

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

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In the Matter of))
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MERCHANTS AND FARMERS BANK) ORDER TO CEASE AND DESIST
MELVILLE, LOUISIANA))
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(INSURED STATE NONMEMBER BANK)))
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FDIC-06-118b

Merchants and Farmers Bank, Melville, Louisiana ("Bank"),
having been advised of its right to a NOTICE OF CHARGES AND OF
HEARING detailing the unsafe or unsound banking practices and
violations of laws or regulations alleged to have been committed
by the Bank and of its right to a hearing on the alleged charges
under section 8(b)(1) of the Federal Deposit Insurance Act
("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights,
entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for
the Federal Deposit Insurance Corporation ("FDIC"), and a
representative of the Louisiana Office Of Financial Institutions
("State") dated September 18, 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

laws or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC and the State considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed violations of laws or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED that the Bank, 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 of laws or regulations:

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

b. Operating the Bank in violation of the Currency and Foreign Transactions Reporting Act (31 U.S.C. § 5311 *et seq.*) (The Bank Secrecy Act) ("BSA"), the rules and regulations implementing the BSA issued by the U.S. Department of the Treasury (13 C.F.R. Part 103) ("Financial Recordkeeping"), and the FDIC's BSA Programs and Procedures Regulations, 12 C.F.R. Part 326 ("BSA Programs and Procedures").

- c. Operating the Bank with inadequate earnings to fund growth, support dividend payments and augment capital.
- d. Operating the Bank in violation of applicable Federal and State laws and regulations.
- e. Operating the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe and unsound banking practices and violations of laws or regulations.
- f. Operating the Bank with inadequate controls regarding interest rate risk.
- g. Operating the Bank with inadequate written loan policies and procedures.
- h. Operating the Bank without an effective strategic plan.
- i. Operating the Bank with an inadequate allowance for loan and lease losses for the volume, kind and quality of loans and leases held.
- j. Operating the Bank with inadequate internal review policies or procedures.
- k. Operating the Bank with an inadequate audit program.

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

1. (a) Within 90 days from the effective date of this ORDER, the Bank must develop a plan to improve its management by addressing, at minimum, training for all employees, including the Chief Executive Officer. Additionally, the Bank shall adopt and implement a retirement policy and a management succession plan. Those in the management succession plan will also be provided access to appropriate outside training programs for the positions to which they aspire. Last, the bank must address the hours of employee work schedules, such hours should be sufficient to allow processing of the normal volume of daily work to be completed within banking hours. The training program, including the title of the training, the vendor and a brief synopsis of the content; the retirement and management successions plans, and the analysis of employee work schedules will be provided to the Regional Director and Commissioner for review and comment.

(b) The training program developed pursuant to part (a) of this section, including the attendance of the Chief Executive Officer at a training session directed towards bank operations and management, must commence no later than 180 days from the effective date of this ORDER.

2. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop all necessary policies and procedures to ensure the Bank's future compliance with the Bank

Secrecy Act, 31 U.S.C. §§ 5311-5330, and its implementing regulations, including 12 C.F.R. Part 326, Subpart B, and 31 C.F.R. Part 103, and Part 353 of the FDIC Rules and Regulations, 12 C.F.R. Part 353.

(b) The Bank shall retain a BSA Officer who is qualified and responsible for the implementation, coordination and monitoring of the Bank's day to day compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures. This individual shall have the authority to recommend and enforce policies to ensure compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures.

(c) During the life of this ORDER, the Bank shall notify the Regional Director and the Commissioner, in writing, within 30 days, of any changes in the Bank's BSA Officer.

(d) Within 60 days from the effective date of this ORDER, the Bank shall employ a qualified independent consultant to conduct a customer risk assessment ("Assessment"). A copy of the Assessment shall be submitted to the Regional Director and the Commissioner for review and comment. At a minimum, the Assessment should address and review the following:

- (i) The Bank's compliance with the April 26, 2005 *Interagency Interpretive Guidance on Providing Banking Services to Money Services Business Operating in the United States*

issued by the Financial Crimes Enforcement Network and all Federal Banking Agencies; and

(ii) The money laundering and terrorist financing risks associated with each of the Bank's deposit products, safekeeping services, geographic locations and markets served.

(e) Within 60 days from the completion of the Assessment, but in no event longer than 120 days from the effective date of this ORDER, the Bank shall revise its written BSA Program, in part, based upon the Assessment described in paragraph 3(e). The BSA Program shall be submitted to the Regional Director and the Commissioner for review, comment and approval. Any changes requested to be made to the Program by the Regional Director or the Commissioner shall be made within 30 days from the receipt of all such comments from the Regional Director and the Commissioner. After revising the Program as necessary and receiving the Regional Director's and the Commissioner's final approval, the Bank shall adopt the Program. Such adoption shall be recorded in the minutes of the Bank's board of directors' meeting. The BSA Program shall be implemented immediately upon adoption by the Bank's board of directors.

(i) The BSA Program shall provide for an

effective system of internal controls to ensure compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures.

(ii) The system of internal controls shall require the Bank to, at a minimum:

(a) As required by 31 C.F.R. § 103.22, identify reportable transactions and gather the information necessary to properly complete the required reporting forms;

(b) Ensure that all required reports are accurate, proper, complete, and timely filed;

(c) Ensure that customer exemptions are properly granted and documented; and

(d) Provide for separation of duties to ensure personnel completing required reports are not responsible for filing them.

(f) The Bank shall implement a training program for all appropriate personnel covering compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures within

30 days from the effective date of this ORDER. The initial training shall be completed within 60 days from the effective date of this ORDER. The Bank shall thereafter conduct additional training on a regular basis, but not less than annually. Employees receiving the initial and subsequent training shall include, but are not limited to, all current or new employees employed by the Bank as tellers, new accounts personnel, lending personnel, bookkeeping personnel, wire transfer personnel, proof personnel, senior Bank management and the Bank's board of directors.

(g) Within 180 days of the effective date of this ORDER and, at least annually thereafter, the Bank shall employ an independent consultant to test the BSA Program to ensure proper controls are in place to comply with the BSA, Financial Recordkeeping and BSA Programs and Procedures. The independent testing program shall, at a minimum:

- (i) Test the Bank's internal procedures for monitoring compliance with the BSA, Financial Recordkeeping and BSA Programs and Procedures, including interviews of employees who handle cash transactions;
- (ii) Test the large currency transactions followed by a review of the currency transaction report filings;

- (iii) Test the validity and reasonableness of the customer exemptions granted by the Bank;
- (iv) Test the Bank's recordkeeping system to ensure compliance with the BSA, Financial Recordkeeping and BSA Programs and Procedures; and
- (v) Document the scope of the testing procedures performed and the findings of the test.

(h) The results of each independent test as well as any apparent exceptions noted during the testing shall be presented to the Bank's board of directors. The board shall record the steps taken to correct any exceptions noted, address any recommendations made during each independent test, and record its actions in the minutes of the Bank's board of directors' meetings.

3. Within 120 days from the effective date of this ORDER, the Bank shall develop a plan to improve profitability.

4. (a) Within 120 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the Joint FDIC and State of Louisiana Office of Financial Institutions Report of Examination as of December 31, 2005 ("2005 ROE").

(b) Within 120 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future

compliance with all applicable laws and regulations.

5. Within 60 days after the effective date of this ORDER, the Bank shall amend its interest rate risk policy to include, at a minimum:

- (i) Measures designed to control the nature and amount of interest rate risk the Bank takes including those that specify risk limits and define lines of responsibilities and authority for managing risk;
- (ii) A system for identifying and measuring interest rate risk;
- (iii) A system for monitoring and reporting risk exposures; and
- (iv) A system of internal controls, review, and audit to ensure the integrity of the overall risk management process.

6. (a) Within 60 days after the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for effectiveness and, based upon this review, shall implement and make all necessary revisions to the policy in order to strengthen the Bank's lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and the Commissioner for

review and comment upon its completion.

(b) The initial revisions to the Bank's loan policy required by this paragraph, at a minimum, shall include provisions:

- (i) Establishing 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 any deviations from established policy;
- (ii) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and

- cash flow projections, and shall be maintained throughout the term of the loan;
- (iii) Incorporating collateral valuation requirements, including:
- (a) maximum loan-to-collateral-value limitations;
 - (b) a requirement that the valuation be completed prior to a commitment to lend funds;
 - (c) a requirement for periodic updating of valuations; and
 - (d) a requirement that the source of valuations be documented in Bank records;
- (iv) Establishing officer lending limits and limitations on the aggregate level of credit to any one borrower which can be granted without the prior approval of the Bank's loan committee or Board of Directors.
- (v) Address other recommendations as set forth in the 2005 ROE.

7. Within 30 days after the effective date of this ORDER, the Bank's board of directors shall establish a loan review committee to periodically review the Bank's loan portfolio and

identify and categorize problem credits. The committee shall file a report with the Bank's board of directors at each board meeting. The entire Board can function as this committee. The Board minutes must reflect the discussions of the loan committee. This report shall include the following information:

- (i) The overall quality of the loan portfolio;
- (ii) The identification, by type and amount, of each problem or delinquent loan;
- (iii) The identification of all loans not in conformance with the Bank's lending policy;
and
- (iv) The identification of all loans to officers, directors, principal shareholders or their related interests.

8. Within 90 days after the effective date of this ORDER, the Bank shall revise its strategic plan as set forth in this paragraph. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

- (i) The written strategic plan shall address, at a minimum:

- (a) Formulation of a mission statement and the development of a strategy to carry out that mission;
- (b) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (c) Assessment of existing loan and deposit products, strategies for pricing policies, and asset/liability management;
- (d) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (e) Goals for reducing problem loans; and
- (f) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions.

(ii) The Bank shall submit the strategic plan to the Regional Director and the Commissioner for review and comment. After consideration of all such comments, the Bank shall approve

the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the strategic plan.

(iii) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

9. Within 60 days from the effective date of this ORDER, and no less than quarterly thereafter, the Bank shall use Financial Accounting Standards Board Statements Numbers 5 and 114 to determine the Bank's allowance for loan and lease reserve adequacy.

(a) Within 10 days after the effective date of this ORDER, the Bank shall make provisions to its Allowance for Loan and Lease Losses ("ALLL") in an amount equal to those loans required to be charged off by this Order in the amount of at least \$18,000. The allowance should be funded by charges to

current operating income, and should be calculated in accordance with generally accepted accounting standards and ALLL supervisory guidance. After the initial provision is made, the Bank shall thereafter maintain a reasonable ALLL. Prior to the end of each calendar quarter, the Bank's board of directors shall review the adequacy of the Bank's ALLL. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. The minutes of the Bank's board of directors' meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL.

(b) Within 30 days after the effective date of this ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the FDIC on or after December 31, 2005, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain a reasonable ALLL. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

10. Within 120 days after the effective date of this ORDER, the Bank's board of directors shall implement an

effective program for internal audit and control. The audit program shall provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records, and shall comply with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing. The internal auditor shall report quarterly to the Bank's board of directors. The report and any comments made by the directors regarding the internal auditor's report shall be noted in the minutes of the Bank's board of directors' meeting.

11. Within 30 days after the effective date of this ORDER, and not less than monthly thereafter, the Bank's board of directors shall review compliance with the provisions of this ORDER. A summary of compliance with each provision and discussions related to the review of the ORDER shall be included in the minutes of the Bank's board of directors meeting.

12. The Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports shall be received by the Regional Director and the Commissioner no later than 30 calendar days from the beginning of each calendar quarter (i.e., January 30, April 30, July 30, and October 30 of each calendar year). Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director

and the Commissioner have released the Bank in writing from making further reports.

13. The provisions of this ORDER shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of the Bank.

14. Following the effective date of this ORDER, the Bank shall send 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, Accounting & Securities Unit, 550 17th Street, N.W., Room F-6043, 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.

15. This ORDER shall become effective 10 calendar days from the date of its issuance by the FDIC. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the State.

Pursuant to delegated authority.

Dated this 28th day of September, 2006.



Stan Ivie
Regional Director
Dallas Regional Office
Division of Supervision and
Consumer Protection
Federal Deposit Insurance
Corporation