

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____	)	
In the Matter of	)	
	)	
	)	CONSENT ORDER
THE MERCHANTS & FARMERS BANK	)	
MELVILLE, LOUISIANA	)	FDIC-09-367b
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for The Merchants & Farmers Bank, Melville, Louisiana (“Bank”), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated December 22, 2009, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in current management and Board supervision, the failure to maintain accurate books and records, the operation of the Bank with inadequate earnings and an ineffective strategic plan, the lack of effective internal controls or an effective audit program, the use of inadequate loan policies and procedures, and hazardous lending/collection practices, to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

**BANK MANAGEMENT**

1. (a) Within 60 days after the effective date of this ORDER, the Bank shall take steps to strengthen Bank management and assess the training needs of both Bank management and staff by developing a management plan (“Management Plan”) which should include, at a minimum:

- (1) A recital of the steps the Bank is taking and will take to immediately recruit at least one new director to its current Board who has recent banking experience;
- (2) A recital of the steps the Bank is taking or will take to actively recruit and hire at least one new Bank officer with the requisite knowledge and skills necessary to assist Bank management in its effort to restore and maintain the Bank in a safe and sound condition; and
- (3) The establishment of a training program aimed at strengthening the knowledge and skill sets of current Bank management and staff (such program should include a listing of potential courses to be taken, anticipated timetables for officer and staff attendance, and expected results to be achieved).

(b) Within 60 days after the effective date of this ORDER, the Bank shall also develop a management succession plan (“Management Succession Plan”) for the purpose of providing qualified guidance to the Bank now and in the future.

- (c) The Management Succession Plan, at a minimum, should include:
- (1) A commitment to obtain qualified Board members to replace existing Board members as the existing members resign or retire from Board participation;
  - (2) An outline of the proposed qualifications the Board is searching for in connection with future Board members;
  - (3) An outline of the actions the Board will undertake to solicit the future Board members based on the desired qualifications set forth above;
  - (4) An outline of the proposed fees and other compensation to be provided future Board members; and
  - (5) The time frame for completion of the Management Succession Plan to the extent possible.

(d) The Management Plan and the Management Succession Plan shall be submitted to the Regional Director of the FDIC's Dallas Regional Office ("Regional Director") and the Commissioner of the Louisiana Office of Financial Institutions ("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 the Management Succession Plan and record its approval of the plans in the minutes of the Board's meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and the Management Succession Plan and/or any subsequent modification.

2. (a) Within 30 days after the effective date of this ORDER, the Bank's Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of all 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, nonaccrual, and recovered loans; investment activities; operating policies; and individual committee actions. The Bank's Board minutes shall document the Board's reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days after the effective date of this ORDER, the Bank's Board shall evaluate all of the Bank's consultants for effectiveness and take all necessary steps to ensure that all future Bank consultants are necessary and properly qualified to perform the service required. The Board's evaluation of the consultants should be made available to examiners as requested. The Board minutes should reflect the Board's discussion of all future consulting agreements or proposals.

### **PROFIT PLAN**

3. (a) Within 60 days after the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board shall develop a written profit plan ("Profit Plan") consisting of goals and strategies for improving the earnings of the Bank for each calendar year. The written Profit Plan shall include, at a minimum:

- (1) Identification of the major areas in, and means by, which the Board will seek to improve the Bank's operating performance;

- (2) Realistic and comprehensive budgets;
- (3) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections on not less than a quarterly basis; and
- (4) A description of the operating assumptions that form the basis for and support major projected income and expense components.

(b) Such written Profit Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. Within 30 days after the receipt of any comment from the Regional Director and the Commissioner, the Bank's Board shall approve the written Profit Plan which approval shall be recorded in the minutes of the Bank's Board. Thereafter, the Bank, its directors, officers, and employees shall follow the written Profit Plan and/or any subsequent modification.

### **CORRECTION OF VIOLATIONS**

4. (a) Within 120 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law or regulation and address any contravention of FDIC policy statements and/or guidelines noted in the FDIC Report of Examination as of December 31, 2008 ("Report").

(b) Within 120 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, regulations, policy statements, and guidelines.

## **INTEREST RATE RISK, LIQUIDITY, AND FUNDS MANAGEMENT**

5. (a) Within 90 days after the effective date of this Order, the Bank shall revise, adopt, and implement the Bank's Asset/Liability Management Policy ("Asset/ Liability Policy") and comply with the Joint Agency Policy Statement on Interest Rate Risk, 61 Fed. Reg. 33169, June 26, 1996.

(b) The revised Asset/Liability Policy should include, at a minimum, the following:

- (1) The interest risk guidelines previously approved by Bank management;
- (2) A definition of the responsibilities and decision-making authority of Bank personnel;
- (3) A description of conditions under which a funding plan should be considered;
- (4) Offer solutions to develop funding sources;
- (5) Implement liquidity reporting requirements; and
- (6) Establish management information systems.

(c) The Bank should develop the following asset/liability plans ("Asset/Liability Plans"):

- (1) A plan to minimize errors in the funds management report ("Error Minimization Plan);
- (2) A plan for contingency funding ("Contingency Funding Plan") to help monitor liquidity risk, ensure the appropriate amount of liquid

assets are maintained, measure and project funding requirements, and manage funding sources; and

- (3) A plan to properly measure, monitor, and control the Bank's liquidity position ("Liquidity Plan").

(d) The Bank shall develop practices and procedures for complying with the risk limits established in the Bank's existing investment policy. Specifically, the Bank shall develop practices and procedures designed to ensure that each investment is, at minimum, analyzed for the following:

- (1) Liquidity risk;
- (2) Maturity risk; and
- (3) Pledging requirements.

All risk limits should be consistent with the Bank's strategic plan and its overall asset/liability management objectives.

(e) The Bank shall submit to the Regional Director and the Commissioner for review and comment the revised Asset/Liability Policy, the above-referenced Asset/Liability Plans, and the newly developed investment practices and procedures.

(f) Within 30 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the Asset/Liability Policy, the Asset/Liability Plans, and the investment practices and procedures, as necessary, the Bank shall adopt the Asset/Liability Policy, the Asset/Liability Plans, and the investment practices and procedures which adoption shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement the Asset/Liability Policy, the Asset/Liability Plans, and the investment practices and procedures to the extent they have not already been implemented. Annually thereafter, while this

ORDER is in effect, the Bank shall review the Asset/Liability Policy for adequacy and, based upon such review, shall make necessary revisions to the Asset/Liability Policy to strengthen funds management procedures.

**LOAN POLICY, UNDERWRITING, CREDIT ADMINISTRATION  
AND LOAN REVIEW COMMITTEE**

6. (a) Within 60 days after the effective date of this ORDER, and annually thereafter, the Board shall review the Bank's loan policy ("Loan Policy") and procedures for effectiveness and, based upon this review, shall implement and make all necessary revisions to the Loan Policy in order to strengthen the Bank's lending procedures and abate additional loan deterioration.

(b) The initial revisions to the Bank's Loan Policy required by this paragraph, at a minimum, shall include provisions:

- (1) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;
- (2) Requiring 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;

- (3) Incorporating collateral valuation requirements, including:
  - (i) Maximum loan-to-collateral-value limitations;
  - (ii) A requirement that the valuation be completed prior to a commitment to lend funds;
  - (iii) A requirement for periodic updating of valuations; and
  - (iv) A requirement that the source of valuations be documented in Bank records;
- (4) Establishing 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 loan committee or Board;
- (5) Establishing limits for loan concentrations;
- (6) Prohibiting the extension of credit for the payment of interest on a loan;
- (7) Establishing acceptable guidelines for the collection of problem credits;
- (8) Clearly defining areas of responsibility;
- (9) Establishing 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; and

(10) Establishing guidelines to address proper due diligence (such as requiring information and financial statements on borrowers; understanding repayment terms on loans and collateral; and considering the asset concentration, credit, maturity, and liquidity risk) to assess any loans or participations the Bank considers purchasing including, but not limited to, loans or participations purchased under the Small Business Administration (SBA) Lending program.

(c) The revised written Loan Policy shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion.

(d) Within 30 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the Loan Policy as necessary, the Bank shall adopt the Loan Policy, which adoption shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement the Loan Policy to the extent it has not already been implemented. Annually thereafter, while this ORDER is in effect, the Bank shall review the Loan Policy for adequacy and, based upon such review, shall make necessary revisions to the Loan Policy to strengthen funds management procedures.

7. (a) Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a Loan Review Committee to periodically review the Bank's loan portfolio and identify and categorize problem credits. The Loan Review Committee shall file a report with the Bank's Board at each Board meeting or the entire Board can function as the Loan Review Committee. The Board minutes must reflect the discussions of the Loan Review Committee. 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.

### **STRATEGIC PLAN**

8. (a) Within 90 days after the effective date of this ORDER, the Bank shall revise its strategic plan ("Strategic Plan") as set forth in this paragraph. The Strategic 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 Strategic Plan shall address, at a minimum:

- (1) Formulation of a mission statement and the development of a strategy to carry out that mission;
- (2) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (3) Assessment of existing loan and deposit products and strategies for pricing policies;
- (4) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

- (5) Goals for reducing problem loans; and
- (6) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions.

(c) The Bank shall submit the Strategic Plan to the Regional Director and the Commissioner for review and comment. Within 30 days after review of the Strategic Plan by the Regional Director and the Commissioner, the Bank shall approve the Strategic Plan as so amended or modified by the Regional Director or the Commissioner, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow the Strategic Plan.

(d) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's Board shall evaluate the Bank's performance in relation to the Strategic Plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

#### **INTERNAL AUDIT AND CONTROL PROGRAM**

9. Within 120 days after the effective date of this ORDER, the Bank's Board shall implement an effective program for internal audit and control ("Audit Program"). The Audit Program shall provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records, and shall comply with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing, FIL-133-97, dated December 27, 1997; amended FIL-21-2003, dated March 17, 2003. The internal auditor shall report quarterly

to the Bank's Board. The report and any comments made by the directors regarding the internal auditor's report shall be noted in the minutes of the Bank's Board meeting.

10. Within 90 days from the date of this ORDER, the Board shall formulate a plan to correct the internal routine and control deficiencies ("Deficiency Correction Plan") noted in the Report. Specifically, the Bank must correct all errors and omissions in the Bank's accounting and financial recordkeeping area and provisions must be made to ensure that minimal errors of this nature occur in the future. The Bank should submit The Deficiency Correction Plan to the Regional Director and the Commissioner for review and comment. Within 30 days after their response to the Deficiency Correction Plan, the Bank shall implement the Deficiency Correction Plan as amended or modified by the Regional Director or the Commissioner.

### **COMPLIANCE WITH ORDER**

11. Within 30 days after the effective date of this ORDER, and not less than monthly thereafter, the Bank's Board shall review compliance with the provisions of this ORDER. A summary of compliance with each provision and discussions related to the review of the ORDER shall be included in the minutes of the Bank's Board meeting.

### **PROGRESS REPORTS**

12. The Bank shall furnish to the Regional Director and the Commissioner written progress reports ("Progress Report") signed by each member of the Board detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such Progress Reports shall be received by the Regional Director and the Commissioner no later than 30 calendar days from the beginning of each calendar quarter (i.e., January 30, April 30,

July 30, and October 30 of each calendar year). The Progress Reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Commissioner have released the Bank, in writing, from making further Progress Reports.

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, 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.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

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: December 22, 2009

By:

/s/\_\_\_\_\_

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