

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )  
THE COMMUNITY BANK OF )  
SHELL KNOB )  
SHELL KNOB, MISSOURI )  
(Insured State Nonmember Bank) )  
)

CONSENT ORDER  
FDIC-11-211b

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The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for The Community Bank of Shell Knob, Shell Knob, Missouri ("Bank"), under 12 U.S.C. § 1813(q).

The Bank, through its board of directors ("Board"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulation alleged to have been committed by the Bank, and its right to a hearing on those 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 A CONSENT ORDER ("CONSENT AGREEMENT") dated June 10, 2011, with counsel for the FDIC, whereby, solely for the purpose of this proceeding and without admitting or denying any unsafe or unsound banking

practices or violations of law and/or regulation, the Bank consented to the issuance of the following CONSENT ORDER ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it has reason to believe that the Bank has engaged in unsafe and unsound banking practices and violations of law and/or regulation. The FDIC, therefore, accept the CONSENT AGREEMENT and issue the following:

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

(a) Within 90 days from the effective date of this ORDER, the Board shall develop and fully implement a written three-year business/strategic plan and two-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, liquidity position, and interest rate risk. 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, including projected salaries and bonuses.

(c) The Board shall approve the business/strategic plan and the profit and budget plan, which approval shall be recorded in the Board's minutes. Thereafter, the business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Regional Director for the FDIC's Kansas City Region ("Regional Director") and the Commissioner for the Missouri Division of Finance (collectively, "Supervisory Authorities"), and the Bank shall fully comply with the plans.

## **2. Minimum Capital Requirements.**

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

(i) Tier 1 "Leverage Capital Ratio" at least equal to 8 percent; and

(ii) "Total Risk-Based Capital Ratio" at least equal to 11 percent.

(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: (1) increase capital in an amount sufficient to comply with subparagraph (a) of this provision, or (2) submit an acceptable written plan to the Supervisory Authorities for review and comment, 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, including the possible sale, merger, or liquidation of the Bank, in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the Regional Director, and after consideration of all such comments, the Board shall approve the written plan and record such approval in its minutes, and the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 leverage capital necessary to meet the requirements of this section may not be accomplished through a deduction from the ALLL.

**3. Allowance for Loan and Lease Losses ("ALLL").**

The Board shall review the Bank's ALLL at least once each calendar quarter. That review should be completed at such time to ensure that the findings of the Board will be properly reported in the Bank's Call Reports. Such reviews shall, at a minimum, be made in accordance with Call Report Instructions, the Interagency Statement of Policy on the Allowance for Loan

and Lease Losses, other applicable regulatory guidance that addresses the appropriateness of the ALLL, and any analysis of the ALLL provided by either of the Supervisory Authorities.

**4. Assessment of Management.**

(a) During the life of this Order, the Bank shall take action to have and maintain qualified management. Management shall be assessed on its 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, the Bank's capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risks.

(b) Within 90 days of the effective date of this Order, the Board will develop a written Management Plan. At a minimum, without limitation, the Management Plan shall:

(i) identify the type and number of executive 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, number, and responsibilities of lending staff positions needed to properly carry out the lending functions of the Bank, detailing any vacancies, training needs, assignment/responsibility adjustments, or additional needs;

(iii) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each executive officer position, including delegations of authority and performance objectives;

(iv) identify and establish Bank committees needed to provide guidance and oversight to management;

(v) establish procedures to review and update the Management Plan at least annually, as well as review and assess the performance of each officer and lending staff member; and

(vi) contain a current management succession plan. For purposes of this Order, "executive officer" is defined as set forth in 12 C.F.R. § 215.2(e)(i).

(c) 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 from the Regional Director, and after consideration of all such comments, the Board shall approve the Management Plan which approval shall be recorded in the Board's minutes. 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 Management Plan within the specified time frames. In the event the Management 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.

**5. Charge-off of Adversely Classified Assets.**

(a) Within 10 days of the effective date of this ORDER and within 10 days after the receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the January 24, 2011 FDIC Report of Examination ("Report of Examination"), and such future reports of examination that have not been previously collected or charged off.

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

**6. Reduction of Adversely Classified Assets.**

(a) Within 90 days from the effective date of this ORDER, and 60 days from receipt of future reports of examination from either of the Supervisory Authorities, the Bank shall develop and complete a written plan to reduce the Bank's risk exposure in each asset in excess of \$50,000 classified "Substandard" or "Doubtful" in the Report of Examination and in such future reports 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 such adverse classification.

(b) In developing the plans mandated by this paragraph, the Bank shall, at a minimum, 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.

(c) The plans mandated by this provision shall include, at a minimum, the following:

(i) specific action plans intended to reduce the Bank's risk exposure in each classified asset;

(ii) a requirement that monthly written progress reports be submitted to the Board; and



(iii) a requirement that the Board review the progress reports and record with a notation of the review in the minutes of the Board meetings at which such reports are reviewed.

(d) The Board shall approve the plans, which approval shall be recorded in the minutes of the meeting of the Board for the meeting at which such plans are approved. Thereafter, a copy of the plan or portion thereof that pertains to a specific borrower shall be maintained in the borrower's credit file, and the Bank shall implement and fully comply with the plan.

**7. 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" in the Report of Examination and is uncollected, or classified "Substandard" or "Doubtful" in any future reports of examination from either of the Supervisory Authorities and is uncollected.

(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 Board, 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 it 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 conclusions and approval made pursuant to subparagraph (b) of this provision shall be made a part of the minutes of the meeting of the Board at which the extension of credit is approved, with a copy retained in the borrower's credit file.

**8. Independent Loan Review Program.**

(a) Within 90 days, the Board shall develop a written loan review program that provides for a periodic and independent review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the written program shall be consistent with the "Loan Review Systems"

Section of the December 13, 2006 "Interagency Policy Statement on Allowance for Loan and Lease Losses".

(b) The Bank shall submit the written program to the Supervisory Authorities for review and comment with the first Progress Report required by this ORDER. Within 30 days from receipt of any comment from the Regional Director and after consideration of all such comments, the Board shall approve the program, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply the loan review program.

**9. Dividend Restriction.**

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

**10. Funds Management.**

Within 90 days from the effective date of this ORDER, the Bank shall review and revise its interest rate risk policy and plans, to address the concerns detailed in the Report of Examination. The policy shall incorporate the guidance contained in the FDIC published *Joint Policy Statement on Interest Rate Risk*. Thereafter, the Bank shall implement and fully comply with the policy and plans.

**11. Elimination and/or Correction of Violations of Law, Rules, and Regulations.**

(a) Within 120 days after the effective date of this ORDER, and within 60 days after receipt of any future reports of examination of the Bank by either of the Supervisory authorities, the Bank shall submit plans of action to the Supervisory Authorities for review and comment that address all apparent violations of law, rules, and regulations, cited in the Report of Examination, and such future reports of examinations.

(b) The plans of actions required by this paragraph shall:

(i) detail corrective actions taken and planned to correct, eliminate, and/or address, and prevent the recurrence of all apparent violations of law, rules, and regulations, detailed in the respective report of examination; and (ii) require progress reports submitted to the Board for review on at least a quarterly basis detailing each outstanding violation and the status of the Bank's plan for corrective action.

(c) Within 30 days of receipt of comments from the Regional Director, and after consideration of any such comments, the Board shall approve the plans of action and record such approval in the Board's minutes. Thereafter, the Bank shall follow the plans of action and shall document in Board or Board Committee minutes all actions taken to implement the plans of action required by this paragraph.

**12. Disclosure of ORDER to Sole Shareholder.**

Following the effective date of this ORDER, the Bank shall provide a copy or otherwise furnish a description of this ORDER to its shareholders, (i) in conjunction with the Bank's next shareholder communication, and (ii) in conjunction with 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.

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

(a) Within 90 days from the effective date of this ORDER, and each 90 days thereafter, the Board 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.

(b) Progress reports may be discontinued when the Supervisory Authorities have, in writing, released the Bank from making additional reports.

**MISCELLANEOUS**

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

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.

The ORDER shall be effective June 17, 2011.

By:

FEDERAL DEPOSIT INSURANCE CORPORATION

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

Mark S. Moylan  
Deputy Regional Director  
Kansas City Regional Office