FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of	)	
	)	
FARMERS STATE BANK, S/B	)	**ORDER TO**
SCHELL CITY, MISSOURI	)	**CEASE AND DESIST**
	)	
(Insured State Nonmember Bank)	)	**FDIC-06-229b**
	)	

Farmers State Bank, S/B, Schell City, Missouri ("Institution"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Institution and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated December 13, 2006, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations contained in the FDIC Report of Examination dated July 11, 2006 (" FDIC Report of Examination"), the Institution 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 Institution had engaged in unsafe or unsound banking practices and had committed violations of law and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED that the Institution, its directors, officers, employees, agents and other institution-affiliated parties (as that term is defined in Section 3(u) of the Act, 12 U.S.C. §1813(u)), and its successors and assigns cease and desist from the following unsafe or unsound banking practices and violations:

(a) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Institution;

(b) operating with management whose policies and practices are detrimental to the Institution and jeopardize the safety of its deposits;

(c) engaging in violations of law and applicable regulations;

(d) engaging in hazardous lending and lax collection practices;

(e) operating with an inadequate loan review system;

(f) operating with inadequately funded allowance for loan and lease losses; and

(g) operating with an inadequate information technology system.

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

A. GENERAL SAFETY AND SOUNDNESS

1. Assessment of 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 FDIC and the Missouri Commissioner of Finance (“Commissioner”) and that possesses appropriate expertise and qualifications to analyze and assess the Institution's management and staffing performance and needs. Specifically, the assessment shall provide an evaluation of the current and past performance of all existing Institution officers, including executive officers and staff members, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Institution’s established policies and practices, and operate the Institution in a safe and sound manner. The engagement shall require that the analysis and assessment be summarized in a written report to the board of directors (Management Report) within 45 days of engagement. Within 30 days of receipt of the Management Report, the board will 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.

(b) The Institution shall provide the FDIC 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 workpapers; and

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

(c) Within 45 days of receipt of the Management Report, the board will develop a written Management Plan that incorporates or otherwise addresses 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. A copy of the Management Report and Management Plan and any subsequent modification thereto shall be submitted to the FDIC and the Commissioner for review and comment. Within 30 days from receipt of any comment, and after the Institution's consideration of those comments, the board of directors shall approve the Management Plan which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution 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 FDIC and the Commissioner, in writing, of specific reasons for deviating from the Management Plan. At a minimum, the Management Plan shall:

(i) Contain a recitation of the recommendations included in the Management Report or otherwise communicated to the Institution, along with a copy of any report(s) prepared by the outside consultant(s);

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

(iii) Identify the type and number of staff positions needed to carry out the Institution’s strategic plan, detailing any vacancies or additional needs;

(iv) 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;

(v) 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;

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

(vii) Establish requirements and methodologies to periodically evaluate each individual's job performance;

(viii) Identify and establish Institution committees needed to provide guidance and oversight to management;

(ix) 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 Institution's staffing needs;

(x) Identify training and development needs, and incorporate a plan to provide such training and development for all employees;

(xi) Establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member;

(xii) Contain a current organizational chart that identifies all existing and proposed staff and officer positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs; and

(xiii) Contain a current management succession plan.

2. Management Changes. During the life of this ORDER, the Institution shall notify the FDIC and the Commissioner in writing of any resignations and/or terminations of any members of its board of directors and/or any of its senior officer(s) within 15 days of the event. The Institution 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. In addition, the Institution shall notify the FDIC and the Commissioner in writing when it proposes to add any individual to the Institution's 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.

3. Director Participation. The board of directors shall immediately increase its participation in the affairs of the Institution, which shall specifically include attending regularly scheduled meetings at least once a month in accordance with the Institution's by-laws. In the event directors repeatedly fail to attend the regularly scheduled meetings, the board shall nominate and support for election to the board of directors new independent candidates who are willing and able to attend the scheduled board meetings. The board shall establish specific procedures designed to keep the board fully informed on a timely basis of matters regarding the management, operation, and financial condition of the Institution at regular intervals and in a consistent format. The board shall prepare in advance and shall follow a detailed written agenda during each meeting, during which, at a minimum, the following matters shall be reviewed and approved: reports of income and expenses; loan reports, including new, overdue, renewed, extended, restructured, insider, non-accrual, charged-off, and recovered loans; investment activity; asset/liability and funds management reports; operating policies; personnel actions; audit and supervisory reports; and the minutes summarizing individual committee meetings and actions. Participation shall also require the assumption of full responsibility for the approval of sound policies, strategic plans, and budgets for all of the Institution's activities. Board minutes shall be detailed, maintained and recorded on a timely basis and shall document reviews and any related actions, including the names of any dissenting directors. Nothing in this paragraph shall preclude the board from considering matters other than those contained in the agenda.

4. Violations.

(a) Within 30 days after the effective date of this ORDER, the Institution shall eliminate and/or correct all violations of laws, rules and regulations cited in the FDIC Report of Examination. In addition, within 30 days from the effective date of this ORDER, the Institution shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules and regulations.

(b) Within 30 days after the effective date of this ORDER, the Institution shall eliminate and/or correct all contraventions of policy cited in the FDIC Report of Examination. In addition, within 30 days from the effective date of this ORDER, the Institution shall adopt and implement appropriate procedures to ensure future compliance with all applicable policies.

(c) For any violation or contravention that cannot be corrected, the Institution shall document the reasons for such failure, which shall be reviewed by the Institution's board of directors at its next monthly meeting and made a part of its minutes.

5. **Reduction of Adversely Classified Assets.**

(a) Within 60 days from the effective date of this ORDER, the Institution shall formulate a written plan to reduce the Institution's risk exposure in each asset in excess of $50,000 classified as "Substandard" or "Doubtful" in the FDIC 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 Institution 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 Institution'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 timeframes for achieving the reduced dollar amounts;

(iii) A provision for the Institution’s submission of monthly written progress reports to its board of directors; and

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

6. Reduction of Special Mention Assets. Within 60 days from the effective date of this ORDER, the Institution shall develop a plan to correct all deficiencies in the assets listed for “Special Mention” in the FDIC Report of Examination. The Institution 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 Institution shall approve the plan, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Institution shall implement and fully comply with the plan.

7. Correction of Technical Exceptions.

(a) Within 60 days from the effective date of this ORDER, the Institution shall correct the exceptions listed on the “Assets with Credit Data or Collateral Documentation Exceptions” pages of the FDIC Report of Examination. All attempts to correct exceptions shall be documented in the borrowers’ credit files. In all future operations, the Institution shall ensure that all necessary supporting documentation is obtained and evaluated before any credit or loan is extended by the Institution.

(b) Progress reports detailing each outstanding exception and the Institution’s plan for corrective action shall be submitted to the board for review during each regularly scheduled meeting. The review shall be noted in the minutes of the meeting of the board of directors.

8. Implementation of Loan Policy. Within 60 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Institution shall review the Institution’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 Institution’s asset quality and lending functions and to prevent further deterioration. As required by this paragraph, the Institution’s loan policies shall be enhanced to address the criticisms in the FDIC Report of Examination.

9. Implementation of Loan Review.

(a) Within 60 days of the effective date of this ORDER, the board shall develop a program of independent loan review that will provide for a periodic review of the Institution's loan portfolio and the identification and categorization of problem credits. At a minimum, the system shall provide for:

(i) Prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention; and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) Action plans to reduce the Institution’s risk exposure from each identified relationship;

(iii) Prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;

(iv) Identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Institution’s risk exposure;

(v) Assessment of the overall quality of the loan portfolio;

(vi) Identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;

(vii) Identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to address the identified violations;

(viii) Identification of loans that are not in conformance with the Institution's lending policy and an action plan to address the identified deficiencies;

(ix) Identification of loans to directors, officers, principal shareholders, and their related interests;

(x) An assessment of the ability of individual members of the lending staff to operate within the framework of the Institution’s loan policy and applicable laws, rules, and regulations; and an action plan to address the identified deficiencies; and

(xi) A mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (viii) above to the board of directors. The report should also describe the action(s) taken by management with respect to problem credits.

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

(c) Upon implementation, a copy of each report shall be submitted to the board, as well as documentation of the actions taken by the Institution or recommendations to the board that address identified deficiencies in specific loan relationships or the Institution’s policies, procedures, strategies, or other elements of the Institution’s lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the minutes of the meeting of the board of directors.

10. **<u>Maintenance of Allowance For Loan and Lease Losses</u>.** Within 60 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining the adequacy of its allowance for loan and lease losses ("allowance"). The policy shall provide for a review of the allowance at least once each calendar quarter and be completed at least 10 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 Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the adequacy of the Institution's allowance, and any analysis of the Institution's allowance provided by the FDIC and the Commissioner.

11. **<u>Profit and Budget Plan</u>.** Within 30 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 Institution'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 FDIC and the Commissioner for review and comment. No more than 30 days after the receipt of any comment from the FDIC or and the Commissioner, the board of directors shall approve the profit plan which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution, 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) Identification of the major areas in and means by which the board of directors will seek to improve the Institution's operating performance.

(ii) Specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings, as well as maintain adequate provisions to the allowance for loan and lease losses;

(iii) Realistic and comprehensive budgets for all categories of income and expense items;

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

(v) Coordination of the Institution’s loan, investment, funds management, and operating policies; strategic plan; and allowance for loan and lease loss methodology with the profit and budget planning;

(vi) A budget review process to monitor the revenue and expenses of the Institution whereby actual performance is compared against budgetary projections not less than quarterly; recording the results of the evaluation and any actions taken by the Institution in the minutes of the board of directors meeting at which such evaluation is undertaken; and

(vii) Individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

12. **Minimum Capital Requirements.**

(a) The Institution shall 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 7 percent of total assets;

(ii) Tier 1 risk-based capital at least equal to 6 percent of total risk-weighted assets; and

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

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

13. **Capital Plan.**

(a) In the event the ratios set forth in paragraph 6 above fall below the required minimum, the board shall develop a capital plan that shall be submitted to the FDIC and the Commissioner for review and comment. Within 10 days of receipt of all such comments from the FDIC and the Commissioner, and after consideration of all such comments, the Institution shall approve the revised plan, which approval shall be recorded in the minutes of the meetings of the board of directors. Thereafter, the Institution shall implement and fully comply with the capital plan. The board shall review and update the Institution's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the

FDIC and the Commissioner. At a minimum, the program shall include:

(i) specific plans to achieve the capital levels required under the plan and this ORDER;

(ii) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of the provisions of this paragraph;

(iii) projections for asset growth and capital requirements, and such projections shall be based upon a detailed analysis of the Institution's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Institution’s strategic business plan;

(iv) projections for the amount and timing of the capital necessary to meet the Institution's current and future needs;

(v) the primary source(s) from which the Institution will strengthen its capital to meet the Institution's needs; and

(vi) contingency plans that identify alternative sources of capital should the primary source(s) under (v) above not be available.

(b) The board shall ensure that the Institution has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this provision.

(c) Any increase in capital necessary to meet the requirements of the provisions of this paragraph may be accomplished by the following:

(i) The sale of new securities in the form of common stock;

(ii) The sale of noncumulative perpetual preferred stock;

(iii) The direct contribution of cash by the directors, shareholders, or parent holding company of the Institution; or

(iv) Any other method acceptable to the FDIC and approved in advance in writing by the FDIC.

(d) No increase in Tier 1 capital necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Institution’s allowance for loan and lease losses or other reserve accounts. Further, the Institution shall not lend funds directly or indirectly, whether secured or unsecured, to any purchaser of institution or affiliate stock or other securities, or to any investor by any other means for any portion of any increase in Tier 1 capital required herein.

14. Dividend Restrictions. While this ORDER is in effect, the Institution shall not declare or pay any cash dividends without the prior written approval of the FDIC and the Commissioner.

15. Correction of IT Deficiencies. Within 90 days from the effective date of this ORDER, management will correct all information technology deficiencies cited in the FDIC Report of Examination.

16. Compliance with Board Resolution and Agreement. Management will ensure compliance with all provisions of the May 12, 2005 Board Resolution and February 23, 2006 Agreement.

B. ADMINISTRATIVE COMPLIANCE MATTERS

17. Shareholder Disclosure. Following the effective date of this ORDER, the Institution shall provide to its shareholders or otherwise furnish a description of this ORDER, (i) in conjunction with the Institution's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Institution'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.

18. Progress Reports.

(a) Within 40 days of the end of the first quarter following the effective date of this ORDER, and within 40 days of the end of each quarter thereafter, the Institution shall furnish written progress reports to the FDIC 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 Institution’s progress toward achieving compliance with each provision of the ORDER, the May 12, 2005 Board Resolution and February 23, 2006 Agreement, including at a minimum:

(i) Description of the identified weaknesses and deficiencies;

(ii) Actions taken or in-process for addressing each deficiency;

(iii) Results of the corrective actions taken;

(iv) The Institution's status of compliance with each provision of the ORDER, the May 12, 2005 Board Resolution and February 23, 2006 Agreement; and

(v) Appropriate supporting documentation.

(b) Progress reports may be discontinued when the FDIC and Commissioner have, in writing, released the Institution from making additional reports.

19. Effective Date and Binding Effect. The effective date of this ORDER shall be immediately upon its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Institution, 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 13, 2006

By: ______________________________

Thomas J. Dujenski
Deputy Regional Director
FDIC, Kansas City Regional Office