

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	CONSENT ORDER
HEARTLAND BANK)	
LEAWOOD, KANSAS)	FDIC-10-914b
(Kansas Chartered)	
Insured Nonmember Bank))	
_____)	

Heartland Bank, Leawood, Kansas ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the 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 TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") dated March 7, 2011, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC.

The FDIC considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. §1818(b) have been satisfied, the FDIC HEREBY ORDERS, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns take affirmative action as follows:

MANAGEMENT

1. During the life of this ORDER, the Bank shall have and retain qualified management.

(a) Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

(b) The qualifications of management shall be assessed on its ability to:

- (i) comply with the requirements of this ORDER;
- (ii) operate the Bank in a safe and sound manner;
- (iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness and liquidity.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") in writing of any changes in the Bank's directors or senior executive officers in compliance with section 32 of the FDI Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

BOARD PARTICIPATION

2. (a) From the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: (i) reports of income and expenses, (ii) new, overdue, renewal, insider, charged off, and recovered loans, (iii) investment activity, (iv) operating

policies, (v) individual committee reports, (vi) audit reports, (vii) internal control reviews including management's responses, and (viii) compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Bank's board of directors shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

3. (a) During the life of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("Tier 1 Capital Ratio") at a minimum of 9.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("Total Risk Based Capital Ratio") at a minimum of 13.0 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) Within 30 days, the Bank shall submit a Capital Plan for review and comment to the Regional Director to achieve

and maintain a Tier 1 Capital Ratio of at least 9.0 percent and Total Risk Based Capital ratio of at least 13.0 percent.

(c) At a minimum, the Capital Plan shall include:

- (i) specific plans to achieve the capital levels required under the plan and this ORDER;
- (ii) projections for asset growth and capital requirements based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan, as amended and required in this ORDER;
- (iii) the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs; and
- (iv) contingency plans that identify alternative sources of capital should the primary source(s) above not be available, including but not limited to a sale, merger, or self-liquidation of the Bank.

(d) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to this paragraph shall

be in addition to a fully-funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director as determined at subsequent examinations.

(e) Any increase in Tier 1 Capital may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 Capital under Part 325;
- (ii) The elimination of all or part of the assets classified "Loss" or "one-half of Doubtful" as of October 12, 2010, without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER;
- (iii) The collection in cash of assets previously charged off;
- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank;
- (v) Any other means acceptable to the Regional Director; or

(vi) Any combination of the above means.

(f) Within 30 days of receipt of all such comments from the Regional Director, and after consideration of all such comments, the Bank shall approve the revised Capital 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 Capital Plan. The board will review the Bank's Capital Plan monthly and update the Plan as needed. All updates to the Plan shall be submitted to the Regional Director.

(g) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed 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 other material disclosures necessary to comply with Federal 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 materials used in the sale of the securities shall be submitted to the FDIC Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429. Any changes requested to be made in the materials by the FDIC shall be made prior to their dissemination.

(h) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser or subscriber of the Bank's securities.

(i) The capital ratios required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

LOSS CHARGE-OFF

4. As of the effective date of this ORDER, the Bank shall charge off its books all assets classified "Loss" in the Joint Report of Examination dated October 12, 2010 ("ROE") that have not been previously charged-off or collected. In addition, during the life of this ORDER, the Bank shall charge off any asset classified "Loss" at subsequent examinations or visitations within 30 days from receipt of the report.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement, a written plan to reduce the Bank's risk position in each asset in excess of \$350,000 which is classified "Substandard" or "Doubtful" or listed for "Special Mention" in the ROE of October 12, 2010. In developing such plan, the Bank shall, at a minimum:

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

(b) Such plan shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each asset within six months from the effective date of this ORDER; and
- (ii) 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.

(c) As used in this paragraph, "reduce" means to:

(i) collect; (ii) charge off; or (iii) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC.

(d) A copy of the plan shall be submitted to the Regional Director.

(e) While this ORDER remains in effect, the plan shall be revised to include assets adversely classified and assets listed for Special Mention at each subsequent examination or visitation.

INDEPENDENT LOAN REVIEW AND RISK GRADING

6. Within 60 days from the date of this ORDER, the Bank shall implement comprehensive loan and risk grading and review procedures acceptable to the Regional Director. The procedures shall require that such loan and risk grading and review will be

performed by a qualified individual who is not a member of the Bank's lending staff. The review procedures shall, at a minimum, require:

- (a) consistent use of stress testing for all appropriate financed projects;
- (b) development and application of a valuation model to determine changes in underlying collateral values;
- (c) independent, documented inspections for all CRE projects; and
- (d) consistent completion of a global cash flow analysis on borrowers and guarantors and establishment of acceptable parameters regarding borrowers' global cash flow characteristics.

RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

7. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, 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 or classified "Loss" so long as such credit remains uncollected.

(b) During the life of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or

for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful" or is listed for "Special Mention" in regulatory Reports of Examination or Visitations and is uncollected unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. The statement shall be signed by each Director with their approval or disapproval noted thereon. A copy of the statement shall be placed in the appropriate loan file and shall be incorporated into the minutes of the applicable board of directors' meeting.

(c) The Bank shall not accrue interest on any loan that is, or becomes, 90 days or more delinquent as to principal or interest, and the Bank shall reverse on its books all previously accrued but uncollected interest on any loan that has ceased to accrue interest.

ALLOWANCE FOR LOAN AND LEASE LOSSES

8. (a) Within 30 days from the effective date of this ORDER, the Bank shall have and thereafter maintain an adequate ALLL.

(b) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC filed by the Bank subsequent to October 12, 2010, but prior to

the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank's loan portfolio.

(c) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall require the review to address the following factors: the results of the internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure on significant credits, concentrations of credit, present and prospective economic conditions, frequency of review, and the prevailing Instructions for the Preparation of Reports of Condition and Income, as well as any analysis of the Bank's ALLL provided by the FDIC.

(d) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

(e) The ALLL methodology shall include the requirements of FAS 114 and FAS 5.

STRATEGIC PLAN

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise its comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, incorporate the Bank's projected capital needs and its plans for maintaining adequate capital, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall include, at a minimum:

- (i) clear guidance on acceptable levels of commercial real estate (CRE) by type, geography, appropriate borrower characteristics, or other defined risk characteristics;

- (ii) rationale for CRE levels in relation to the Bank's overall growth objectives, financial targets, and capital plan;
- (iii) strategies to respond to declines in market conditions, including implementing a sufficient risk grading and reserving program;
- (v) re-evaluation of the strategy of purchasing out-of-territory participations;
- (vi) a process for identifying a merger partner;
and
- (vii) steps to determine the feasibility of self-liquidation.

(c) The Bank will submit the strategic plan to the Regional Director for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the plan.

(d) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter, the Bank shall approve the revised plan, which approval shall be recorded in

the minutes of a board of directors' meeting, and the Bank shall implement and adhere to the revised plan. Copies of the revised plan shall be submitted to the Regional Director.

PROFIT PLAN AND BUDGET

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2011. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, 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:

- (i) realistic and comprehensive budgets;
- (ii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) identification of major areas in, and means by which, earnings will be improved; and

(iv) a description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plan and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the 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 at which 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.

(e) The profit plans and budgets required by this paragraph shall be acceptable to the Regional Director.

RESTRICTIONS ON DIVIDENDS

11. As of the effective date of this ORDER, the Bank shall not pay or declare any dividends without the prior written consent of the Regional Director.

LIQUIDITY AND FUNDS MANAGEMENT

12. During the life of this ORDER, the Bank shall continue its policies and practices with respect to liquidity and funds management. At a minimum, the Bank shall:

- (i) Establish target levels to which the Bank will reduce the level of brokered deposits;
- (ii) Include forward-looking cash flow projections into its liquidity monitoring procedures; and
- (iii) Review its Contingency Liquidity Plan in conjunction with its funding risk assessment to determine the likely availability of funds.

INTEREST RATE RISK

13. (a) Within 60 days from the effective date of this ORDER, and annually thereafter, the Board shall review the Bank's asset and liability management policy for adequacy and shall make the necessary revisions that, at a minimum, address the exceptions discussed in the ROE relating to economic value of equity ("EVE") modeling and are 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.

(b) Within 60 days of the effective date of this Order the Bank shall have procedures for managing the Bank's sensitivity to interest rate risk. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(c) A copy of the policy revisions and procedures required by this paragraph shall be submitted to the Regional Director.

CONCENTRATIONS OF CREDIT

14. (a) Within 15 days of the effective date of this ORDER, the Bank shall determine specific limitations on concentrations of credit as a percentage of the Bank's Tier 1 capital to be implemented and adhered to by the Bank with respect to individual categories of credit described in the ROE. The limitations shall be acceptable to the Regional Director.

(b) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director a written plan to reduce concentrations of credit as a percentage of the Bank's total Tier 1 Capital consistent with

the limitations adopted in sub-paragraph (a) of this paragraph. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce the concentrations within 6 and 12 months from the effective date of this ORDER; and
- (ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the meetings of the board of directors.

(c) Within 30 days from the receipt of any comments from the Regional Director, and after the adoption of any recommended changes, the board of directors shall approve the written plan and any subsequent modification thereto, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and adhere to the written plan.

PROGRESS REPORTS

15. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish written progress reports to the Regional Director

detailing the form and manner of any action taken to secure compliance with each provision of this ORDER and the results thereof. In addition, the Bank shall furnish such other reports as requested by the Regional Director. All progress reports and other written responses to this ORDER shall be reviewed by the board of directors of the Bank and made a part of the minutes of the board meeting.

DISCLOSURE OF ORDER TO SHAREHOLDERS

16. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, 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.

This ORDER shall be effective on the date of its 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.

Pursuant to delegated authority.

Dated: March 14, 2011.

/s/

M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation