

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	
	)	
THE FARMERS BANK	)	ORDER TO CEASE AND DESIST
LINCOLN, NEBRASKA	)	
	)	FDIC-09-060b
	)	
(Insured State Nonmember Bank)	)	

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The Farmers Bank, Lincoln, 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 March 11, 2009, 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 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 excessive loan losses and an excessive level of adversely classified loans and other assets and delinquent loans;

D. Operating with an inadequate allowance for loan 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. 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 establish and enforce adequate loan repayment programs;

4. failing to implement appropriate collection measures; and

5. failing to properly assess the level of risk in problem loans;

F. Operating with inadequate operating earnings;

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

H. Operating with an inadequate funds management policy;

I. Violating laws and regulations, including:

1. The legal lending limit restrictions of the State of Nebraska; and

2. Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323, relating to real estate appraisals.

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

**1. Qualified Management.**

From the effective date of this ORDER, the Bank shall take action to have qualified management, including a chief executive officer and a number of and type of senior officers appropriate to the size and complexity of the Bank. They 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, as well as to restore the Bank to a satisfactory financial condition. Their focus will include, but not be limited to, capital adequacy, asset quality, management effectiveness, earnings, liquidity and sensitivity to market risk. Each member of management shall be provided appropriate written authority from the board of directors to implement the provisions of this ORDER.

**2. Assessment of Qualified Management.**

(a) Within 60 days from the effective date of this ORDER, the board of directors shall engage an independent third party and that possesses the appropriate expertise and qualifications to analyze and assess the Bank's management and staffing performance and needs.

(b) Before it is executed, the Bank shall provide a copy of the proposed engagement letter or contract with the third party to the Regional Director of the FDIC's Kansas City

Regional Office ("Regional Director") and the Director of the Nebraska Department of Banking and Finance ("State Director") (collectively, the "Supervisory Authorities").

(c) The analysis and assessment along with related recommendations shall be summarized in a written report to the board of directors ("Management Report").

(d) 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 meeting of the board of directors.

(e) Within 60 days of receipt of the Management Report, the board of directors will develop and implement a written Management Plan that incorporates the findings of the report, a plan of action in response to each recommendation contained in the Management Report or otherwise communicated to the Bank, and a time frame for completing each action.

(f) A copy of the Management Report and Management Plan and any subsequent modification thereto shall be submitted to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the board of directors shall approve the Management Report and Management Plan, which approval shall be recorded in the minutes of the meeting of the board.

Thereafter, the Bank and its directors shall implement and follow the Management Plan and any modifications thereto.

(g) Periodically, but no less frequently than annually, the board of directors shall reassess management on its ability to restore and thereafter maintain the Bank in a safe and sound condition, including its ability to comply with the requirements of this ORDER; applicable State and Federal laws and regulations; regulatory policy statements and guidelines; and the Bank's approved policies and procedures.

**3. 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.

**4. 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 appropriate allowance for loan and lease losses:

(i) Tier 1 capital at least equal to eight (8.0) percent of total assets; and

(ii) Total risk-based capital at least equal to twelve (12.0) 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.

**5. Restriction 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.

**6. 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 November 24, 2008, Report of Examination issued jointly by the Supervisory Authorities ("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" 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.

#### **7. 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, 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 of directors. Thereafter, the Bank and its institution-affiliated parties shall implement the plans.

**8. 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.

**9. 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) For any exception that cannot be eliminated or corrected, the Bank shall document its reason for such inability in the borrower's credit file and the board of directors shall review and include a copy of such documentation in its minutes for its next monthly meeting.

**10. 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.

(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.

**11. Implementation of Independent Loan Review Program.**

(a) Within 60 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) identification of loans with credit weaknesses that warrant the special attention of management;
- (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 and an action plan to address the identified deficiencies;
- (v) 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;
- (vi) identification of loans that are not in conformance with the Bank's lending policies and an action plan to address the identified deficiencies; and
- (vii) a mechanism for reporting periodically, but in no event less than quarterly, the information developed in subparagraphs (i) through (vi) above to the board of directors. Each report shall describe the action(s) taken by management with respect to problem credits. Such reports, as well as any actions taken by the board based upon such reports, shall be recorded in the minutes of the board of directors.

**12. Maintenance of Allowance for Loan and 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.

(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 conform with regulatory standards, including the Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income and the Interagency Statement of Policy on the Allowance for Loan and Lease Losses.

(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.

**13. 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 and all contraventions of regulatory policies cited in the Report of Examination; and

(ii) 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.

**14. Profit and Budget Plan.**

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 ("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 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.

**15. Liquidity and Funds Management.**

Within 30 days from the effective date of this ORDER, the Bank shall review its liquidity and funds management policies and plans, and develop or amend each as necessary. Said policies should address the concerns detailed in the Report of Examination, and specifically how the Bank will increase its liquid assets and reduce its reliance on brokered deposits and other non-stable funding sources for liquidity purposes. Thereafter, the Bank shall implement and fully comply with the policies and plans.

**16. 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.

**17. 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.

**18. Progress Reports.**

On or before July 15, 2009, the Bank shall furnish a written progress report to the Supervisory Authorities using financial data as of June 30, 2009, detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Thereafter, the Bank shall furnish a written progress report within 20 days of any request by either the Regional Director or the State Director. The written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER.

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: March 13, 2009\_\_\_\_\_

By:

/s/  
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Mark S. Moylan  
Deputy Regional Director  
Kansas City Regional Office