall provide a copy of this Order to any accounting firm that performs a peer review of its accounting operations, including any review performed in accordance with 12 U.S.C. § 1831m(g)(3). Grant Thornton shall retain documentation indicating that this Order was provided to any peer review firm for five (5) years following such review.

ARTICLE VII

SUPERVISION OF SPECIFIED AUDITORS

(1) Grant Thornton shall supervise all audit personnel that were assigned to the Keystone audit so long as they are partners in, employed by, or otherwise affiliated with Grant Thornton, to ensure that they follow all applicable laws, regulations, and the requirements of GAAS and GAAP, with respect to any audits performed by them on behalf of Grant Thornton for insured depository institutions.

(2) Annually, a senior partner of Grant Thornton shall perform a review of the audits of insured depository institutions conducted by the persons designated in paragraph 1 of this

Article VII. Such reviewer shall be assigned by the Managing Partner of Professional Standards ("MPPS") of Grant Thornton and shall report directly to the Chief Executive Officer ("CEO") of Grant Thornton. Such reviews shall continue to be performed annually for the duration of this Order, provided however, that in the event that the results of any review is satisfactory, the next review of such person may be conducted in no more that twenty-four (24) months following the satisfactory review. All such reviews shall be confidential. Grant Thornton shall maintain a copy of the results of such reviews for a period of five (5) years from the conclusion of each review, and shall make the results of such reviews available for review by the OCC upon request.

ARTICLE VIII

IMPLEMENTATION OF ORDER

(1) Each provision in this Order shall be effective immediately upon issuance by the Comptroller, unless otherwise stated in this Order, and shall remain in effect for six (6) years from this effective date unless altered or terminated by the Comptroller.

(2) Any communications or documents required by this order shall be sent to the Office of the Comptroller of the Currency, 250 E Street SW, Washington, D.C., 20219, to the attention of the Director, Enforcement and Compliance Division ("Enforcement Director"), unless otherwise stated. Any request for modification or termination of this Order shall be delivered to the same address.

(3) Within thirty (30) days of the date of this Order, Grant Thornton shall provide to the Enforcement Director documentation of procedures designed to implement the directives contained in this Order, including documents evidencing that the appropriate officials or governing bodies within Grant Thornton have approved those procedures.

(4) Beginning sixty (60) days after the date of this Order, Grant Thornton

shall not provide any services to insured depository institutions unless those services are performed in accordance with the provisions of this Order. To the extent that this Order addresses matters included within Grant Thornton's present policies, Grant Thornton shall continue to require adherence to those policies consistent with the terms of this Order.

(5) Nothing in this Order shall be construed to relieve Grant Thornton of the obligation to comply with all laws, rules or regulations applicable to any audit or accounting engagement, including but not limited to Title 15 of the United States Code (including 15 U.S.C. § 78j-1) for insured depository institutions that are "issuers" within the meaning of Title 15. To the extent any provision of this Order conflicts with the requirements of Title 15, the requirements of Title 15 shall prevail.

(6) Grant Thornton shall require each Grant Thornton accountant, at or prior to the time the accountant is initially assigned to perform services for an insured depository institution client, to read a copy of this Order and acknowledge in writing that he or she has done so. Grant Thornton accountants who are performing services for insured depository institutions as of the effective date of this Order must read a copy of the Order and acknowledge in writing that he or she has done so no later than twenty (20) days of the date of this Order. Grant Thornton shall retain copies of the acknowledgements described above until six (6) years after the termination of the Order.

(7) Grant Thornton shall not participate in, or aid and abet, any violations of law, breaches of fiduciary duty, or unsafe and unsound practices (as that term is used in Title 12, Section 1818 of the United States Code) with respect to any insured depository institution for which it provides services.

ARTICLE IX

DEFINITIONS

(1) The term “appropriate banking agency” includes the “appropriate Federal banking agency,” as well as the “State bank supervisor” when applicable, as those terms are defined in Title 12, Section 1813, of the United States Code.

(2) “AU" means United States Professional Auditing Standards promulgated by the Auditing Standards Board of the AICPA.

(3) "Audit" or "audit engagement" means an audit of financial statements performed in accordance with GAAS and includes written opinions issued as a result of such audits.

(4) "Audit Engagement Partner" means the partner or other employee of Grant Thornton, whether or not so denominated by Grant Thornton, charged with the responsibilities of the Audit Engagement Partner set forth in Article III above.

(5) “GAAP” is defined as the Generally Accepted Accounting Principles, as defined and described by AU § 411 issued by the AICPA, and shall include subsequent modifications, amendments, and changes thereto.

(6) “GAAS” is defined as the Generally Accepted Auditing Standards, as defined by AU § 150 issued by the AICPA, shall include subsequent modifications, amendments, and changes thereto, and shall include auditing standards promulgated by the Public Company Accounting Oversight Board (“PCAOB”), if and when applicable.

(7) “Grant Thornton” means Grant Thornton, LLP, and all predecessor and successor organizations.

(8) "Impartial Reviewer" means the partner or employee of Grant Thornton charged with the responsibilities of the Impartial Reviewer set forth in Article III above.

(9) "Insured depository institution" shall have the meaning provided in 12 U.S.C. § 1813(c)(2) ("Insured depository institutions"), and shall also include credit unions as defined in 12 U.S.C. § 1752(1), entities identified in 12 U.S.C. § 1813(c)(3), and any subsidiaries of such institutions or entities; and shall also include any bank holding company as defined in 12 U.S.C. § 1841(a) and any savings and loan holding company as defined in 12 U.S.C. § 1467a(a)(D)-(F). "Institution" shall have the same meaning.

(10) "Keystone audit" shall mean the audit of the 1998 financial statements of The First National Bank of Keystone, Keystone, West Virginia, performed by Grant Thornton.

WITNESS, my signature on behalf of the Office of the Comptroller of the Currency, given at Washington, D.C., this _______ day of ______________, 2004.

____