

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )	
)	ORDER TO CEASE AND DESIST
)	
PARK STATE BANK & TRUST )	
WOODLAND PARK, COLORADO )	FDIC 09-186b
)	
)	
(Insured State Nonmember Bank) )	
_____ )	

Park State Bank & Trust, Woodland Park, Colorado (“Bank”), through its board of directors, having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged 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”) with counsel for the Federal Deposit Insurance Corporation (“FDIC”) dated June 5, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, 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 they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

## **ORDER TO CEASE AND DESIST**

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

1. Operating the Bank with an inadequate level of capital protection for the kind and quality of assets held by the Bank.
2. Operating the Bank with an excessive level of adversely classified loans or assets.
3. Operating the Bank with an excessive level of delinquent loans.
4. Operating the Bank with an excessive level of nonaccrual loans.
5. Operating with an inadequate allowance for loan and lease losses for the volume, type and quality of loans and leases held.
6. Refinancing credits to borrowers in weak financial positions without improving collateral margins or establishing structured repayment programs.
7. Engaging in hazardous lending, poor credit administration practices, and/or lax collection practices, including, but not limited to:
  - a. Renewing or extending credit without adequate and appropriate supporting documentation.
  - b. Failure to obtain proper loan documentation.
  - c. Failure to establish and enforce adequate loan repayment programs.
  - d. Failure to obtain current and complete financial information.
8. Creating concentrations of credit.
9. Engaging in speculative or hazardous investment practices.

10. Operating the Bank with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.
11. Operating the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe and unsound banking practices and violations of laws or regulations.
12. Operating the Bank in violation of applicable Federal and State laws and regulations.
13. Operating the Bank with inadequate earnings to fund growth, support dividend payments and augment capital.
14. Operating the Bank with inadequate internal review policies or procedures.
15. Operating the Bank without adequate liquidity or proper regard for funds management in light of the Bank's asset and liability mix.
16. Operating with an inadequate asset or liability funds management policy.

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

**CAPITAL PLAN**

1. (a) Within 60 days after the effective date of this ORDER, the Bank shall submit a written capital plan to the Regional Director of the FDIC's Dallas Region ("Regional Director") and the Commissioner of the Colorado Division of Banking ("Commissioner") that requires the Bank, after establishing an adequate Allowance for Loan and Lease Losses, to achieve and maintain its Tier 1 Leverage Capital ratio equal to or greater than 9% of the Bank's Average

Total Assets; and to achieve and maintain its Total Risk-Based Capital ratio equal to or greater than 13% of the Bank's Total Risk Weighted Assets.

(b) After the Regional Director and the Commissioner respond to the capital plan, the Bank's board of directors shall adopt the capital plan, including any modifications or amendments requested by the Regional Director and the Commissioner. Thereafter, the Bank shall immediately initiate measures detailed in the capital plan, to the extent such measures have not previously been initiated, to effect compliance with the plan within 30 days after the Regional Director and the Commissioner respond to the capital plan.

(c) Such increase in Tier 1 Capital and any increase in Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or
- (2) The direct contribution of cash subsequent to March 9, 2009, by the directors and/or shareholders of the Bank or by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to March 9, 2009, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(d) If any such capital ratios are less than required by the ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the State, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director or the Commissioner, present to the Regional Director and the Commissioner a new capital plan to increase the Bank's Tier 1 Capital or to take such other

measures to bring all the capital ratios to the percentages required by this ORDER. After the Regional Director and the Commissioner respond to the new capital plan, the Bank's board of directors shall adopt the new capital plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(e) Thereafter, the Bank shall immediately initiate measures detailed in the plan, to the extent such measures have not previously been initiated, to increase its Tier 1 Capital by an amount sufficient to bring all the Bank's capital ratios to the percentages required by this ORDER within 30 days after the Regional Director and the Commissioner respond to the new capital plan.

(f) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's board of directors shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned 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 Federal and State 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 FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429 and the Commissioner of the Colorado Division of Banking, 1560 Broadway, Suite 975, Denver, Colorado 80202 for review. Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 Capital is to be provided

by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented to the Regional Director and the Commissioner for prior approval.

(g) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, 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 change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(h) In addition, 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.

(i) 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, 12 C.F.R. Part 325.

#### **CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

2. (a) Within 30 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the Colorado Division of Banking ("State") as a result of the joint examination of the Bank as of March 9, 2009. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 60 days after the effective date of this ORDER, the Bank shall submit a written plan to the Regional Director and the Commissioner to reduce the remaining assets classified Doubtful and Substandard as of March 9, 2009. The plan shall address each asset so classified with a balance of \$100,000 or greater and provide the following:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Timeframes for accomplishing the proposed actions.

The plan shall also include, at a minimum:

- (i) Review the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Bank's board of directors and a provision mandating a review by the Bank's board of directors.

(c) The Bank shall present the plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the plan, including any requested modifications or amendments shall be adopted by the Bank's board of directors which approval shall be recorded in the minutes of the meeting of the

Bank's board of directors. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of adversely classified assets as of March 9, 2009, shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses and may be accomplished by:

- (1) Charge-off;
- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or
- (4) Increase in the Bank's Tier 1 Capital.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future examination conducted by the FDIC or the State.

### **REDUCTION OF DELINQUENCIES**

3. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written plan for the reduction and collection of delinquent loans. Such plan shall include, but not be limited to, provisions which:

- (1) Prohibit the extension of credit for the payment of interest;
- (2) Delineate areas of responsibility for implementing and monitoring the Bank's collection policies;



- (3) Establish specific collection procedures to be instituted at various stages of a borrower's delinquency;
- (4) Establish dollar levels to which the Bank shall reduce delinquencies;  
and
- (5) 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 Bank's board of directors.

(b) For purposes of the plan, "reduce" means to:

- (1) Charge-off;
- (2) Collect; or
- (3) Bring the loan to a current status.

(c) After the Regional Director and the Commissioner have responded to the plan, the Bank's board of directors shall adopt the plan as amended or modified by the Regional Director and the Commissioner. The plan will be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

#### **MAINTENANCE OF ALLOWANCE FOR LOAN AND LEASE LOSSES**

4. Within 60 days after the effective date of this ORDER, the Bank must use Financial Accounting Standards Board Statements Numbers 5 and 114 for determining the Bank's Allowance for Loan and Lease Losses (ALLL) reserve adequacy. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The directorate must document with written reasons any decision not to require provisions for loan losses in the board minutes.

**MANAGEMENT CLAUSE – STAFFING STUDY**

5. (a) Within 45 days after the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and the Commissioner. The consultant shall develop a written analysis and assessment of the Bank’s management and staffing needs (“Management Plan”) for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

- (1) A description of the work to be performed under the contract or engagement letter;
- (2) The responsibilities of the consultant;
- (3) Pricing schedules;
- (4) An identification of the professional standards covering the work to be performed;
- (5) Identification of the specific procedures to be used when carrying out the work to be performed;
- (6) The qualifications of the employee(s) who are to perform the work;
- (7) The time frame for completion of the work;
- (8) Any restrictions on the use of the reported findings; and
- (9) A provision for unrestricted examiner access to work papers.

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

- (1) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

- (2) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (3) Evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and
- (4) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those positions identified in the Management Plan.

(d) The Management Plan shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and the Commissioner, and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

#### **MANAGEMENT – BOARD SUPERVISION**

6. Within 30 days after the effective date of this ORDER, the Bank's board of directors shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities. The board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and

approved by the board: reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, nonaccrued, and recovered loans; investment activities; operating policies; and individual committee actions. The Bank's board of directors' minutes shall document the board's reviews and approvals, including the names of any dissenting directors.

### **LOAN COMMITTEE AND LOAN REVIEW REQUIREMENTS**

7. (a) Within 30 days after the effective date of this ORDER, the Bank's board of directors shall establish a loan review committee to periodically review the Bank's loan portfolio and identify and categorize problem credits. The committee shall file a report with the Bank's board of directors at each board meeting. This report shall include the following information:

- (1) The overall quality of the loan portfolio;
- (2) The identification, by type and amount, of each problem or delinquent loan;
- (3) The identification of all loans not in conformance with the Bank's lending policy; and
- (4) The identification of all loans to officers, directors, principal shareholders or their related interests.

(b) At least 50% of the members of the loan review committee shall be directors not employed in any capacity by the Bank other than as a director.

### **LOAN POLICY COMPLIANCE**

8. (a) Within 90 days after the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall establish review and monitoring procedures to ensure that all Bank lending personnel are adhering to the Bank's established lending procedures

and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established loan policy.

(b) As part of the board of director's initial formulation of such procedures, the board of directors shall review the Bank's loan policy and procedures for effectiveness and, based upon this review, the board of directors shall make all necessary revisions to the policy in order to strengthen the Bank's lending procedures and abate additional loan deterioration.

(c) At a minimum, the board of directors shall ensure that the Bank's loan policy includes the following provisions:

- (1) Requires that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and cash flow projections, and shall be maintained throughout the term of the loan;
- (2) Requires that the loan committee review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" or "Doubtful" in the Report of Examination;
- (3) Requires the establishment and maintenance of an effective and accurate loan grading system and internal loan watch list;

- (4) Requires 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;
- (5) Prohibits the capitalization of interest or loan-related expenses unless the Bank's board of directors formally approves such extensions of credit as being in the best interest of the Bank and provides detailed written support of its position in the Bank's board minutes;
- (6) Requires that extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such person, be thoroughly reviewed for compliance with all provisions of Regulation O, 12 C.F.R. Part 215 and Section 337.3 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.3.
- (7) Requires prior written approval by the Bank's board of directors for any extension of credit, renewal, or disbursement in an amount which, when aggregated with all other extensions of credit to that person and related interests of that person, exceeds 25 percent of Tier 1 Leverage Capital, as reported in the most recently filed Consolidated Reports of Condition and Income. For the purpose of this paragraph "Related Interest" is defined as in Section 215.2(n) of Regulation O, 12 C.F.R. § 215.2(n);
- (8) Requires accurate reporting of past due loans to the Bank's board of directors on at least a monthly basis;

- (9) Addresses 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;
- (10) Incorporates collateral valuation requirements, including:
  - a. Maximum loan-to-collateral-value limitations;
  - b. A requirement that the valuation be completed prior to a commitment to lend funds;
  - c. A requirement for periodic updating of valuations; and
  - d. A requirement that the source of valuations be documented in Bank records;
- (11) Establishes standards for initiating collection efforts;
- (12) Establishes guidelines for timely recognition of loss through charge-off;
- (13) Establishes officer lending limits and limitations on the aggregate level of credit to any one borrower which can be granted without the prior approval of the Bank's board of directors ;
- (14) Requires that collateral appraisals be completed prior to the making of secured extensions of credit, and that periodic collateral valuations be performed for all secured loans listed on the Bank's internal watch list, criticized in any internal or outside audit report of the Bank, or criticized in any Report of Examination of the Bank by the FDIC or the State;

(15) Establishes limitations on the maximum volume of loans in relation to total assets; and

(16) Establishes review and monitoring procedures to ensure compliance with FDIC's regulation on appraisals pursuant to Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323.

(d) Any revisions made to the Bank's written loan policy shall be submitted to the Regional Director and the Commissioner for comment. After the Regional Director and the Commissioner have responded to the revised loan policies, the Bank's board of directors shall adopt the revised policies as amended or modified by the Regional Director and the Commissioner. The revised policies will then be implemented immediately to the extent that they are not already in effect at the Bank.

#### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

9. (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 whose existing credit has been classified Loss by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to 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 and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) 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 whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the State as the result of its examination of



the Bank, either in whole or in part, and is uncollected, unless the Bank's board of directors has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Bank's board of directors' meeting.

### **CONCENTRATIONS – PLAN FOR REDUCTION**

10. (a) Within 60 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written plan to reduce each of the loan concentrations of credit identified at pages 46 and 47 in the Report of Examination as of March 9, 2009. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (1) Dollar levels to which the Bank shall reduce each concentration; and
- (2) 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 Bank's board of directors.

(b) For purposes of the plan, "reduce" means to:

- (1) Charge-off;
- (2) Collect; or
- (3) Increase Tier 1 Capital.

(c) After the Regional Director and the Commissioner have responded to the plan, the Bank's board of directors shall adopt the plan as amended or modified by the Regional Director and the Commissioner. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

### **SPECIAL MENTION AND TECHNICAL EXCEPTIONS**

11. (a) Within 60 days after the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for Special Mention in the Report of Examination as of March 9, 2009.

(b) Within 30 days after the effective date of this ORDER, the Bank shall implement a system of monitoring loan documentation exceptions on an ongoing basis and implement procedures designed to reduce the occurrence of such exceptions in the future.

### **BUDGET AND PROFIT PLAN**

12. (a) Within 60 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment 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, be consistent with sound banking practices, reduce discretionary expenses, improve the Bank's overall earnings and net interest income, 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:

(1) An analysis of the Bank's pricing structure; and

(2) A recommendation for reducing the Bank's cost of funds.

(c) Within 30 days after the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the written profit 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 when 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 and shall be submitted to the Regional Director and the Commissioner for review and comment within 30 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the written profit plan and budget, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

### **CORRECTION OF VIOLATIONS**

13. (a) Within 60 days after the effective of this ORDER, the Bank shall, eliminate and/or correct all violations of law and regulations, except for the Special Lending Authority ("SLA") item, noted in the Report of Examination. The SLA violation will be handled pursuant to Colorado Division of Banking Rule CB101.64K (1).

(b) Within 60 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.

(c) Within 60 days after the effective date of this ORDER, the Bank shall address any contraventions of statements of policy noted in the Report of Examination.

### **LIQUIDITY/ASSET/LIABILITY MANAGEMENT**

14. (a) Within 60 days after the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner for review and comment a written plan addressing liquidity. Annually thereafter, while this ORDER is in effect, the Bank

shall review this plan for adequacy and, based upon such review, shall make necessary revisions to the plan to maintain adequate provisions to meet the Bank's liquidity needs. The initial plan shall include, at a minimum, provisions:

- (1) Identifying the source and use of borrowed and/or volatile funds;
- (2) Establishing lines of credit at correspondent banks, including the Federal Reserve Bank of Kansas City and the Federal Home Loan Bank Board, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (3) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;
- (4) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (5) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (6) Addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing and collateral requirements with specific allowable funding channels

(i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and

- (7) Establishing procedures for managing the Bank's sensitivity to interest rate risk which comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Supervisory Policy Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(b) Within 30 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the plan as necessary, the Bank shall adopt the plan, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the plan.

### **INTEREST RATE RISK**

15. (a) Within 60 days after the effective date of the ORDER, the Bank shall develop, adopt, and implement an interest rate risk policy and procedures that shall include, at a minimum:

- (1) Measures designed to control the nature and amount of interest rate risk the Bank takes including those that specify risk limits and defines lines of responsibilities and authority for managing risk;
- (2) A system for identifying and measuring interest rate risk;
- (3) A system for monitoring and reporting risk exposures; and
- (4) A system of internal controls, review, and audit to ensure the integrity of the overall risk management process.

## INVESTMENT POLICY

16. (a) Within 60 days after the effective date of this ORDER, the Bank's board of directors shall revise the Bank's investment policy to provide effective guidelines and control over the Bank's investment portfolio. At a minimum the Bank's investment policy should address the following:

- (1) Develop specific policies addressing minimum documentation necessary to support pre-purchase and ongoing analysis for investments purchased and held.
- (2) Develop specific policy requirements for the approval and documentation of Investment Policy exceptions. Procedures should ensure that all exceptions are directly reported to the Bank's board of directors and noted in the minutes.
- (3) Develop policies and procedures to require independent price/market value verification on all investment securities.
- (4) Develop formal policies and procedures related to regular testing for Other Than Temporary Impairment (OTTI). Such procedures should be consistent with generally accepted accounting principles.
- (5) Ensure that the Investment Policy and the Bank's risk management procedures are consistent with the standards incorporated in the Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities effective May 26, 1998.
- (6) Ensure that the policy is consistent with the Federal Financial Institutions Examination Council's instructions for Consolidated Reports of Condition and Income, generally accepted accounting

principles, and the Bank's loan, liquidity, and asset/liability management policies.

- (7) The Bank shall submit the policy to the Regional Director and the Commissioner for review. Within 30 days after their responses, the policy, including any modifications or amendments requested by the Regional Director and the Commissioner, shall be adopted by the Bank's board of directors. The Bank shall immediately initiate measures detailed in the policy, as amended or modified, to the extent such measures have not been initiated. Any discussion of the policy, its modifications, or amendments shall be documented in the minutes of the Bank's board of directors' meetings.
- (8) The policy shall be reviewed and updated annually.

#### **DIVIDEND RESTRICTION**

17. As of the effective date of this ORDER, the Bank shall pay no cash dividends without the prior written consent of the Regional Director and the Commissioner.

#### **COMPLIANCE COMMITTEE**

18. Within 30 days after the effective date of this ORDER, the Bank's board of directors shall establish a subcommittee of the board of directors charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. The subcommittee shall report monthly to the entire board of directors of the Bank, and a copy of the report and any discussion related to the report or the ORDER shall be included in the minutes of the Bank's board of directors' meeting. Nothing contained herein shall diminish the responsibility of the entire

board of directors of the Bank to ensure compliance with the provisions of this ORDER.

### **NOTIFICATION TO SHAREHOLDERS**

19. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) 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 Accounting and Securities Disclosure Section, Washington, D.C. 20429 and the Commissioner of the Colorado Division of Banking, 1560 Broadway, Suite 975, Denver, Colorado 80202 for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

### **PROGRESS REPORTS**

20. Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Commissioner written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such Progress Reports shall be received by the Regional Director and the Commissioner no later than 30 calendar days after the end of each calendar quarter (i.e. due by January 30<sup>th</sup>, April 30<sup>th</sup>, July 30<sup>th</sup>, and October 30<sup>th</sup> of each year). Such Progress Reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Commissioner have released, in writing, the Bank from making further reports.



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

This ORDER will become effective upon its issuance by the FDIC.

Pursuant to delegated authority.

Dated this 22<sup>nd</sup> day of June 2009.

/s/  
Thomas J. Dujenski  
Regional Director  
Dallas Region  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation