FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of	)	
	)	
HASTINGS STATE BANK	)	**ORDER TO CEASE AND DESIST**
HASTINGS, NEBRASKA	)	
	)	**FDIC-08-100b**
	)	
(Insured State Nonmember Bank)	)	
	)	

Hastings State Bank, Hastings, Nebraska (“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 and regulation alleged to have been committed by the Bank, and its right to a hearing on those 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 June 12, 2008, 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 or violations of law or regulation, the Bank consented to the issuance of the following ORDER TO CEASE AND DESIST (“ORDER”) by the FDIC.

The FDIC considered the matter and determined that it has reason to believe that the Bank has engaged in unsafe and unsound banking practices and violations of law and regulation. The FDIC, therefore, accepts the CONSENT AGREEMENT and issues 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 a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank;

B. operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

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 Bank’s activities;

D. operating with an excessive level of adversely classified loans and other assets and delinquent loans;

E. operating with an inadequate allowance for loan and lease losses for the volume, kind, and quality of loans and leases held;

F. engaging in hazardous lending and lax collection practices, including, but not limited to:

1. extending and renewing credit without performing loan underwriting and credit analysis consistent with prudent banking practices;

2. failing to obtain proper loan documentation;

3. failing to obtain adequate collateral;

4. failing to establish and monitor collateral margins of secured borrowers;

5. failing to establish and enforce adequate loan repayment programs;

6. extending and renewing credit without obtaining current and complete financial information;

7. extending credit with inadequate diversification of risk; and

8. failing to properly identify risk and assess the level of risk in problem loans;

G. operating with an excessive level of assets with credit data or collateral documentation deficiencies;

H. operating with inadequate liquidity in light of the Bank’s asset and liability mix;

I. operating with an inadequate funds management policy;

J. failing to establish a complete and adequate interest rate risk management process that effectively identifies, measures, monitors, and controls risk and provides for periodic independent review;

K. operating in contravention of supervisory policy statements and other guidance, including, but not limited to:

1. Appendix A of Part 364 of the FDIC Rules and Regulations – Interagency Guidelines Establishing Standards for Safety and Soundness, as more fully described on pages 28 and 29 of the FDIC's January 29, 2008 Report of Examination of the Bank ("Report of Examination");

2. the Interagency Policy Statement on the Allowance for Loan and Lease Losses, as more fully described on pages 29 and 30 of the Report of Examination;

3. the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations, as more fully described on pages 30 and 31 of the Report of Examination; and

4. the Joint Agency Policy Statement on Interest Rate Risk, as more fully described on page 31 of the Report of Examination; and

L. violating laws and regulations, including:

1. the requirements of Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, relating to minimum Tier 1 leverage capital and total risk-based capital ratios, as more fully described on page 17 of the Report of Examination;

2. the legal lending limit restrictions of the State of Nebraska set forth in Neb.Rev.St. §§ 8-141 and 8-142, as more fully described on pages 17 through 20 of the Report of Examination;

3. the requirements and restrictions of Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323, relating to real estate appraisals, as more fully described on pages 20 through 22 of the Report of Examination;

4. the requirements and restrictions of Part 365 of the FDIC Rules and Regulations, 12 C.F.R. Part 365, relating to real estate lending standards, as more fully described on page 22 of the Report of Examination;

5. the restrictions on loans to insiders set forth in sections 215.4(a)(1) (prohibiting preferential terms) and 215.5(d) (requiring prior submission of current financial statement) of Regulation O of the Board of Governors of the Federal Reserve System, as more fully described on page 23 of the Report of Examination;

6. the restrictions on transactions with affiliates set forth in section 23B(a)(1)(B) of the Federal Reserve Act,

12 U.S.C. S 371c-1(a)(1)(B), as more fully described on pages 23 and 24 of the Report of Examination;

7. the requirements of Part 326 of the FDIC Rules and Regulations, 12 C.F.R. Part 326, relating to the implementation, administration, and effectiveness of an external crimes security program, as more fully described on page 24 of the Report of Examination;

8. the requirement that a bank notify the Nebraska Department of Banking of any vacancy on its board of directors set forth in Neb.Rev.St. § 8-124, as more fully described on page 25 of the Report of Examination; and

9. the Currency and Foreign Transactions Reporting Act (31 U.S.C. § 5311 *et seq.*) (“Bank Secrecy Act”), and the rules and regulations implementing the Bank Secrecy Act issued by the U.S. Department of the Treasury (31 C.F.R. Part 103) (financial recordkeeping), as more fully described on pages 25 through 27 of the Report of Examination.

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

1. <u>Qualified Management</u>.

(a) Within 120 days of the effective date of this ORDER, the Bank shall have qualified management, including a chief executive officer and a number and type of senior officers appropriate to the size and complexity of the Bank. Bank officers shall have the requisite knowledge, skills, ability, and experience to operate the Bank in a safe and sound manner, and in compliance with applicable laws and regulations, and restore the Bank to a satisfactory financial condition, including, but not limited to, capital adequacy, asset quality and diversification, management effectiveness, earnings, liquidity, sensitivity to market risk, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance. Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

2. Assessment of Management.

(a) Within 30 days of the effective date of this ORDER, the board of directors shall engage an independent third party that possesses appropriate expertise and qualifications and is acceptable to the Regional Director of the FDIC's Kansas City Regional Office, or his designee ("Regional Director"), and the Nebraska Department of Banking and Finance ("Department") (collectively "Supervisory Authorities"), to analyze and assess the Bank's management and staffing needs.

(b) The Bank shall provide the Supervisory Authorities 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, including a requirement that the analysis and assessment be summarized in a written report to the board of directors ("Management Report") within 30 days of the engagement;

(ii) the fees for each significant element of the engagement, and the aggregate fee;

(iii) the responsibilities of the firm or individual;

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

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

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

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

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

(ix) a provision for unrestricted access by the Supervisory Authorities to workpapers; and

(x) a certification that neither the firm (or any individual owner, officer or employee of the firm if the third party is not an individual) nor individual is affiliated in any manner with the Bank.

(c) Within 30 days of receipt of the Management Report, the board of directors shall conduct a full and complete review of the Management Report, which review shall be recorded in the minutes of the board, and develop a written plan that incorporates the findings of the report, a plan of action in response to each recommendation contained in the report, and a time frame for completing each action ("Management Plan").

(e) Within 30 days of receipt of the Management Report, the Bank shall submit the Management Report and Management Plan to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comments by the Supervisory Authorities, and after due consideration of any recommended changes, the board of directors shall approve the Management Plan, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the Management Plan. It shall remain the responsibility of the board of directors to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from the Management Plan. Any subsequent modification of the Management Plan shall be submitted to the Supervisory Authorities for review and comment and shall not be implemented without the prior written approval of the Supervisory Authorities.

(f) Periodically, but no less frequently than annually after the implementation of the Management Plan, the board of directors shall assess management on its ability to:

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

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

3. Additional Board Members.

(a) The Bank shall seek new independent members to its board of directors. The addition of any new director may be accomplished, to the extent permissible by state statute or the Bank’s by-laws, by means of appointment or election at a regular or special meeting of the Bank’s shareholders. The Bank shall cause its articles of incorporation or by-laws or other governing corporate instrument to be amended as appropriate to reflect the addition of independent directors.

(b) 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 other than possible ownership of publicly traded securities;

(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, in an amount exceeding 5 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; 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 Supervisory Authorities.

(c) The Bank shall document actions taken to identify potential candidates and recruit independent directors, including any communication with such individuals. Such documentation shall be presented to the board of directors for review on a monthly basis and shall be made part of the minutes of the board.

4. Changes in Board of Directors or Senior Officers.

The Bank shall notify the Supervisory Authorities in writing of any resignations or terminations of any members of its board of directors or any of its senior executive officers within 15 days of the event. The Bank shall also establish procedures to ensure compliance with section 32 of the FDI Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 303.100 through 303.103.

5. Minimum Capital Requirements.

(a) The Bank shall achieve and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325), after establishing an adequate allowance for loan and lease losses:

(i) Tier 1 capital at least equal to seven (7.0) percent of total assets;

(ii) Tier 1 risk-based capital at least equal to eight (8.0) percent of total risk-weighted assets; and

(iii) Total risk-based capital at least equal to ten (10.0) 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) Within 30 days of the last day of each calendar quarter, the Bank shall determine, from its Reports of Condition and Income, its capital ratios for that calendar quarter. If any capital measure falls below the established minimum, within 30 days of such required determination of capital ratios, the Bank shall submit a written plan to the Supervisory Authorities, describing the means and timing by which the Bank shall increase such ratio up to or in excess of the established minimum.

6. Increase in Capital.

(a) If all or any part of the increase in capital required by the provisions of this ORDER 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 Supervisory Authorities, 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 in the plan or materials requested by the Supervisory Authorities shall be made prior to their dissemination. If the Supervisory Authorities allow 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 Supervisory Authorities for prior approval.

(b) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber 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 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

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

7. Restrictions on Dividends.

The Bank shall not declare or pay any cash dividend, capital distribution, or earnings distribution without the prior written approval of the Supervisory Authorities.

8. Charge-off of Adversely Classified Assets.

(a) Within 30 days of 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 Report of Examination that have not been previously collected or charged off.

(b) Within 30 days of the receipt of any future report of examination by the Supervisory Authorities, 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 report of examination that have not been previously collected or charged off.

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

9. Reduction of Adversely Classified Assets.

(a) Within 60 days of the effective date of this ORDER, the Bank shall develop a written plan to reduce the Bank’s risk exposure in each asset or relationship in excess of $100,000 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 Supervisory Authorities. In developing the plans required 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) The plans required by this paragraph shall also include, but not be limited to, the following:

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

(ii) a requirement that monthly written progress reports be submitted to the board of directors; and

(iii) a requirement that the board of directors review the monthly progress reports and record a notation of the review in the minutes of the board.

(c) The board of directors shall approve the plans, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the plans.

10. Restrictions on Advances to Adversely Classified Borrowers.

(a) 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" or "Doubtful" in the Report of Examination and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.

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

(i) the failure 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, including an explanatory statement of how the Bank’s position would be improved; and

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

The board’s or committee’s conclusions and approval shall be made a part of its minutes, with a copy retained in the borrower’s credit file.

11. Correction of Technical Exceptions.

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

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

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

12. Correction of Special Mention Assets.

Within 60 days of 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 board of directors shall approve the plan, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the plan.

13. Concentrations of Credit.

Within 30 days of the effective date of this ORDER, the Bank shall review each concentration of credit listed on the Concentrations page of the Report of examination (page 70) to identify the level of risk in each concentration and adopt a written plan of action to manage the risk in each concentration. This will be accomplished, as appropriate, through strengthening administration or risk reduction. Each written plan of action shall be reviewed at least annually and amended as appropriate to manage the risk in the concentration. The written plans of action and any amendments shall be approved by the board of directors and included in the file(s) of the affected loans. The board of directors shall record its approval of each plan of action and any amendments in the board minutes.

14. Loan Policy.

(a) Within 60 days of the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank’s lending 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. The Bank’s loan policy shall be amended to address the exceptions noted in the Report of Examination, as well as:

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

(ii) establish prudent lending approval authorities for officers, including a limit on the aggregate amount of credit that can be extended to any single borrower without the prior approval of the board of directors or designated loan committee;

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

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

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

a) have a clearly defined and stated purpose;

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

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

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

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

(vi) incorporate limitations on the amount that can be loaned in relation to established collateral values, require that collateral evaluations be completed prior to the commitment to lend funds, define the circumstances and time frames under which subsequent collateral valuations will be performed, and require the source of collateral valuations to be identified;

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

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

(ix) establish limitations on the maximum amount of an overdraft that can be paid without the prior written approval of the Bank’s board of directors or designated loan committee, and impose appropriate limitations on the use of the Cash Items account;

(x) 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; and

(ix) require review and monitoring by the board of directors or designated loan committee of the status of repayment and collection of overdue and maturing loans, as well as all loans classified “Substandard” and “Doubtful” in reports of examination by the Supervisory Authorities.

(b) The Bank shall promptly submit the revised loan policy to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comments from the Supervisory Authorities, and after due consideration of any recommended changes, the board of directors shall approve the revised loan policy, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the revised loan policy. Any subsequent modification of the loan policy shall be submitted to the Supervisory Authorities for review and comment and shall not be implemented without the prior written approval of the Supervisory Authorities.

15. Implementation of Independent Loan Review Program.

(a) Within 30 days of the effective date of this ORDER, the board shall develop a written program for independent loan review (“Loan Review Program”) that will provide for periodic review of the Bank’s loan portfolio and the identification and categorization of problem credits. At a minimum, the Loan Review Program 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) identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;

(iii) assessment of the overall quality of the loan portfolio;

(iv) identification of credit and collateral documentation exceptions;

(v) identification and status of violations of laws, rules, or regulations with respect to the lending function;

(vi) identification of loans that are not in conformance with the Bank's lending policies;

(vii) identification of loans to directors, officers, principal shareholders, and their related interests; and

(viii) a mechanism for reporting periodically, but in no event less than quarterly, the information developed in subparagraphs (i) through (vii) above to the board of directors. The reports shall describe the action(s) taken by management with respect to problem credits.

(b) A copy of each loan review report shall be submitted to the board of directors, as well as documentation of the actions taken by Bank management or recommendations to the board that address identified deficiencies in specific loan relationships or in the Bank’s policies, procedures, strategies, or other elements of the Bank’s lending activities. Such reports and recommendations, as well as any actions taken by the board based upon such reports and recommendations, shall be recorded in the minutes of the board of directors.

16. Maintenance of Allowance for Loan & Lease Losses.

(a) Within 30 days of the effective date of this ORDER, the board of directors shall make a provision which will (i) replenish the allowance for loan and lease losses (“Allowance”) for the loans charged off as a result of the Report of Examination and this ORDER and (ii) 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) The Bank shall maintain, through charges to current operating income, an appropriate Allowance. The appropriateness of the Allowance shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the potential for loan losses in the Bank’s portfolio, current economic conditions, and any criticisms as contained in the Bank’s most recent report of examination.

(c) The Bank shall conduct, at a minimum, a quarterly assessment of its Allowance and shall maintain a written record, for supervisory review, indicating the methodology used in determining the amount of the Allowance needed. 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 appropriateness of the Allowance, and any analysis of the Bank’s Allowance provided by the Supervisory Authorities.

(d) 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.

17. Ethics Policy.

(a) The Bank shall not engage in any loan or other transaction involving any interest of a Bank officer, director, or principal shareholder (“Insider”) without the knowledge and approval of the board of directors.

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

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

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

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

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

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

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

(e) The Bank may not renew or extend any outstanding loan or other transaction that does not comply with the requirements of this paragraph.

18. Correction of Violations of Law and Contraventions of Policy and Guidelines.

(a) Within 60 days of the effective date of this ORDER, the Bank shall:

(i) consistent with safe and sound banking practices, eliminate or correct all violations of law, rules, and regulations cited in the Report of Examination;

(ii) consistent with safe and sound banking practices, eliminate or correct all contraventions of regulatory policies or guidelines cited in the Report of Examination;

(iii) adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules, regulations, and regulatory policies and guidelines.

(b) The Bank shall document each violation or contravention that cannot be eliminated or corrected, and why, for review by the board of directors. The board’s review, discussion, and any action taken with respect to the uncorrected violations or contraventions shall be recorded in the minutes of the board.

19. Strategic Planning.

(a) Within 120 days from the effective date of this ORDER, the Bank shall prepare a comprehensive written strategic plan covering an operating period of at least three years ("Strategic Plan"). The Strategic Plan shall:

(i) contain an assessment of the Bank's current financial condition, product lines, and market area, and a description of the operating assumptions that form the basis for major projected income and expense components;

(ii) address short term goals and operating plans to comply with the terms of this ORDER and correct all regulatory criticisms, intermediate goals and project plans, and long-range goals and project plans for achieving the goals and objectives set forth in the Strategic Plan; and

(iii) procedures for monitoring performance under the Strategic Plan.

(b) The board of directors shall approve the Strategic Plan, which approval shall be recorded in the minutes of the board of directors. Thereafter, the Bank and its institution-affiliated parties shall implement the Strategic Plan.

20. <u>Internal and External Audits</u>.

Within 60 days of the effective date of this ORDER, the Bank shall develop internal and external audit programs that establish procedures to protect the integrity of the Bank’s operational and accounting systems. The programs shall be in a form and manner acceptable to the Supervisory Authorities and, at a minimum, shall conform to the Interagency Policy Statement on the Internal Audit Function and its Outsourcing, and the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations. The programs shall provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records. In addition, the programs shall provide for monthly reports of audit findings from the auditors directly to the Bank’s board of directors. The minutes of the board of directors shall reflect consideration of these reports and describe any discussion or action taken as a result thereof.

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

Within 60 days of 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 (“Profit Plan”). The Profit Plan shall include, at a minimum:

(a) specific goals to maintain appropriate provisions to the allowance for loan and lease losses;

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

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

(d) 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;

(e) 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;

(f) recording the results of the budget review and any actions taken by the Bank as a result of the budget review in the minutes of the board of directors; and

(g) the individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

22. <u>Interest Rate Risk and Asset/Liability Management Policies</u>.

Within 60 days of the effective date of the ORDER, and annually thereafter, the Bank shall review (and revise as necessary) the Bank’s written asset/liability management policy and its interest rate risk policy and procedures. The revised policies and procedures shall comply with the requirements of the Joint Agency Policy Statement on Interest Rate Risk, including, without limitation, requirements for senior management review of crucial model assumptions and verification of the accuracy of data input.

23. <u>Funds Management Policies and Plans</u>.

(a) Within 60 days of the effective date of this ORDER, the Bank shall review its written funds management policies and plans, and amend each as necessary. At a minimum, the policies and plan shall:

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

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

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

(iv) establish a target dependency ratio;

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

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

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

(b) The board of directors shall approve the policies and plans, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the plans and policies.

24. Correction of Information Technology Deficiencies

Within 60 days of the effective date of this ORDER, the Bank shall address all the recommendations detailed on pages 11 and 12 of the Report of Examination pertaining to Information

Technology. For any deficiencies that cannot be corrected, the Bank shall document why corrections could not be made, which report shall be reviewed by the board of directors at its next meeting, and whose review, discussion and any action taken shall be recorded in the minutes of the board.

25. Disclosure.

The Bank shall send, or otherwise furnish, to its shareholders 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.

26. Program for Monitoring Bank's Compliance with Order.

Within 60 days of the effective date of this ORDER, the board of directors shall adopt and implement a program for monitoring the Bank's compliance with this ORDER.

27. Progress Reports.

On or before November 15, 2008, the Bank shall furnish a written progress report to the Supervisory Authorities, using financial data as of September 30, 2008, detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Thereafter, the Bank shall furnish written progress reports upon request by the Supervisory Authorities. The 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:

(a) description of the identified weaknesses and deficiencies;

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

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

(d) results of the corrective actions taken;

(e) the Bank's status of compliance with each provision of the ORDER; and

(f) appropriate supporting documentation.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority.

Dated: June 24, 2008

By:

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Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office