

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

OFFICE OF FINANCIAL INSTITUTIONS

COMMONWEALTH OF KENTUCKY

_____)	
In the Matter of)	ORDER TO
)	CEASE AND DESIST
AMERICAN FOUNDERS BANK, INC.)	
FRANKFORT, KENTUCKY)	FDIC-07-026b
)	
(Insured State Nonmember Bank))	
_____)	

American Founders Bank, Frankfort, Kentucky ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law, rule, or regulation alleged to have been committed by the Bank, and 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 under section 286.3-690 of the Kentucky Revised Statutes, Ky. Rev. Stat. Ann. § 286.3-690 (Michie 2006), regarding hearings before the Commonwealth of Kentucky, Office of Financial Institutions ("KOFI"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT

AGREEMENT") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and KOFI, dated February 8, 2007 whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and KOFI.

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

ORDER TO CEASE AND DESIST

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

- A. Failing to reconcile its general ledger accounts.
- B. Failing to keep accurate books and records.
- C. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- D. Operating with an inadequate audit program.
- E. Operating with inadequate internal routines and

controls.

- F. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.
- G. Operating with a board of directors and committees which have failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices.

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

1. (a) Within five days of the effective date of this ORDER, the Bank shall retain the services of an independent auditing firm to audit the Bank's books and records to determine that Bank management is returning the books and records to a complete and accurate state. The contract or engagement letter, at a minimum, should include:

- (i) A description of the work to be performed under the contract or engagement letter;
- (ii) The responsibilities of the auditor;
- (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 provision stating that the auditing firm will report directly to the Bank's board of directors.

(b) By April 15, 2007, the Bank shall restore its books and records to a complete and accurate state and shall continue to maintain accurate books and records. All accounts that are presently unreconciled or out of balance must be corrected and written documentation of the correction or reconciliation shall be retained for future regulatory review. By April 15, 2007, and thereafter, all items to the Bank's credit which remain either uncollected or unreconciled for 90 days or more from the transaction date shall be charged off from the Bank's books. The Bank

shall re-file its Reports of Condition and Income for the period ending December 31, 2006, to reflect any such adjustments.

(c) For purposes of this ORDER, "independent" shall mean any individual or entity: (i) who is not an officer or director of the Bank; (ii) who does not own more than 5 percent of the outstanding shares of the Bank; (iii) who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, and who does not otherwise share a common financial interest with such officer, director or shareholder; and (iv) who is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest in an amount exceeding 5 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or (v) who is deemed to be independent for purposes of this ORDER by the Regional Director and Executive Director.

2. (a) Beginning immediately and on each business day that the Bank is open for business, the Bank shall electronically submit to the Regional Director and Executive Director a liquidity status report in a format approved by the Regional Director and Executive Director.

Additionally, the Bank shall electronically submit a liquidity plan which shall identify sources of liquid assets to meet the Bank's anticipated and unanticipated liquidity needs over the next day, the next week, and the next 30 days. At a minimum, the liquidity plan shall include provisions:

- (i) Establishing appropriate lines of credit at correspondent banks, including the Federal Reserve Bank of St. Louis, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity prove to be inadequate; and
- (ii) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives.

The reports and plans shall be submitted until the board is notified that the submission of the reports and plans is no longer warranted.

(b) Within 30 days from the effective date of this ORDER, the Bank shall revise and submit to the Regional Director and Executive Director for review and comment its written liquidity policy. Annually thereafter during the life of this ORDER, the Bank shall review this policy for adequacy and, based upon such review, shall make appropriate revisions to the policy that are necessary to maintain adequate provisions to meet the Bank's liquidity needs. The revisions shall include, at a minimum, provisions:

- (i) Establishing a desirable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;
- (ii) Identifying the source and use of borrowed and/or volatile funds;
- (iii) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (iv) Addressing the proper use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for appropriate tenor commensurate with the use of the

borrowed funds, addressing concentration of funding sources, pricing and collateral requirements with specific allowable funding channels identified (i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and

- (v) Requiring Bank management to make written monthly reports detailing the Bank's liquidity position, including the Bank's net non-core funding ratio and liquidity ratio, to the Bank's board of directors, and any action taken as a result of the reports shall be recorded in the minutes of the meeting to the board.

(c) Within ten days from the receipt of any comments from the Regional Director and Executive Director regarding the liquidity policy, and after revising the policy as necessary, the Bank shall adopt the policy, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the liquidity policy.

3. (a) Within 60 days from the effective date of this ORDER, the Bank's board of directors shall adopt and implement a comprehensive written audit program. At a minimum, the audit program shall provide the following:

- (i) The Bank shall implement and enforce an effective system of internal and external audits;
- (ii) The Bank's internal auditor shall make written monthly reports of audit findings directly to the Bank's board of directors, which findings and any action taken as a result of the findings shall be recorded in the minutes of the meetings of the board;
- (iii) The Bank's Audit Committee shall be responsible for reviewing with management the findings of each internal or external audit, and shall direct management to correct the deficiencies identified by the auditor; and
- (iv) The Audit Committee shall meet monthly to review management's progress in correcting the deficiencies identified in the internal and external audits.

(b) The Bank shall submit a copy of the proposed audit program to the Regional Director and Executive Director prior to its adoption for review and comment. Within ten days from the receipt of any comments from the Regional Director and Executive Director regarding the audit program, and after revising the program as necessary, the Bank shall adopt the program, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the audit program. The Bank shall also provide the Regional Director and Executive Director a copy of all external audit reports within 10 days of the Bank's receipt of such reports.

4. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in internal routines and controls, including specifically the failure to timely post and reconcile entries in its general ledger. Additionally, the Bank shall establish policies to prevent the recurrence of any deficiencies.

5. (a) During the life of this ORDER, the Bank shall have and thereafter retain qualified management. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management shall be assessed on its ability to:

- (i) comply with the requirements of this ORDER;
- (ii) ensure that the Bank's electronic or automated information systems result in the Bank's books and records being in and remaining in a complete and accurate state;
- (iii) operate the Bank in a safe and sound manner;
- (iv) comply with applicable laws, rules, and regulations; and
- (v) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, and management effectiveness.

(b) During the life of this ORDER, the Bank shall notify the Regional Director and Executive Director in writing of any changes in any of the Bank's directors or senior executive officers. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b), and includes any person identified by the FDIC

and the KOFI, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(c) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. Further, the Bank shall request and obtain the Regional Director's and Executive Director's written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and Executive Director. The consultant shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and Executive Director with a copy of the proposed engagement letter or contract with the consultant who will prepare the

Management Plan before it is executed. The contract or engagement letter, at a minimum, should include:

- (i) A description of the work to be performed under the contract or engagement letter;
- (ii) The responsibilities of the consultant;
- (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; and
- (viii) A provision for unrestricted examiner access to workpapers.

(c) The Management Plan shall be developed within 90 days from the effective date of this ORDER. The Management Plan shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank, and which shall include a Chief Financial Officer;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience, and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, adherence to State and Federal laws and regulations, and restoration and maintenance of the Bank in a safe and sound condition; and
- (iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those

officer or staff member positions
identified by this paragraph of this
ORDER.

(c) The Management Plan shall be submitted to the Regional Director and Executive Director for review and comment upon its completion. Within 15 days from the receipt of any comments from the Regional Director and Executive Director and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

7. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section 550 17th Street, N.W., 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.

8. (a) Within 30 days from the effective date of this ORDER, the Bank's board of directors shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled board of directors' meeting.

9. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Executive Director written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and Executive Director have, in writing, released the Bank from making further reports.

This ORDER is effective ten (10) days after its issuance by the FDIC and the KOFI.

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 and the KOFI.

Pursuant to delegated authority

Dated: February 22, 2007.

Sylvia H. Plunkett
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

Cordell Lawrence
Executive Director
Office of Financial
Institutions
Commonwealth of Kentucky