FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **THE STATE BANK OF LEBO** **LEBO, KANSAS** **(Insured State Nonmember Bank)**	**ORDER TO CEASE AND DESIST** **FDIC-07-251b**

The State Bank of Lebo, Lebo, Kansas ("Bank"), having been advised of its rights to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and regulation alleged to have been committed by the Bank, as well as of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") dated December 14, 2007, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices and violations of law and regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe and unsound banking practices and violations of law and regulation. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its Bank-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 or unsound banking practices and violations of law and regulation:

A. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

B. Operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank.

C. Operating with an inadequate level of capital protection for the kind and quality of assets held and appropriate to the risk inherent in the activities engaged in by the Bank.

D. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.

E. Engaging in hazardous lending and lax collection practices, including, but not limited to:

   1. the failure to obtain proper loan documentation;

   2. the failure to obtain adequate collateral;

3. the failure to establish and monitor collateral margins of secured borrowers;

4. the failure to establish and enforce adequate loan repayment programs;

5. the failure to obtain current and complete financial information;

6. the extension of credit with inadequate diversification of risk;

7. the failure of senior Bank management to provide accurate and complete loan presentations to the loan committee;

8. the extension of credit to borrowers which involve unresolved conflicts of interest;

9. the failure to adequately identify the extent of the risk in existing loans; and

10. other poor credit administration practices.

F. Operating with an excessive level of adversely classified loans or assets and delinquent loans.

G. Operating with inadequate liquidity in light of the Bank’s assets and liability mix.

H. Violating laws and regulations, including:

1. The prohibition of preferential terms on loans to insiders set forth in section 215.4(a)(1) of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”), 12 C.F.R. § 215.4(a)(1).

2. The prior approval requirements of section 215.4(b) of Regulation O, 12 C.F.R. § 215.4(b).

3. The requirements of Part 103 of the Treasury Department's Financial Recordkeeping and Reporting of Currency and Foreign Transactions Regulation, 31 C.F.R. Part 103 §§ 18-38.
4. The real estate appraisal requirements of Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323.

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

1. Capital Maintenance.

(a) The Bank shall achieve and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an adequate allowance for loan and lease losses:

(i) Tier 1 capital at least equal to 8 percent of total assets ("capital ratio");

(ii) Tier 1 risk-based capital at least equal to 8 percent of total risk-weighted assets; and

(iii) Total risk-based capital at least equal to 10 percent of total risk-weighted assets.

(b) The Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(c) Within 30 days from the last day of each calendar quarter, the Bank shall determine, from its Reports of Condition and Income, its capital ratio for that calendar quarter. If its capital ratio is less than 8 percent, within 30 days from said required determination, the Bank shall submit a written plan to the FDIC, describing the means and timing by which the Bank shall increase such ratio up to or in excess of 8 percent.

2. Increase in Capital.

(a) If all or part of the increase in capital required by the provisions of this paragraph is accomplished by the sale of new securities, the board of directors of the Bank shall 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 the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 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 Regional Director of the FDIC's Kansas City Regional Office ("Regional Director") and the Bank Commissioner of the Kansas Office of the State Bank Commissioner ("Commissioner"), and the FDIC's Registration, Disclosure, and Securities Unit, 550 17th Street, N.W., Room F-6053, Washington, D.C. 20429 for review. Any changes requested by the FDIC and the Commissioner to be made in the plan or materials by the FDIC shall be made prior to their dissemination. If the Regional Director allows any part of the increase in Tier 1 capital to be provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to the interest rate and any convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(b) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities 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 15 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.

(c) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC’s Rules and Regulations.

3. Dividend Restriction.

(a) While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Regional Director and the Commissioner. Further, while this ORDER is in effect, the Bank shall not declare or pay cash dividends in any amount except as follows:

(i) the declaration and payment of dividends are made in accordance with applicable State and Federal laws and regulations;

(ii) the capital ratio is not less than 8 percent after payment of the dividend;

(iii) the declaration and payment of dividends are approved in advance by the board of directors, with such declarations reflected in the minutes of the board meeting during which such declarations were acted upon;

(iv) the Bank is in substantial compliance with this ORDER; and

(v) the declaration and payment of dividends is approved in advance, in writing, by the Regional Director and Commissioner, which approval shall not be unreasonably withheld.

4. <u>Qualified Management</u>.

(a) Within 90 days from the effective date of this ORDER, the Bank shall have qualified management, including a chief executive officer and a number and type of senior officers appropriate to the size and complexity of the Bank. They shall have the requisite knowledge, skills, ability, and experience to operate the Bank in a safe and sound manner, and in compliance with applicable laws and regulations, as well as to restore the Bank to a satisfactory financial condition. Their focus will include, but not be limited to, capital adequacy, asset quality and diversification, management effectiveness, earnings, liquidity, sensitivity to market risk, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance. Each member of management shall be provided appropriate written authority from the board of directors to implement the provisions of this ORDER.

(b) Immediately, and periodically during the life of this ORDER, but no less frequently than annually, management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER, all applicable State and Federal laws and regulations, FDIC and FFIEC policy statements, and the Bank's approved policies and procedures; and

(ii) restore and thereafter maintain the Bank in a safe and sound condition, including, but not limited to, capital adequacy, asset quality and diversification, earnings, management effectiveness, liquidity, sensitivity to market risk, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance.

5. Assessment of Qualified Management.

(a) Within 30 days from the effective date of this ORDER, the board of directors shall engage an independent third party acceptable to the Regional Director and the Commissioner and that possesses appropriate expertise and qualifications to analyze and assess the Bank's management and staffing performance and needs.

(b) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third party for review before it is executed. The contract or engagement letter, at a minimum, shall include:

(i) a description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement, and the aggregate fee;

(ii) the responsibilities of the firm or individual;

(iii) an identification of the professional standards covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) the qualifications of the employee(s) who are to perform the work;

(vi) the time frame for completion of the work;

(vii) any restrictions on the use of the reported findings;

(viii) a provision for unrestricted examiner access to work papers; and

(ix) a certification that the firm or individual is not affiliated in any manner with the Bank.

(c) The engagement shall require that the analysis and assessment include at least the items detailed in paragraphs 5(e)(i) through 5(e)(v) of this ORDER, and shall be summarized in a written report to the board of directors (“Management Report”).

(d) Within 30 days of receipt of the Management Report, the board of directors shall:

(i) conduct a full and complete review of the Management Report, which review shall be recorded in the minutes of the meeting of the board of directors; and

(ii) develop a written Management Plan that incorporates the findings of the report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action.

(e) At a minimum, the Management Plan shall:

(i) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;

(ii) identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities, and accountabilities, giving due consideration to the relevant knowledge, skills, abilities, and experience of the incumbent (if any) and the existing or proposed compensation;

(iii) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;

(iv) identify the appropriate level of current and deferred compensation to each officer and staff position, including executive officer positions;

(v) evaluate the current and past performance of all existing Bank officers, including executive officers and staff members, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner;

(vi) establish requirements and methodologies to periodically evaluate each individual's job performance;

(vii) establish a plan to terminate, rotate, or reassign officers and staff as necessary, as well as recruit and retain qualified personnel consistent with the board's analysis and assessment of the Bank's staffing needs;

(viii) identify training and development needs, and incorporate a plan to provide such training and development; and

(ix) contain a current management succession plan.

(f) A copy of the Management Report and Management Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the board of directors shall approve the Management Plan which approval shall be recorded in the board meeting minutes. Thereafter, the Bank and its directors, officers, and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the board to fully implement the plan within the specified time frames. In the event the plan, or any portion thereof, is not implemented, the board shall immediately advise the Regional Director and the Commissioner, in writing, of specific reasons for deviating from the Management Plan.

6. Changes in Board of Directors and/or Senior Officers.

The Bank shall notify the Regional Director and the Commissioner in writing of any resignations or terminations of any members of its board of directors, or any of its senior officers, within 15 days of the event. The Bank shall also establish procedures to ensure compliance with section 32 of the FDI Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 303.100 through 303.103. The Bank shall notify the Regional Director and the Commissioner in writing when it proposes to add any individual to the board of directors or employ any individual as a senior executive officer. 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(s) to be added or employed.

7. Charge-off of Adversely Classified Assets.

(a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” and 50 percent of all assets or portions of assets classified “Doubtful” in the FDIC’s Report of Examination of September 4, 2007 (“Report of Examination”), that have not been previously collected or charged off.

(b) Elimination or reduction of assets through proceeds of loans or other extensions of credit made by the Bank is not considered collection for purposes of this provision.

8. Reduction of Adversely Classified Assets.

(a) Within 60 days from the effective date of this ORDER, the Bank shall develop and complete a written plan to reduce the Bank’s risk exposure in each asset in excess of $50,000 classified “Substandard” or “Doubtful” in the Report of Examination. For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the FDIC and the Commissioner. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) In addition, the plan mandated by this provision shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified asset, including dates for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) specific action plans intended to reduce the Bank's risk exposure in each classified asset;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the allowance for loan and lease losses;

(iv) a provision for the Bank's submission of monthly written progress reports to its board of directors; and

(v) a provision mandating board review of the progress reports, with a notation of the review recorded in the board meeting minutes.

(c) The requirements of this paragraph do not represent standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets. The plan may include a provision for increasing Tier 1 capital when necessary to achieve the prescribed ratio.

(d) Upon completion, the Bank shall submit the plan to the Regional Director and the Commissioner for review and comment. After due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plan.

9. Restrictions on Advances to Adversely Classified Borrowers.

(a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off or classified “Loss” or “Doubtful” in the Report of Examination and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.

(b) Paragraph 9(a) of this ORDER shall not apply if the Bank’s failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Bank’s board of directors, or a designated committee thereof, who shall conclude and fully document in its minutes that:

(i) the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with an explanation of why it would be detrimental;

(ii) that the extension of such credit would improve the Bank’s position, with an explanatory statement of why the Bank’s position would improve; and

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(c) The board of directors’ conclusion and approval shall be made a part of the minutes of the board meeting, with a copy retained in the borrower’s credit file.

(d) While this ORDER is in effect, the Bank shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified “Substandard” in the Report of Examination, without prior approval by the board of directors, which approval shall be recorded in the board meeting minutes. Prior to extending credit pursuant to this paragraph, the board of directors shall determine that:

(i) the extension of credit is in full compliance with the Bank’s loan policy;

(ii) the extension of credit is necessary to protect the Bank’s interests, or is adequately secured;

(iii) the Bank found the primary and secondary obligors to be creditworthy based on a credit analysis; and

(iv) all necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and satisfactory appraisal, title, and lien documents.

(e) The board of directors’ determination required by paragraph 9(d) of this ORDER shall be recorded in the board meeting minutes, with a copy retained in the borrowers’ credit files.

10. <u>Out-of-State Lending</u>.

While this ORDER is in effect, the Bank shall not make any further extensions of credit, directly or indirectly, to any borrower located outside the state of Kansas, without prior approval of the board of directors, which approval shall be recorded in the board meeting minutes. Prior to extending credit pursuant to this paragraph, the board of directors shall make the same determination required in paragraph 9(d) of this ORDER and record the determination in the board meeting minutes.

11. Correction of Technical Exceptions.

(a) Within 60 days from the effective date of this ORDER, the Bank shall correct the exceptions listed on the "Assets with Credit Data or Collateral Documentation Exceptions" pages of the Report of Examination. All attempts to correct exceptions shall be documented in the borrowers' credit files.

(b) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the board for review during each regularly scheduled meeting. The report shall be made part of, and the review noted, in the board meeting minutes.

(c) From the effective date of this ORDER, the Bank shall ensure that the necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

(d) The Bank shall document each technical exception that cannot be eliminated or corrected, and why, for review by the board of directors at its next monthly meeting. The board's review, discussion, and any action upon the uncorrected technical exceptions shall be recorded in the board meeting minutes.

12. <u>Restriction on Overdrafts</u>.

(a) Within 60 days from the effective date of this ORDER, the Bank will develop a written overdraft policy that, at a minimum, defines an account overdraft as an unsecured extension of credit subject to officers’ lending authorities. The Bank shall submit the overdraft policy to the Regional Director and the Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Commissioner, and after due consideration of all such comments, the Bank shall approve the revised policy, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the overdraft policy.

(b) Beginning with the effective date of this ORDER, the Bank shall not permit final payment of any demand item on any customer account that, when aggregated with all other overdrafts to that customer, exceeds or would exceed, directly or indirectly, $5,000, unless payment of the demand item has been reviewed and approved in advance by the board of directors. The board of directors shall include in the minutes of the meeting during which the review is undertaken, its conclusions, decisions, and reasons for the approval of any payment.

(c) Beginning with the effective date of this ORDER, the Bank shall not extend credit, directly or indirectly, for the purpose of eliminating an overdraft without the prior approval of the board of directors, which approval shall be recorded in the board meeting minutes.

13. Reduction of Special Mention Assets.

Within 60 days from the effective date of this ORDER, the Bank shall develop a plan to correct all deficiencies in the assets listed for "Special Mention" in the Report of Examination. The Bank shall immediately submit the plan to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plan.

14. Implementation of Loan Policy.

(a) Within 60 days from the effective date of this ORDER, and annually thereafter, the board of directors shall review the Bank's loan policies and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policies and procedures necessary to strengthen the Bank's asset quality and lending functions and to prevent further deterioration. As required by this paragraph, the Bank's loan policies shall be enhanced to include, at a minimum, provisions that:

(i) identify the general fields of lending in which the Bank will engage, the types and kinds of loans and collateral considered desirable, and the types and kinds of loans and collateral considered undesirable;

(ii) establish lending limits for each officer, including a $25,000 limit on the aggregate level of credit to any one borrower that can be granted without the prior approval of the Bank's loan committee;

(iii) establish review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures, and that the directorate is receiving timely and fully documented reports on loan activity, including reports that identify deviations from established policy and the loan officers responsible for the deviations;

(iv) establish limitations on the maximum volume of loans in relation to total assets;

(v) require that for all extensions of credit originated or renewed by the Bank, including loans purchased from a third party (loan participations):

a. have a clearly defined and stated purpose;

b. have a predetermined and realistic repayment source and schedule, including secondary source of repayment;

c. are supported by complete loan documentation, including lien searches, perfected security interests, and collateral valuations; and

d. are supported by current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which information shall be maintained throughout the term of the loan; and,

e. are otherwise in conformance with the Bank's lending policies and procedures.

(vi) incorporate limitations on the amount that can be loaned in relation to established collateral values, require the source of collateral valuations to be identified, require that collateral valuations be completed prior to the commitment to lend funds, and require that collateral valuations be performed on a periodic basis over the term of the loan;

(vii) prohibit the capitalization of interest or loan-related expenses unless the board of directors provides, in writing, a detailed explanation of why said deviation is in the best interest of the Bank;

(viii) establish review and monitoring procedures for compliance with the FDIC’s appraisal regulation, 12 C.F.R. Part 323;

(ix) require strict guidelines governing the purchase or acquisition of indirect indebtedness or dealer paper including, but not limited to, automobile dealer paper. At a minimum, the guidelines shall:

a. establish minimum standards for the quality of dealer paper or indirect indebtedness that will be purchased by the Bank;

b. establish a maximum dollar limitation on the amount of indirect indebtedness or dealer paper that can be acquired by the Bank from any one dealer, from any one geographic location, and from any one industry;

c. require, on a quarterly basis, the acquisition and analysis of current financial information on each dealer;

d. require maintenance of adequate dealer reserves and establishment of procedures for charging delinquent loans back to the dealer’s reserve; and

e. with respect to indirect indebtedness or dealer paper, require conformance to the Bank’s underwriting criteria for a loan made directly by the Bank; maintenance of current and complete credit information on the borrower; require that promissory notes provide for, and the Bank receive, payment directly from the borrower; and, require that the promissory notes provide for, and the Bank engage in, direct collection and monitoring of delinquent loans; and

(x) require loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified “Substandard” and “Doubtful” in any report of examination.

(b) The Bank shall submit the revised policy to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Bank shall approve the policy, with its approval recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

15. Maintenance of Allowance for Loan and Lease Losses.

(a) Within 30 days from the date of this ORDER, the Bank’s board of directors shall make a provision which will replenish the allowance for loan and lease losses (“allowance”) for the loans charged off as a result of the Report of Examination and reflect the potential for further losses in the remaining loans or leases classified “Substandard” and “Doubtful” in the Report of Examination, as well as all other loans and leases in its portfolio.

(b) Within 60 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining the adequacy of the allowance. The policy shall provide for a review of the allowance at least once each calendar quarter and be completed at least five (5) days prior to the end of each quarter in order that the results of the review conducted by the board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, include the following:

(i) the Federal Financial Institutions Examination Council’s Instructions for the Reports of Condition and Income, the Interagency Policy Statement on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the adequacy of the allowance, and any analysis of the allowance provided by the FDIC and the Commissioner;

(ii) the volume and mix of the overall loan portfolio, including trends in the portfolio mix by loan type and geography, trends in the severity of nonperforming or delinquent loans, trends in the severity of weaknesses in extensions of credit identified as “Special Mention” and adversely classified in the Report of Examination;

(iii) previous loan loss experience by loan type, including the level, trends, and severity of overdrafts, trend of net charge-offs as a percent of average loans over the past several years, as well as an analysis of net charge-offs experienced on previously adversely classified loans;

(iv) the degree of risk associated with renewed and extended loans;

(v) the volume, trend, rate, and duration of loan growth;

(vi) the results of internal loan reviews;

(vii) concentrations of credit and significant individual credits;

(viii) present and prospective economic conditions, generally and locally;

(ix) off-balance sheet credit risks; and

(x) any other factors appropriate in determining future allowances, including changes in the Bank’s strategic plan, and loan products and markets.

(c) A deficiency in the allowance shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Bank’s submission of its Report of Condition and Report of Income. The board shall thereafter maintain an adequate allowance.

(d) The Bank shall submit the policy to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Bank shall approve the policy, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

(e) While this ORDER is in effect, the Bank shall submit to the Regional Director and the Commissioner the analysis supporting the determination of the adequacy of the allowance. These submissions shall be made in the progress reports otherwise required by this ORDER. The Bank’s policy and methodology for determining the adequacy of the Bank’s allowance and its implementation shall be satisfactory to the Regional Director and the Commissioner. In the event that the Regional Director and the Commissioner determine that the Bank’s allowance is inadequate, the Bank shall increase the allowance and amend its Reports of Condition and Income accordingly.

16. Elimination and/or Correction of Violations of Law, Rules, and Regulations.

Within 60 days from the effective date of this ORDER, the Bank, consistent with sound banking practices, shall eliminate and/or correct all violations of laws, rules, and regulations cited by the FDIC in the Report of Examination. In addition, within 60 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules, and regulations.

(b) Within 60 days from the effective date of this ORDER, the Bank, consistent with sound banking practices, shall eliminate and/or correct all contraventions of policy cited by the FDIC in the Report of Examination. In addition, within 60 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable policies.

(c) The Bank shall document each violation or policy contravention that cannot be eliminated or corrected, and why, for review by the board of directors at its next monthly meeting. The board’s review, discussion, and any action upon the uncorrected violation or policy contravention shall be recorded in the board meeting minutes.

17. Ethics Policy.

(a) Following the effective date of this ORDER, the Bank shall not engage in any loan or other transaction involving any interest of a Bank officer, director, or principal shareholder

(“Insider”) without the knowledge and approval of the board of directors.

(b) Within 60 days from the effective date of this ORDER, the board of directors shall revise its Ethics Policy to adopt procedures to prohibit the Bank from engaging in any loan or other transaction involving any interest of an Insider without the knowledge and approval of the board. At a minimum, the Policy shall require that:

(i) each Insider must disclose in writing to the board of directors all of his or her potential interests in any loan or other transaction being considered by the Bank;

(ii) when an Insider reports an interest in a loan or other transaction, the board shall determine whether the Insider’s interest conflicts with the interests of the Bank;

(iii) if the board determines there is a conflict, the Bank may not engage in the loan or other transaction unless the board determines the conflict has been resolved; and

(iv) each Insider disclosure and the board’s resolution of any conflict of interest shall be included in the board meeting minutes.

(c) The board of directors shall adopt the Ethics Policy revised as required in paragraph 18(b) of the ORDER and record its approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the revised Ethics Policy.

(d) Within 60 days from the effective date of the ORDER, each Insider shall report to the board all interests in any outstanding loan or other transaction engaged in by the Bank. The report shall be in writing and included in the board meeting minutes.

(e) While this ORDER is in effect, the Bank may not renew or extend any outstanding loan or other transaction that does not comply with the requirements of paragraph 18 of the ORDER.

18. <u>Profit and Budget Plan</u>.

Within 60 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the board of directors shall develop and fully implement a written profit plan consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this Order. The profit plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. No more than 30 days after the receipt and due consideration of any comment from the Regional Director and the Commissioner, the board shall approve the profit plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank, its directors, officers, and employees shall fully implement the profit plan and any subsequently approved modification. The written profit plan shall include, at a minimum:

(i) specific goals to maintain adequate provisions to the allowance for loan and lease losses;

(ii) realistic and comprehensive budgets for all categories of income and expense items;

(iii) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(iv) coordination of the Bank’s loan, investment, funds management, and operating policies, strategic plan, and allowance for loan and lease losses methodology with the profit and budget planning;

(v) a budget review process, conducted at least quarterly, whereby the board monitors the revenue and expenses of the Bank by comparing actual performance against budgetary projections, the results of the evaluation and any actions taken by the board to be reflected in the minutes of the board meeting at which such evaluation is undertaken; and

(vi) individual(s) responsible for implementing each of the goals and strategies of the profit plan.

19. Funds Management Policies and Plans.

(a) Within 60 days from the effective date of this ORDER, the Bank shall review its written funds management policies and plans, and amend each as necessary. The Bank shall submit the policies and plans, and any future modifications, to the Regional Director and the Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Commissioner, and after due consideration of all such comments, the Bank shall approve the revised policies and plans, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policies and plans.

(b) At a minimum, the policies and plan shall:

(i) identify personnel responsible for the funds management functions within the Bank;

(ii) provide a statement of the Bank’s long-term and short-term liquidity needs and plans for ensuring that such needs are met;

(iii) provide for a periodic review of the Bank’s deposit structure, including the volume and trend of total deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on large time deposits, public funds, out-of-area deposits, and any other information needed;

(iv) establish a target dependency ratio;

(v) provide for a periodic calculation to determine the extent to which the Bank is funding long-term assets with short-term liabilities;

(vi) establish parameters for use, volume, and maturities of brokered deposits, deposits obtained through solicitation services, and borrowings; and

(vii) establish contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs.

20. <u>Disclosure of Order to Shareholders</u>.

Following the effective date of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, (i) in conjunction with the Bank's next shareholder communication, and (ii) 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, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room

F-6066, Washington, D.C. 20429, for review at least 20 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.

21. Program for Monitoring Bank’s Compliance with Order.

Within 60 days from the effective date of this ORDER, the board of directors shall adopt and implement a program that will provide for monitoring of the Bank’s compliance with this ORDER. The Bank shall submit the program, and any future modifications, to the Regional Director and the Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Commissioner, and after due consideration of all such comments, the Bank shall approve the revised program, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the program. Following the adoption of the program, the Bank’s board of directors shall review the Bank’s compliance with this ORDER and record its review in the board meeting minutes.

22. Progress Reports Detailing Compliance with Order.

Within 90 days following the effective date of this ORDER, and every 90 days thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank’s progress toward achieving compliance with each provision of the ORDER, including at a minimum:

(i) description of the identified weaknesses and deficiencies;

(ii) provision(s) of the ORDER pertaining to each weakness or deficiency;

(iii) actions taken or in-process for addressing each deficiency;

(iv) results of the corrective actions taken;

(v) the Bank’s status of compliance with each provision of the ORDER; and

(vi) appropriate supporting documentation.

(b) Progress reports may be discontinued when the Regional Director has, in writing, released the Bank from making additional reports.

Nothing herein shall prevent the FDIC from conducting on-site reviews and/or examinations of the Bank, its affiliates, agents, servicers, and other institution-affiliated parties at any time to monitor compliance with this ORDER.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority

Dated: December 19, 2007

By:

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Thomas J. Dujenski
Deputy Regional Director