

**FEDERAL DEPOSIT INSURANCE CORPORATION**  
**WASHINGTON, D.C.**  
And  
**KANSAS OFFICE OF THE STATE BANK COMMISSIONER**  
**TOPEKA, KANSAS**

|                                |   |               |
|--------------------------------|---|---------------|
| _____                          | ) |               |
|                                | ) |               |
| In the Matter of               | ) |               |
|                                | ) | CONSENT ORDER |
| FIRST SECURITY BANK & TRUST    | ) |               |
| COMPANY                        | ) | FDIC-09-616b  |
| NORTON, KANSAS                 | ) | OSBC-2009-308 |
|                                | ) |               |
| (Insured State Nonmember Bank) | ) |               |
| _____                          | ) |               |

The Kansas State Banking Board ("KSBB") granted a state charter to First Security & Trust Bank, Norton, Kansas ("Bank") pursuant to K.S.A. 9-1801.

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for First Security Bank & Trust Company, Norton, Kansas ("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 17, 2009, that is accepted by the FDIC and the KSBB. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound practices or violations

of law or regulation, to the issuance of this Consent Order ("Order") by the FDIC and the KSBB.

Having determined that the requirements for issuance of an Order under 12 U.S.C. § 1818(b), and Kansas Statutes Annotated 9-1807, have been satisfied, the FDIC and KSBB hereby order that:

**1. Assessment of Management.**

(a) Within 90 days from the effective date of this ORDER, the board of directors, or a committee appointed by the board, shall analyze and assess the Bank's management and staffing performance and needs. The analysis and assessment shall be summarized in a written report ("Management Report"). At a minimum, the Management Report shall:

(i) Identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;

(ii) Identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;

(iii) Present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary

for each position, including delegations of authority and performance objectives;

(iv) Identify training and development needs;

(v) Identify and establish Bank committees needed to provide guidance and oversight to management; and

(vi) Evaluate the current and past performance of all executive officers, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner.

(b) Within 10 days of completion of the Management Report, the board will provide a copy of the Management Report to the Regional Director of the FDIC's Kansas City Regional Office, or his designee, and the Kansas Office of the State Bank Commissioner (collectively "Supervisory Authorities"), and will complete its review of the Management Report, which shall be recorded in the minutes of the meeting of the board of directors.

(c) Within 30 days of completion of the Management Report, the board will develop 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, and a time frame for completing each action. At a minimum, the Management Plan shall:

(i) Contain a recitation of the recommendations included in the Management Report;

(ii) Incorporate a plan to provide necessary training and development for all employees;

(iii) Establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member; and

(iv) Contain a current management succession plan.

(d) A copy of the 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 Plan which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the board to fully implement the plan within the specified time frames. In the event the plan, or any portion thereof, is not implemented, the board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from the Management Plan.

## 2. Minimum Capital Requirements.

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an appropriate allowance for loan and lease losses:

(i) Tier 1 capital at least equal to 9 percent of total assets;

(ii) Total risk-based capital at least equal to 12 percent of total risk-weighted assets.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank shall immediately notify the Supervisory Authorities and within 30 days, shall submit a written plan to the Supervisory Authorities, describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements. Within 30 days of receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the written 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 written plan.

(c) Any increase in Tier 1 capital necessary to meet the requirements of subparagraph (a) of this provision may not be

accomplished through a deduction from the allowance for loan and lease losses.

**3. Dividend Restriction.**

While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Supervisory Authorities.

**4. Liquidity and Funds Management.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall prepare a written liquidity analysis and projection for the sources and uses of funds, including but not limited to the following:

Sources:

(i) listing of loans available for participation or sale and a list of committed purchasers;

(ii) listing of and projected pay offs or pay downs of loans;

(iii) specific listing of all funding sources and borrowings and level of commitments/availability;

(iv) projection and breakdown of deposit growth from non-brokered deposits and sources;

Uses:

(v) listing and timing of contractually binding loan commitments that are expected to be funded;

(vi) projections for known maturities of anticipated brokered deposit withdrawals;

(vii) projections, including best and worse case scenarios, of large public/private deposit withdrawals;

Projections and Contingency Plans:

(viii) projections for curtailing loan growth and shrinking the total asset size of the Bank; and

(ix) specific contingency plans in the event that anticipated events do not materialize, or in case of some other liquidity emergency.

(b) The written analysis and projection required by subparagraph (a) of this provision shall be reviewed for viability on a monthly basis, and updated as necessary. A copy of the written analyses and projections prepared under this provision shall be included with the progress reports required hereunder, unless required more frequently by the Regional Director.

**5. Reduction of Adversely Classified Assets.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall formulate written plans to reduce the Bank's risk

exposure in each asset in excess of \$500,000 adversely classified as "Substandard" or "Doubtful" in the August 24, 2009, FDIC Report of Examination ("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 mandated by this subparagraph (a), the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including sources of repayment and repayment ability, 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) Upon completion of the plans required by subparagraph (a) of this provision, the Bank shall immediately submit the plans to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the plans, 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 plans.

(c) Upon the written request of either of the Supervisory Authorities, similar plans shall be formulated for assets



adversely classified or listed for Special Mention at future examinations.

**6. Restrictions on Advances to Adversely Classified Borrowers.**

(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 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 adversely classified "Substandard" or "Doubtful," either internally or by either of the Supervisory Authorities, and is uncollected, or adversely classified "Substandard" or "Doubtful" in any future Reports of Examination from either of the Supervisory Authorities and is uncollected. The requirements of this subparagraph (a) 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) Subparagraph (a) of this provision 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 subparagraph (b), 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, who shall conclude:

(i) the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with an explanation of why the failure to extend such credit would be detrimental;

(ii) that the extension of such credit would improve the Bank's position, with an explanatory statement of why the Bank's position would improve; and

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

(c) The board of directors' conclusions and approval shall be made a part of the minutes of the board, with a copy retained in the borrower's credit file.

**7. Loan Review Program.**

(a) Within 90 days of the effective date of this ORDER, the board shall develop a written program of independent loan review that will provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the written program shall provide for:

(i) prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason

why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) identification of trends affecting the quality of the loan portfolio and potential problem areas;

(iii) identification of credit and collateral documentation exceptions;

(iv) identification of loans that are not in conformance with the Bank's lending policy; and,

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

(b) The Bank shall submit the written program to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the program, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the program.

**8. Maintenance of Allowance for Loan and Lease Losses.**

(a) Within 30 days from the effective date of this ORDER, the board of directors shall make a provision which will replenish the allowance for loan and lease losses ("ALLL") for the loans charged off as a result of the most recent examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard" and "Doubtful" as well as all other loans and leases in its portfolio.

(b) Within 30 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining the ALLL appropriateness. The policy shall provide for a review of the ALLL at least once each calendar quarter. That review should be completed at such time each quarter to ensure that the findings of the board of directors will be properly reported in the Bank's Call Reports. Such review shall, at a minimum, be made in accordance with Call Report Instructions and other applicable regulatory guidance that addresses the appropriateness of the Bank's ALLL, and any analysis of the Bank's ALLL provided by either of the Supervisory Authorities.

(c) A deficiency in the Bank's ALLL 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 Call Report. The board of directors shall thereafter maintain an appropriate ALLL.

**9. Concentrations Of Credit.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit a written plan (the "Concentration Plan") to the Supervisory Authorities for systematically reducing and monitoring the Bank's portfolio of loans or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers as listed in the Concentrations pages of the Report of Examination, to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location. At a minimum, the Concentration Plan shall include:

(i) dollar levels and percent of capital to which the Bank shall reduce each concentration;

(ii) timeframes for achieving the reduction in dollar levels identified in response to (i) above;

(iii) 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; and

(iv) procedures for monitoring the Bank's compliance with the plan.

(b) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or associated entities so long as such extension or commitment would result in the Bank exceeding any limit contained in the Concentration Plan.

**10. Implementation of Loan Policy.**

Within 90 days from the effective date of this ORDER, the board of directors of the Bank shall review and revise the Bank's written loan policies and procedures to address the comments and criticisms in the Report of Examination. The Bank's revised loan policies and procedures shall be provided to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the loan policies and procedures, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the revised loan policies. In the event the Bank considers making a loan that would not conform with the Bank's loan policies, the loan shall receive prior review and approval by the Bank's board of directors. The reason for non-conformance and the board's prior review and approval shall be documented in the board's minutes and in the loan file for that loan.

**11. Business/Strategic Plan and Profit and Budget Plan.**

(a) Within 120 days from 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 three-year business/strategic plan and one-year profit and budget plan covering the overall operation of the Bank and its 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.

(b) The business/strategic plan shall provide specific objectives for asset growth, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Supervisory Authorities for review and comment. No more than 30 days after the receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the board of directors shall approve the business/strategic plan and the profit and budget plan, which

approval shall be recorded in the board meeting minutes.

Thereafter, the Bank shall implement and fully comply with the plans.

**12. Progress Reports Detailing Compliance with ORDER.**

Within 90 days of the effective date of the ORDER and every 90 days thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER.

**13. Disclosure of Order to Shareholders.**

Following the effective date of this ORDER, the Bank shall provide a copy of this ORDER or otherwise furnish a description of this ORDER to its shareholders, in conjunction with (i) the Bank's next shareholder communication, and (ii) its notice or proxy statement preceding the Bank's next shareholder meeting. Any description shall fully describe the ORDER in all material respects. Such 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.

The KSBB hereby expressly delegates the authority to the OSBC to monitor and determine compliance with the Consent Order and to pursue adequate remedies for any areas of noncompliance.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC or any other federal agency or department, OSBC or KSBB 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 and KSBB.

Issued Pursuant to Delegated Authority

Dated the 6<sup>th</sup> day of January, 2009.

KANSAS STATE BANKING BOARD

FEDERAL DEPOSIT INSURANCE  
CORPORATION

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

By: \_\_\_\_\_ /s/\_\_\_\_\_  
Mark S. Moylan  
Deputy Regional Director  
Kansas City Regional Office

By: \_\_\_\_\_  
J. Thomas Thull, Secretary  
Kansas State Banking Board