FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **CITIZENS STATE BANK OF LANKIN, LANKIN, NORTH DAKOTA** **(Insured State Nonmember Bank)**	**ORDER TO CEASE AND DESIST** **FDIC-07-01b**

Citizens State Bank of Lankin, Lankin, North Dakota ("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 rights 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 February 8, 2007, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any 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 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 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 extension of credit without adequate analysis of borrower repayment capacity; and

8. other poor credit administration practices.

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

G. Operating with an inadequate loan policy.

H. Operating with excessive interest rate sensitivity risk.

I. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

J. Operating with inadequate policies to monitor and control asset growth.

K. Operating with an inadequate audit program.

L. Violating laws and regulations, including:

1. the real estate appraisal requirements of Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323.

2. the real estate lending requirements of Part 365 of the FDIC Rules and Regulations, 12 C.F.R. Part 365.

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

1. <u>Minimum Capital Requirements</u>.

(a) Within 30 days of the effective date of this ORDER, 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; and

(ii) 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 Rules and Regulations, 12 C.F.R. Part 325, App. A.

(c) In the event any ratio falls below the established minimum, the Bank shall notify the Regional Director and the Commissioner of the North Dakota Department of Financial Institutions ("Commissioner") and shall increase capital in an amount sufficient to comply with this provision within 90 days.

2. Capital Plan.

(a) Within 90 days of the effective date of this ORDER, the Board shall develop a five-year capital plan that shall be submitted 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 consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the capital plan. The Board shall review and update the Bank's capital plan on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Regional Director 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 paragraph 1;

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

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

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

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

(vii) a dividend policy that permits the declaration of a dividend only:

(A) when the Bank is in compliance with its approved capital program;

(B) when the Bank is in compliance with applicable State and Federal laws and regulations;

(C) when, after payment of such dividends, the Bank remains in compliance with the above minimum capital ratios; and

(D) when such declaration and payment of dividends has been approved in advance by the board of directors.

(b) 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 Bank; or

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

(c) No increase in Tier 1 capital necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Bank’s allowance for loan and lease losses or other reserve accounts. Further, the Bank 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.

3. **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, the 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 shall be made prior to the plan’s 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 30 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.

4. Dividend Restriction.

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 unless:

(a) The declarations and payments are made in accordance with applicable State and Federal laws and regulations;

(b) The Bank is in compliance with the minimum capital requirements of paragraph 1;

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

(d) The Bank is in substantial compliance with this ORDER; and

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

5. Qualified Management.

(a) Within 180 days from the effective date of this ORDER, the Bank shall have qualified management, including a chief executive officer and an appropriate number and type of senior officers, with the requisite knowledge, skills, ability, and experience, giving consideration to the size and complexity of the Bank, to operate the Bank in a safe and sound manner, and in compliance with applicable laws and regulations, and restore the Bank to a satisfactory financial condition, including, but not limited to, capital adequacy, asset quality, 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 Bank's board of directors to implement the provisions of this ORDER.

(b) For purposes of this paragraph, to have “qualified management,” the Bank shall add at least one senior executive officer whose responsibilities include assisting in:

(i) strategic planning;

(ii) supervision of the lending function; and

(iii) the Bank’s compliance with the ORDER.

(c) 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, earnings, management effectiveness, liquidity, sensitivity to market risks, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance.

(d) Within 180 days, the Bank will adopt a management succession plan.

6. Changes in Board of Directors and/or Senior Officers. During the life of this ORDER, the Bank shall notify the Regional Director 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 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. In addition, the Bank shall notify the Regional Director and the Commissioner in writing when it proposes to add any individual to the Bank'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.

7. Charge-off of Adversely Classified Assets and Contingent Liabilities.

(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 dated September 18, 2006 (“Report of Examination”), that have not been previously collected or charged off. If an asset classified “Doubtful” is a loan or lease, the Bank may, in the alternative, increase its allowance for loan and lease losses by an amount equal to 50 percent of the loan or lease classified “Doubtful”.

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

8. **Maintenance of Allowance for Loan and Lease Losses**.

(a) Within 30 days from the date of this ORDER, the board of directors shall make a provision of at least $1,100,000 to replenish the allowance for loan and lease losses (allowance) for the loans charged off as a result of the most recent 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 120 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 30 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 Banks 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 Bank’s allowance, and any analysis of the Bank’s 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 latest 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 minutes of the board of directors meeting. 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 may be made at such times as the Bank files the quarter-end 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 Consolidated Reports of Condition and Income accordingly.

9. **<u>Reduction of Adversely Classified Assets</u>.**

(a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and Commissioner a written plan to reduce the Bank’s risk exposure in each asset in excess of $75,000 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 a schedule 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) 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;

(iii) a provision for the Bank’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.

(c) The Bank shall 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 minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the plan.

10. 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 "Substandard," "Doubtful," or “Loss” 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 10(a) 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 institution and the Bank’s board of directors approves the loan and supports its action in the board minutes. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, the board of directors must conclude and fully document in its written 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) the extension of such credit would improve the Bank's position, with an explanation 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’ conclusions and loan approval shall be made a part of the minutes of the board meeting, with a copy retained in the borrower's credit file.

11. Reduction of Delinquencies.

(a) Within 90 days after the effective date of this ORDER, the Bank shall formulate a written plan for the reduction and collection of delinquent loans. For purposes of this provision, “reduce” means to charge-off or collect. The plan shall include, but not be limited to, provisions which:

(i) prohibit the extension of credit for the payment of interest or fees;

(ii) delineate responsibilities for implementing and monitoring the Bank’s collection policies;

(iii) establish specific collection actions and procedures to be instituted at various stages of a borrower’s delinquency;

(iv) establish specific dollar levels to which the total dollar volume of delinquencies will be reduced and the projected timeframes for achieving the projected reduction; and

(v) provide for the submission of monthly written progress reports to the Bank’s board of directors for review and notation in minutes of the meetings of the board of directors.

(b) 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 minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the plan.

12. <u>Correction of Technical Exceptions</u>.

(a) Within 90 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. For any exception that cannot be corrected, the Bank shall document the reasons for such failure in the borrowers' credit file, and the board of directors shall review and include the documentation in the board minutes.

(b) The Bank shall ensure that all necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

(c) 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 review shall be noted in the minutes of the meeting of the board of directors.

13. <u>Reduction of Special Mention Assets</u>.

Within 90 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 minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the plan.

14. Implementation of Loan Committee.

(a) Within 30 days from the effective date of this ORDER, the Bank shall appoint a loan committee, which shall meet as frequently as necessary to carry out the responsibilities assigned to the committee, but in no event less frequently than once a month. The loan committee shall include at least one director who is "independent." An independent director shall be any individual who:

(i) is not employed in any capacity by the Bank, any subsidiary, or any of its affiliated organizations, other than as a director;

(ii) does not own or control more than 5 percent of the outstanding shares of the Bank or its parent company;

(iii) is not related by blood or marriage to an officer or director of the Bank or its affiliates, or to any shareholder owning more than 5 percent of the outstanding shares of the Bank or its parent company, and who does not otherwise share a common financial interest with such officer, director or shareholder;

(iv) is not indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest; and

(v) is a resident of, or engaged in business in, the Bank's trade area; or,

(vi) is otherwise deemed to be an independent director for purposes of this ORDER by the Regional Director and the Commissioner.

(b) The loan committee shall, at a minimum, perform the following functions:

(i) Evaluate and act upon requests for loans or other extensions of credit, and assess the administration of outstanding loans or other extensions of credit, in accordance with the Bank's loan policy, as amended to comply with this ORDER;

(ii) Provide a thorough, written explanation of any deviations from the loan policy, which shall:

(A) address how such exceptions are in the Bank's best interest;

(B) be included in the minutes of the corresponding committee meeting; and

(C) be maintained in the borrower's credit file.

(iii) Review and monitor the status of repayment and collection of overdue and maturing loans, all loans classified "Substandard" or "Doubtful" in the Report of Examination, and all loans included on the Bank's internal watch list; and

(iv) Maintain written minutes of the committee meetings, including a record of the review and status of the loans considered.

(c) All loan committee minutes shall be reviewed by the Bank’s board of directors during the next scheduled meeting.

15. Implementation of Independent Loan Review Program.

(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 Bank'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, the amount of the loan, the reason why the loan warrants special attention and an assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) Action plans to reduce the Bank’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 Bank’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 Bank'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 Bank’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 Bank shall submit the program 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 program, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank 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 Bank or recommendations to the board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank'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.

16. Implementation of Loan Policy.

(a) Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank 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) Require a determination that loan officers have the necessary expertise to make, monitor and service the types and kinds of loans that will be assigned to them, and that appropriate supervision by a qualified loan officer will be provided if the assigned loan officer does not possess the necessary expertise;

(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) Designate the Bank’s normal trade area;

(v) Establish limitations on the maximum volume of loans in relation to total assets;

(vi) Require that for all extensions of credit originated or renewed by the Bank, including loans purchased from a third party:

(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 are otherwise in conformance with the Bank’s lending policies and procedures.

(vii) Establish standards for extending unsecured credit;

(viii) 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;

(ix) Address concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;

(x) Require strict guidelines for out-of-territory loans which, at a minimum, include an aggregate limitation on such loans, require complete credit documentation, and require approval by a majority of the board of directors prior to disbursement of funds, including a written explanation of why such loans are in the best interest of the Bank;

(xi) Establish review and monitoring procedures for compliance with the FDIC's appraisal regulation, 12 C.F.R. Part 323;

(xii) Require strict underwriting and credit administration guidelines governing the origination or purchase of loans secured by real estate;

(xiii) Require the establishment and maintenance of a loan grading system and internal loan watch list;

(xiv) Require a written plan to lessen the risk position in each line of credit identified as a problem credit on the Bank's internal loan watch list;

(xv) 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 the reports of examination; and

(xvi) Prohibit extending the maturity date, advancing additional credit, or renewing a loan to a borrower whose obligations to the Bank were classified “Substandard” or “Doubtful,” whether in whole or in part, in regulatory reports of examination, without the full collection in cash of accrued and unpaid interest, unless the loans are well secured and/or are adequately supported by current and complete financial information, and the extension or renewal has first been approved in writing by a majority of the board of directors.

(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 minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the policy.

17. Concentrations Of Credit.

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit a written plan to the Regional Director and the Commissioner for systematically reducing and monitoring the Bank’s portfolio of loans, securities, or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers (the “concentration plan”) as listed on pages 62 through 64 in the Report of Examination to an amount which is commensurate with the Bank’s business strategy, management expertise, size, and location. At a minimum, the plan shall include:

(i) dollar levels and percent of capital to which the Bank shall reduce each concentration;

(ii) a schedule for achieving the reduction in dollar levels identified in response to (i) above;

(iii) provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors; and

(iv) procedures for monitoring the Bank's compliance with the plan.

(b) The Bank shall submit the concentration plan 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 consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the concentration plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or associated entities if such extension or commitment would result in the Bank exceeding any limit contained in the concentration plan.

18. <u>Increased Board of Directors Participation in the Affairs of the Bank</u>.

Effective immediately, the board of directors shall increase its participation in the affairs of the Bank, which shall specifically include meeting no less frequently than monthly. The board shall establish specific procedures designed to fully inform the Bank's board of directors regarding the management, operation and financial condition of the Bank 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: (a) reports of income and expenses; (b) loan reports, including new, overdue, renewed, extended, restructured, insider, non-accrual, charged-off, and recovered loans; (c) investment activity; (d) asset/liability and funds management reports; (e) operating policies; (f) personnel actions; (g) audit and supervisory reports; and, (h) the minutes summarizing individual committee meetings and actions. The board shall approve sound policies, strategic plans and budgets for all of the Bank'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.

19. <u>Strategic Planning Policy</u>.

(a) Within 120 days, the Bank shall develop and implement a policy governing the Bank’s strategic planning process. At a minimum, the policy shall include formulating and maintaining a strategic plan which includes short-, intermediate-, and long-range planning, the development of project or action plans for achieving the goals and objectives set forth in the strategic plan, procedures for monitoring performance, and, as necessary, methods for periodic revisions to the strategic plan.

(b) The Bank shall submit the policy to the Regional Director and the Commissioner for review and comment. Within 30 days from the receipt of any such comments 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 minutes of the meeting of the board of directors. The Bank shall thereafter implement and enforce the policy.

20. Profit and Budget Plan.

Within 90 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 of any comment from the Regional Director 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 Bank shall fully implement the profit plan and any subsequently approved modification. The written profit plan shall include, at a minimum:

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

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

(c) a budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly, recording 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.

21. Ethics Policy.

(a) Within 120 days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written ethics policy ("Ethics Policy") and program ("Ethics Program") designed to bring to the attention of each member of the board conflicts of interest which may exist in approving loans or other transactions in which officers, directors or principal stockholders of the Bank ("Insiders") are involved. The Ethics Policy will state the ethical conduct and other standards expected of directors, officers, employees, agents and other persons participating in the conduct of the affairs of the Bank (“Covered Individuals”), in the performance of their duties and responsibilities, and establish the definitions, instructions and format to be followed by Covered Individuals in the preparation of comprehensive conflict disclosure statements (“statements”) to be filed for review by the board. At a minimum, the Ethics Program will prohibit self-dealing by insiders or their advancing personal, business, or other interests, or those of others, at the expense of the Bank, and require:

(i) Initial statements from all existing Covered Individuals;

(ii) Initial statements from any person who becomes a new Covered Individual;

(iii) Periodic statements from all Covered Individuals;

(iv) The disclosure of all potential conflicts of interest arising from a business or other interest or affiliation; and

(v) Immediate reporting of new conflicts or discovery of previously unreported conflicts.

(b) The Ethics Program will, at a minimum, ensure that each member of the board has been apprised of any potential conflict prior to making a decision, and has acted specifically on any loan or other transaction in which Insiders and/or their business associates are, directly or indirectly, involved. The results of any deliberations by the board of directors regarding potential conflicts shall be reflected in the minutes of its meetings. The Ethics Program will also address the ethical and other conduct and responsibilities with respect to Covered Individuals, and specifically the permissibility and disclosure of financial interests and obligations that appear to conflict with the individual's duties and responsibilities, including, but not limited to, participation of any sort in any transaction or loan in which the individual, his spouse, child, partner, or any organization in which the individual has a financial interest, or serves as an officer, director, trustee, or a partner is involved.

(c) The Bank shall submit the policy and program to the Regional Director and the Commissioner for review and comment. Within 30 days from the receipt of any such comments from the Regional Director and the Commissioner and after due consideration of any recommended changes, the Bank shall approve the policy and program, which approval shall be recorded in the minutes of the meeting of the board of directors. The Bank shall thereafter implement and enforce the policy and program.

22. Elimination and/or Correction of Violations of Laws, Rules, and Regulations.

(a) Within 90 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of laws, rules and regulations in the Report of Examination. In addition, within 30 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 90 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all contraventions of policy cited in the Report of Examination. In addition, within 30 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) For any violation or contravention that can not be corrected, the Bank shall document the reasons for such failure, which shall be reviewed by the board of directors at its next monthly meeting and made a part of its minutes.

23. Asset/Liability Management Policy.

(a) Within 120 days from the effective date of this ORDER, the board of directors shall implement procedures to ensure the Bank complies with its asset/liability management policy.

(b) Any exceptions to the asset/liability management policy shall be reviewed by the board and its review and response shall be documented in the minutes of the board meeting.

24. Reports of Condition and Income.

(a) Within 30 days from the effective date of this ORDER, the Bank shall review all Consolidated Reports of Condition and Income filed with the FDIC on and after September 30, 2006, and shall amend and file with the FDIC amended Consolidated Reports of Condition and Income, in accordance with the Reports of Condition and Income Instructions, which accurately reflect the financial condition of the Bank as of the date of each such Report. Amended Reports of Condition and Income are to be filed if previously submitted reports contain significant errors as dictated by the Instructions for Preparation of Consolidated Reports of Condition and Income.

(b) In addition and during the life of this ORDER, the Bank shall file with the FDIC Consolidated Reports of Condition and Income that accurately reflect the financial condition of the Bank as of the reporting period. In particular, such Reports shall incorporate any adjustment in the Bank's books made necessary or appropriate as a consequence of any State or FDIC examination of the Bank during that reporting period, to include:

(i) provision for loan losses and an allowance for loan and lease losses which are adequate considering the condition of the Bank’s loan portfolio;

(ii) the elimination from the Bank’s books of any asset in compliance with this ORDER; and

(iii) other restatements as detailed in the State or FDIC examination of the Bank, or as required under this ORDER.

(c) Further, and during the life of this ORDER, the accuracy of the Reports of Condition and Income shall be attested to by at least two directors of the Bank, other than the officer signing the officer declaration on the cover (signature) page. The Bank remains responsible for the accuracy of the data in its Reports of Condition and Income.

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

Within 30 days from the effective date of this ORDER, the board of directors shall adopt and implement a program providing for monitoring of the Bank’s compliance with this ORDER.

26. Disclosure of Order to Shareholders.

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.

27. Progress Reports Detailing Compliance with ORDER.

(a) Within 30 days of the end of the first quarter following the effective date of this ORDER, and within 30 days of the end of each quarter 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.

The ORDER shall be effective immediately upon its issuance by the FDIC.

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: March 5, 2007

By:

Thomas J. Dujenski
Deputy Regional Director
Kansas City Regional Office