

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF KANSAS

OFFICE OF THE STATE BANK COMMISSIONER

_____)	
In the Matter of)	ORDER TO CEASE AND DESIST
)	
HEARTLAND BANK)	FDIC-08-342b
LEAWOOD, KANSAS)	OSBC-2009-09
)	
(Kansas Chartered)	
Insured Nonmember Bank))	
_____)	

Heartland Bank, Leawood, Kansas ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under Article 9 of the Kansas Banking Code, Kansas Statutes Annotated § 9-1807, regarding hearings before the Office of the State Bank Commissioner ("OSBC"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with representatives of

the Federal Deposit Insurance Corporation ("FDIC") and the OSBC, dated March 23, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the OSBC.

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

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

- A. 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 which has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices;

- C. Operating with an excessive level of adversely classified assets and non-accrual loans;
- D. Engaging in hazardous lending and lax collection practices;
- E. Operating with an inadequate allowance for loans and lease losses ("ALLL") for the volume, kind, and quality of loans and leases held;
- F. Operating with an inadequate level of capital protection for the kind and quality of assets held;
- G. Operating in such a manner as to produce low earnings;
- H. Operating with inadequate provisions for liquidity; and
- I. Operating with excessive concentrations of credit.

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

Qualified Management and Changes in the Board of Directors and/or Senior Officers

1. During the life of this ORDER, the Bank shall have and retain qualified management.

(a) Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. 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) The qualifications of management shall be assessed on its ability to:

- (i) comply with the requirements of this ORDER;
- (ii) operate the Bank in a safe and sound manner;
- (iii) comply with applicable laws and regulations; and
- (iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness and liquidity.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") in writing of any changes in the Bank's directors or senior executive officers in compliance with section 32 of the FDI Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b). In addition, the Bank shall request and obtain the written approval of the Commissioner of the Office of the State Bank Commissioner ("Commissioner"), prior to the

addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

Board Participation

2. (a) From the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: (i) reports of income and expenses, (ii) new, overdue, renewal, insider, charged off, and recovered loans, (iii) investment activity, (iv) operating policies, (v) individual committee reports, (vi) audit reports, (vii) internal control reviews including management's responses, and (viii) compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

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

Minimum Capital Requirements

3. (a) Within 30 days, the Bank shall submit a Capital Plan for review and comment to the Regional Director and Commissioner to achieve and maintain by June 30, 2009, Tier 1 capital as a percentage of its total assets ("capital ratio") of at least 8.0 percent and Total Risk Based Capital ratio of at least 12.0 percent. For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

- (b) At a minimum, the Capital Plan shall include:
- (i) specific plans to achieve the capital levels required under the plan and this ORDER;
 - (ii) projections for asset growth and capital requirements 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, as amended and required in this ORDER;

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

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

(c) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to this paragraph shall be in addition to a fully-funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and Commissioner, as determined at subsequent examinations.

(d) Any increase in Tier 1 capital may be accomplished by the following:

(i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325;

(ii) The elimination of all or part of the assets classified "Loss" or "one-half of Doubtful" as of September 8, 2008, without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that

portion of the asset which was not charged off pursuant to this ORDER;

- (iii) The collection in cash of assets previously charged off;
- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank;
- (v) Any other means acceptable to the Regional Director and Commissioner; or
- (vi) Any combination of the above means.

(e) Within 15 days of receipt of all such comments from the Regional Director and Commissioner, and after consideration of all such comments, the Bank shall approve the revised Capital 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 will review the Bank's Capital Plan monthly and update the Plan as needed. All updates to the Plan shall be submitted to the Regional Director and Commissioner.

(f) If all or part of the increase in capital required by this paragraph is to be 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 by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed 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 other material disclosures necessary to comply with 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 materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the OSBC, 700 SW Jackson, Suite 300, Topeka, Kansas 66603. Any changes requested to be made in the materials by the FDIC or the OSBC shall be made prior to their dissemination.

(g) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank 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 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser or subscriber of the Bank's securities.

(h) The capital ratio required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

Charge-off of Adversely Classified Assets

4. As of the effective date of this ORDER, the Bank shall charge off its books all assets classified "Loss" in the Report of Examination ("ROE") of September 8, 2008 that have not been previously charged-off or collected.

Risk Reduction Plans for Adversely Classified Assets

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement, a written plan to reduce the Bank's risk position in each asset in excess of \$350,000 which is classified "Substandard" or "Doubtful" or listed for "Special Mention" in the ROE of September 8, 2008. In developing such plan, the Bank shall, at a minimum:

- (i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and
 - (ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.
- (b) Such plan shall include, but not be limited to:
- (i) Dollar levels to which the Bank shall reduce each asset within six months from the effective date of this ORDER; and
 - (ii) 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.

(c) As used in this paragraph, "reduce" means to:

(i) collect; (ii) charge off; or (iii) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the OSBC.

(d) The plan shall be acceptable to the Regional Director and Commissioner.

(e) While this ORDER remains in effect, the plan shall be revised to include assets adversely classified and assets listed for Special Mention at each subsequent examination.

Correction of Special Mention Deficiencies

6. Within 60 days from the effective date of this ORDER, the Bank shall address and correct all deficiencies in the loans listed for "Special Mention" in the ROE of September 8, 2008.

Implementation of Independent Loan Review and Risk Grading

7. Within 90 days from the date of this ORDER, the Bank shall implement comprehensive loan and risk grading and review procedures which shall be acceptable to the Regional Director and Commissioner. The procedures shall require that such loan and risk grading and review will be performed by a qualified individual who is not a member of the Bank's lending staff. The review procedures shall, at a minimum, require:

- (a) consistent use of stress testing for all appropriate financed projects;
- (b) development and application of a valuation model to determine changes in underlying collateral values;
- (c) independent, documented inspections for all CRE projects; and

(d) consistent completion of a global cash flow analysis on borrowers and guarantors and establishment of acceptable parameters regarding borrowers' global cash flow characteristics.

Restrictions on Advances to Adversely Classified Borrowers

8. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (including any portion thereof) that has been charged-off the books of the Bank or classified "Loss" so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful" or is listed for "Special Mention" and is uncollected unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. The statement shall be signed by each Director with their approval or disapproval noted thereon. A copy of the statement shall be placed in the appropriate loan file and shall be

incorporated into the minutes of the applicable board of directors' meeting.

(c) The Bank shall not accrue interest on any loan that is, or becomes, 90 days or more delinquent as to principal or interest, and the Bank shall reverse on its books all previously accrued but uncollected interest on any loan that has ceased to accrue interest.

Maintenance of Allowance for Loan and Lease Losses

9. (a) Within 30 days from the effective date of this ORDER, the Bank shall have and thereafter maintain an adequate ALLL.

(b) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC filed by the Bank subsequent to September 8, 2008, but prior to the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank's loan portfolio.

(c) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board

meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall require the review to address the following factors: the results of the internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure on significant credits, concentrations of credit, present and prospective economic conditions, frequency of review, and the prevailing Instructions for the Preparation of Reports of Condition and Income, as well as any analysis of the Bank's ALLL provided by the FDIC or the OSBC.

(d) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

(e) The ALLL methodology shall be improved to address the requirements of FAS 114 and FAS 5.

Strategic Plan

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall revise its comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a

description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall include, at a minimum:

(i) clear guidance on acceptable levels of commercial real estate (CRE) by type, geography, appropriate borrower characteristics, or other defined risk characteristics;

(ii) rationale for CRE levels in relation to the Bank's overall growth objectives, financial targets, and capital plan;

(iii) strategies to respond to declines in market conditions, including implementing a sufficient risk grading and reserving program; and

(iv) re-evaluation of the strategy of purchasing out-of-territory participations.

(c) The Bank will submit the strategic plan to the Regional Director and Commissioner for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the plan.

Profit Plan and Budget

11. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2009. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

- (i) realistic and comprehensive budgets;
- (ii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) identification of major areas in, and means by which, earnings will be improved; and
- (iv) a description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plan and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(e) The profit plans and budgets required by this paragraph shall be acceptable to the Regional Director and Commissioner.

Restrictions on Dividends

12. As of the effective date of this ORDER, the Bank shall not pay or declare any dividends without the prior written consent of the Regional Director and Commissioner.

Liquidity and Funds Management

13. (a) Within 120 days from the effective date of this ORDER, the Bank shall revise its policies and practices with respect to liquidity and funds management. At a minimum, the Bank shall:

- (i) Establish target levels to which the Bank will reduce the level of brokered deposits;
- (ii) Include forward-looking cash flow projections into its liquidity monitoring procedures; and
- (iii) Review its Contingency Liquidity Plan in conjunction with its funding risk assessment to determine the likely availability of funds.

(c) The revisions to the liquidity and funds management policies and practices shall be acceptable to the Regional Director and Commissioner.

Concentrations of Credit

14. (a) Within 15 days of the effective date of this ORDER, the Bank shall determine specific limitations on concentrations of credit as a percentage of the Bank's Tier 1 capital to be implemented and adhered to by the Bank with respect to individual categories of credit described in the ROE. The limitations shall be acceptable to the Regional Director and Commissioner.

(b) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner a written plan to reduce

concentrations of credit as a percentage of the Bank's total Tier 1 Capital consistent with the limitations adopted in paragraph 14(a). Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce the concentrations within 6 and 12 months from the effective date of this ORDER; and
- (ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the meetings of the board of directors.

(c) Within 30 days from the receipt of any comments from the Regional Director and the OSBC, and after the adoption of any recommended changes, the board of directors shall approve the written plan and any subsequent modification thereto, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and adhere to the written plan.

Progress Reports

15. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall

furnish written progress reports to the Regional Director and Commissioner detailing the form and manner of any action taken to secure compliance with each provision of this ORDER and the results thereof. In addition, the Bank shall furnish such other reports as requested by the Regional Director and Commissioner. All progress reports and other written responses to this ORDER shall be reviewed by the board of directors of the Bank and made a part of the minutes of the board meeting.

Disclosure of ORDER to Shareholders

16. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section 550 17th Street, N.W., Washington, D.C. 20429 and to the Office of the State Bank Commissioner, 700 SW Jackson, Suite 300, Topeka, Kansas 66603, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and OSBC shall be made prior to dissemination of the description, communication, notice or statement.

The provisions of this ORDER shall be binding upon the Bank and its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the OSBC.

This ORDER shall be effective March 30, 2009.

KANSAS STATE BANKING BOARD

By: /s/
James O'Sullivan, Chairman
Kansas State Banking Board

By: /s/
J. Thomas Thull, Secretary
Kansas State Banking Board

FEDERAL DEPOSIT INSURANCE CORPORATION
Issued Pursuant to Delegated Authority

 /s/
M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation