KANSAS OFFICE OF THE STATE BANK COMMISSIONER
TOPEKA, KANSAS

And

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **SECURITY STATE BANK** **SCOTT CITY, KANSAS** **(Insured State Nonmember Bank)**	**CONSENT ORDER** **OSBC-2009-348** **FDIC-09-634b**

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

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the 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 1-11-10, that is accepted by the KSBB and the FDIC. 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 KSBB and the FDIC.

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

1. Maintain Qualified Management.

(a) Within 60 days from the effective date of this Order, the Bank shall have qualified management, including an appropriate number and type of senior officers with the requisite knowledge, skills, ability, and experience, giving consideration to the size and complexity of the Bank, to operate the Bank in a safe and sound manner, and in compliance with applicable laws and regulations, and restore the Bank to a satisfactory financial condition, including, but not 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.

(b) Within 60 days and at least annually thereafter during the life of this Order, the board of directors shall assess management's ability to:

(i) Comply with the requirements of this Order; all applicable State and Federal laws and regulations; FDIC and Federal Financial Institutions Examination Council policy statements; and the Bank's approved policies and procedures; and

(ii) Restore and thereafter maintain the Bank in a safe and sound condition, including, but not limited to, capital adequacy, asset quality, earnings, management effectiveness, liquidity, and sensitivity to market risks.

(c) The board shall report its assessments under this provision in the minutes of the board of directors' meetings.

2. Add Independent Directors.

(a) Within 180 days from the effective date of this Order, the Bank shall take action to add at least two new directors to the Bank's board of directors who are independent with respect to the Bank and its affiliates. Such action, to the extent permissible by state statute and the Bank's bylaws, may include calling for a special meeting of the Bank's shareholders. If necessary, the Bank shall cause its articles of incorporation, bylaws, and/or other governing corporate instrument to be amended to allow the action required by this paragraph.

(b) The board of directors shall prepare and forward to each shareholder of the Bank, a list of potential candidates for nomination to the Bank's board of directors prior to the next meeting of shareholders of the Bank at which directors are to be elected. The actions taken in identifying potential independent candidates, including any communication with such individuals, shall be documented and made part of the minutes of the meeting of the board of directors.

(c) At the next meeting of the shareholders of the Bank, and at each succeeding meeting of the shareholders at which Bank directors are to be elected, the members of the board of directors who are also shareholders shall nominate and support the election of candidates to the board of directors who are independent with respect to the Bank and its affiliates in such number, if available, as are necessary to cause at least two members of the board of directors to be and to remain independent with respect to the Bank.

(d) For purposes of this Order, an individual who is "independent with respect to the Bank" shall be any individual who:

(i) is not employed in any capacity by the Bank, any of its subsidiaries, or affiliated organizations, other than as a director;

(ii) does not own or control more than 5 percent of the outstanding shares of the Bank or its parent company;

(iii) is not related by blood or marriage to an officer or director of the Bank or its affiliates, or to any shareholder of the Bank or its parent company, and who does not otherwise share a common financial interest with such officer, director or shareholder other than ownership interests in publicly traded securities;

(iv) is not indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 1 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; and

(v) is a resident of, or engaged in business in, the Bank's trade area.

(e) Notwithstanding subparagraph (d)(i)-(v) above, an individual may otherwise be deemed to be an independent director for purposes of this Order by prior written approval of the Regional Director of the FDIC and the Commissioner of the Kansas Office of the State Bank Commissioner (collectively, the "Supervisory Authorities").

3. Maintain Minimum Capital.

(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; and

(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 shall: (1) increase capital in an amount sufficient to comply with subparagraph (a); or (2) 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 set forth above, as well as a contingency plan in the event the primary sources of capital are not available. The Bank shall approve the written plan, which approval shall be recorded in the minutes of the board of directors' meeting. 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.

4. Restrict Dividends and Management Fees.

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

5. Remove Loss Assets From Books.

(a) Within 10 days from the effective date of this Order, the Bank shall eliminate from its books, by charge-off, collection, or other appropriate write-down, all assets or portions of assets classified "Loss" in the State and FDIC's Report of Examination dated September 8, 2009, ("Report of Examination") that have not been previously charged off, collected, or written down.

(b) Elimination or reduction of assets through proceeds of other loans made by the Bank is not considered collection for purposes of this provision.

6. Reduce 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 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) The Bank shall approve the plans required by subparagraph (a) of this provision, 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.

7. Restrict 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 that:

(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) 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.

8. Maintain 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. <u>Reduce Concentrations Of Credit</u>.

(a) Within 90 days from the effective date of this Order, the Bank shall develop a written plan (the “concentration plan”) 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) revisions to the Loan Policy to ensure consistency with the percent of capital levels identified in response to (i) above;

(iv) 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

(v) procedures for monitoring the Bank’s compliance with the concentration 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.

(c) The Bank shall approve the plans required by subparagraph (a) of this provision, 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.

10. Implement Business/Strategic Plan and Profit and Budget Plan.

(a) Within 90 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 profit and budget plan shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The Bank shall approve the plans required by subparagraphs (a) and (b) of this provision, 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.

11. <u>Improve Liquidity and Funds Management</u>.

(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 Supervisory Authorities.

12. <u>Reduce Brokered Deposits</u>.

(a) Upon the issuance of this Order and so long as this Order is in effect, the Bank shall not accept, increase, renew, or rollover its brokered deposits without the prior written approval of the Supervisory Authorities. Within 30 days of the effective date of this Order, the Bank shall develop a written plan for reducing its reliance on brokered deposits ("brokered deposit plan"). The brokered deposit plan shall detail the current composition of the Bank's brokered deposits by maturity and explain the means by which such deposits will be paid. For purposes of this Order, brokered deposits are defined in section 337.6(a)(2) of the FDIC Rules and Regulations to include any deposits funded by third-party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance.

(b) The Bank shall approve the brokered deposit plan, which approval shall be recorded in the minutes of the board of directors' meeting. Thereafter, the Bank shall implement and fully comply with the plan.

13. <u>Disclose Order to Shareholders</u>.

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.

14. <u>Submit Progress Reports Detailing Compliance with Order</u>.

Within 30 days after the end of each calendar quarter, the Bank shall furnish a written progress report to the Supervisory

Authorities detailing the form, manner, and results of any actions taken to secure compliance with this Order. Upon written request by either of the Supervisory Authorities, the Bank shall furnish additional written progress reports to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this Order.

The provisions of this Order shall not bar, estop, or otherwise prevent the KSBB, 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 KSBB and FDIC.

Issued Pursuant to Delegated Authority

Dated the 22nd day of January, 2010.

KANSAS STATE BANKING BOARD

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

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

FEDERAL DEPOSIT INSURANCE CORPORATION

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