

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )	
)	
)	ORDER TO CEASE AND DESIST
CITIZENS BANK )	
NEW TAZEWELL, TENNESSEE )	FDIC-07-147b
)	
(Insured State Nonmember Bank) )	
_____ )	

Citizens Bank, New Tazewell, Tennessee("Bank"), through its board of directors, having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged 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 AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") dated 10-10-07, 2007, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound

banking practices and had violated laws and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

**ORDER TO CEASE AND DESIST**

**IT IS ORDERED**, that the Bank, institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), of the Bank and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of laws and/or regulations:

(a) Operating the Bank with inadequate earnings to fund growth and augment capital.

(b) Operating the Bank with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

(c) Operating the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe and unsound banking practices and violations of laws or regulations.

(d) Operating the Bank without adequate supervision over, and direction to, the management of the Bank's consumer compliance area by the Bank's board of directors.

(e) Operating the Bank in violation of applicable Federal and State laws and regulations.

(f) Operating the Bank with an inadequate strategic business plan.

(g) Engaging in hazardous lending practices, including, but not limited to:

1. Operating the Bank with ineffective risk management policies and procedures in place in relation to the subprime mortgage lending program.

2. Engaging in subprime mortgage lending in contravention of *The Interagency Guidance on Subprime Lending*, FIL-20-99, and *The Expanded Guidance for Subprime Lending*, FIL-9-2001.

3. Operating the Bank with ineffective guidance and control over subprime mortgage lending and third-party originations ("Brokers") in contravention of the *Interagency Guidance on Nontraditional Mortgage Product Risks*, FIL-89-2006.

4. Operating the Bank with poor credit administration practices.

(h) Operating with inadequate cost accounting practices to assess performance of each functional area of the Bank.

(i) Operating with an inadequate level of capital protection relative to the kind and quality of assets held, the type of activities engaged in, or the overall risk profile of the Bank.

(j) Operating with an inadequate allowance for loans and lease losses ("ALLL") for the volume, kind, and quality of loans and leases held.

(k) Operating without an accurate and properly documented ALLL methodology.

(l) Operating the Bank with an excessive level of adversely classified loans.

(m) Operating the Bank with an ineffective Compliance

Management System.

**IT IS FURTHER ORDERED**, that the Bank, its institution-affiliated parties, and its successors and assigns take affirmative action as follows:

1. (a) The Bank shall have and maintain, at a minimum, the number of directors necessary to comply with Tennessee Code Annotated, Section 45-2-401.

(b) The Bank shall initiate measures, to the extent necessary, to ensure that at least 50% of the members of the board of directors shall be independent directors.

(c) For the purpose of this ORDER, an "independent director" is an individual who meets all of the following criteria:

(i) Is not employed by the Bank or its affiliates other than as a director of the Bank or affiliate;

(ii) Does not own or control more than five percent of the voting stock of the Bank or its holding company;

(iii) Is not indebted to the Bank or any of its affiliates in an amount greater than 5 percent of the Bank's Tier 1 capital;

(iv) Is not related, by blood or marriage, to any director or principal shareholder of the Bank or to any director or principal shareholder of any affiliate of the Bank; and

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

(d) The addition of any new director required by this

paragraph may be accomplished, to the extent permissible by state law or the Bank's by-laws, by means of appointment or election at a regular or special meeting of the Bank's shareholders.

2. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

(i) Comply with the requirements of the 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 improving the Bank's asset quality, capital adequacy, earnings, management effectiveness, liquidity, and its sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director of the Federal Deposit Insurance Corporation ("Regional Director") and the Commissioner of the Tennessee Department of Financial Institutions ("Commissioner") in writing of any changes in management. The notification must include the name(s) and background(s) of any replacement personnel and must be provided 30 days prior to the individual(s) assuming the new position(s).

3. While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner in writing at least 30 days prior to adding or replacing any of the Bank's board of directors, employing any person as a senior executive officer, or changing the responsibilities of any senior executive officer in compliance with the requirements of Section 32 of the Act, 12 U.S.C. § 1831(i), and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 303.100 - 303.103.

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall have and retain a qualified Compliance Officer with the requisite knowledge and experience to establish and administer an effective Compliance Management System, as described in the Federal Deposit Insurance Corporation's Compliance Examination Handbook, Tab II ("Compliance Examinations"), pages II-2.1-4 ("Compliance Management System").

(b) The Bank's board of directors shall ensure that the Compliance Officer receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's Compliance Management System.

(c) The responsibilities of the Compliance Officer shall include:

(i) Developing and reviewing compliance policies and procedures to ensure compliance with all federal consumer laws, regulations, and policies ("Consumer Laws") and the Bank's policies and procedures;

(ii) Assessing emerging issues or potential liabilities and training management and employees in Consumer

Laws;

(iii) Reporting compliance activities and audit or review findings to the board of directors and ensuring corrective actions; and

(iv) Coordinating responses to consumer complaints.

(d) The Bank's board of directors shall ensure that the Compliance Officer has and retains sufficient authority and independence to implement policies related to Consumer Laws and to institute corrective action as needed. At a minimum, this authority shall include the ability to:

(i) Cross departmental lines;

(ii) Access to all areas of the Bank's operations; and

(iii) Effectuate corrective action upon discovering deficiencies.

(e) The ongoing determination whether the Bank has a qualified Compliance Officer within the meaning of this ORDER shall be based upon the continued effectiveness of the Bank in achieving compliance with the requirements of this ORDER and with Consumer Laws.

5. Within 60 days from the effective date of this ORDER, the Bank shall develop and implement a Compliance Management System that is commensurate with the level of complexity of the Bank's operations. The Compliance Management System shall:

(a) Include the development and implementation of a compliance program ("Compliance Program") that is reviewed and approved annually by the Bank's board of directors, with the board's approval reflected in the minutes of the board meeting. The Compliance Program shall include:

(i) Written policies and procedures that shall:

(1) Provide Bank personnel with all the information that is needed to perform a business transaction; and,

(2) Are periodically updated to reflect changes in the Bank's business and regulatory environment.

(ii) Implementation and maintenance of a training program related to Consumer Laws for all Bank personnel, including senior management and the directorate, commensurate with their individual job functions and duties. The Compliance Officer shall be responsible for the administration of this program, and shall provide training to officers and employees on a continuing basis.

(iii) Compliance monitoring procedures that have been incorporated into the normal activities of every department. At a minimum, monitoring procedures should include ongoing reviews of:

(1) Applicable departments and branches;

(2) Disclosures and calculations for various loan and deposit products;

(3) Document filing and retention procedures;



(4) Marketing literature and advertising,  
and

(5) Internal compliance communication system that provides to Bank personnel appropriate updates resulting from revisions to Consumer Laws.

(iv) Consumer complaint procedures.

(b) Require an annual independent, comprehensive, and written audit. The Bank's board of directors shall document its efforts, including the review of and corrective measures made pursuant to the audits' findings, in the Bank's board of director minutes. The audit shall:

(i) Provide for sufficient transactional testing, as appropriate, for all areas of significant compliance risk, including those areas identified in the October 18, 2006, Compliance Examination Report ("Compliance Examination Report"); and

(ii) Identify the causes that resulted in the violations of law or exceptions noted in the Compliance Examination Report with sufficient information to provide management direction in formulating corrective action.

(c) Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of Consumer Laws and regulations identified in the Compliance Examination Report and ensure that the Bank's Compliance Management System will facilitate compliance with all Consumer Laws and regulations in the future.

6. Within 60 days from the effective date of this ORDER,

the Bank shall adopt and implement systems and controls to ensure compliance with the Flood Disaster Protection Act of 1973, 42 U.S.C. §§ 4002-4129, and Part 339 of the FDIC's Rules and Regulations, 12 C.F.R. Part 339. At a minimum, the Bank's procedures shall require the Bank to:

(a) Have, and retain for the term of an applicable loan, adequate flood insurance when making, increasing, extending, or renewing a designated loan secured by a building, mobile home, or personal property, as required by section 339.3(a) of the FDIC's Rules and Regulations, 12 C.F.R. § 339.3(a);

(b) Furnish a written notice, acknowledged by the borrower, to the borrower and to the servicer when making, increasing, extending, or renewing a loan secured by a building or mobile home whether or not flood insurance is available, as required by sections 339.9(a) and (d) of the FDIC's Rules and Regulations, 12 C.F.R. §§ 339.9(a) and (d); and

(c) Utilize the standard flood hazard determination form developed by the Director of the Federal Emergency Management System when determining whether the building or mobile home offered as collateral for a loan is or will be located in a special flood hazard area in which flood insurance is available, as required by section 339.6(a) of the FDIC's Rules and Regulations, 12 C.F.R. § 339.6.

7. Within 60 days from the effective date of this ORDER,

the Bank shall adopt and implement systems and controls to ensure compliance with the Home Mortgage Disclosure Act, 12 U.S.C. §§ 2801-2810, and Regulation C of the Board of Governors of the Federal Reserve System ("Regulation C"), 12 C.F.R. Part 203, with specific provisions to accurately collect and record required data on applications for, and originations, purchases, and refinancings of, home purchase and home improvement loans on a register in the format prescribed in Regulation C within 30 calendar days after the end of the quarter in which the final action is taken, as required by section 203.4(a) of Regulation C, 12 C.F.R. § 203.4(a).

8. (a) Within 30 days from the effective date of this ORDER, the Bank shall establish and shall thereafter maintain, through charges to current operating income, an adequate allowance for loan and lease losses ("ALLL").

(b) In determining the adequacy of the ALLL, the Bank's board of directors shall, at a minimum, review the following:

(i) The instructions contained in the Federal Financial Institutions Examination Council booklet entitled *Instructions-Consolidated Reports of Condition and Income*;

(ii) The volume and mix of the existing loan portfolio, including the volume and severity of nonperforming loans and adversely classified credits, as well as an analysis of net charge-offs experienced on previously adversely classified loans;

(iii) The extent to which loan renewals and extensions are used to maintain loans on a current basis and the degree of risk associated with such loans;

(iv) The trend in loan growth, including any rapid increase in loan volume within a relatively short time period;

(v) The general and local economic conditions affecting the collectibility of the Bank's loans;

(vi) The Bank's previous loan loss experience by loan type, including the trend of net charge-offs as a percent of average loans over the past three years;

(vii) The instructions contained in the *Revised Policy Statement on The Allowance For Loan and Lease Losses and Frequently Asked Questions*, FIL 105-2006;

(viii) The overall risk associated with each concentration of credit together with the degree of risk associated with each related individual borrower; and

(ix) Any other factors appropriate in determining future ALLL levels.

(c) Prior to the submission of any Consolidated Report of Condition and Income, the Bank's board of directors shall review the adequacy of the Bank's ALLL. The minutes of the board of directors meetings at which each review is undertaken shall indicate the results of the review, the basis for the amount of the ALLL, and the amount of any increase to the ALLL (if an increase is deemed warranted).

9. (a) Within 60 days of the effective date of this ORDER

and, and for so long thereafter as this ORDER is outstanding, the Bank shall achieve and maintain (i) a ratio of Tier 1 Capital to total assets ("Tier 1 Capital Ratio"), at least equal to or greater than, eight percent; (ii) a ratio of Tier 1 Capital to risk-weighted assets ("Tier 1 Risk-Based Capital Ratio") at least equal to or greater than 10.5 percent in accordance with Appendix A of Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A; and (iii) a ratio of qualifying total capital to risk-weighted assets ("Total Risk-Based Capital Ratio") at least equal to or greater than 11.5 percent in accordance with Appendix A of Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A.

(b) Any increase in Tier I Capital required by this ORDER may be accomplished by the following:

(i) The sale of new securities in the form of common stock; or

(ii) The direct contribution of cash by the directors, and/or shareholders of the Bank or the Bank's holding company; or

(iii) Any other method approved by the Regional Director and the Commissioner.

(c) If all or part of the increase in Tier 1 Capital required of this ORDER is accomplished by the sale of Bank securities, the Bank's board of directors shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the

implementation of the plan involve a public distribution of the Bank's securities, the Bank shall prepare 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 any other material disclosures necessary to comply with the 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 plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting & Securities Unit, 550 17th Street, N.W., Room F-6043, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or materials by the FDIC shall be made prior to their dissemination. If the Regional Director and the Commissioner allow any part of the increase in Tier 1 Capital to be provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to the interest rate and any convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(d) In complying with the provisions of this ORDER, and until such time as any such public offering is terminated, the Bank shall provide to any subscriber or purchaser of the Bank's 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 the securities. The written notice

required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber or purchaser of the Bank's securities who received or was tendered the information contained in the original offering materials.

(e) For purposes of this ORDER, the terms "Tier 1 Capital", "Tier 1 Risk-Based Capital", "Total Assets", and "Total Risk-Based Capital Ratio" shall have the meanings ascribed to them in Subsections (v), (w), (x), and (y) of Section 325.2 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2 (v), (w), (x), and (y). The capital calculations schedule in the February 12, 2007 Report of Examination ("Report of Examination") provides the methodology for determining the ratio of Tier 1 Capital to adjusted Part 325 total assets as required by this ORDER.

(f) In complying with the provisions of this ORDER, the Bank shall not lend funds, directly or indirectly, whether secured or unsecured, or by any other means whatsoever for the purchase of Bank or Bank holding company stock, or to any investor for any portion of any increase in the Bank's Tier 1 Capital required herein.

10. While this ORDER is in effect, the Bank shall not make any extensions of credit to the Bank's holding company without the prior written consent of the Regional Director and the Commissioner.

11. While this ORDER is in effect, the Bank shall not pay

any cash dividends that would result in a Tier 1 Capital Ratio of less than eight percent, without the prior written consent of the Regional Director and the Commissioner.

12. (a) Within 60 days from the effective date of this ORDER, and annually thereafter, the Bank's board of directors shall review the Bank's written loan policy and procedures for effectiveness and, based upon this review, shall make all necessary revisions to the policy in order to strengthen the Bank's lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion.

(b) At a minimum, revisions to the Bank's written loan policy required by this paragraph shall include provisions that:

(i) Set forth a specific methodology to be utilized when calculating the ALLL;

(ii) Require borrowers to submit updated financial statements on an annual basis during the life of their loans on all loans except for residential mortgages, home equity loans, car loans, and any other amortizing consumer loans;

(iii) Describe in detail the circumstances in which an environmental assessment of the collateral securing any loan is required;

(iv) Establish guidelines for timely recognition of loss through charge-off;

(v) Require that the Bank's analyses of borrowers' debt-to-income ratios for adjustable-rate mortgage



("ARM") products to subprime borrowers are at a fully-indexed rate;

(vi) Prohibit the Bank from qualifying borrowers for loans with low initial payments based on an introductory or discounted rate that expires after an initial period, without adequate analysis of the borrower's ability to repay the debt at the fully-indexed rate. The qualifying standards shall include an analysis of the borrower's ability to repay the debt at the fully-indexed rate, assuming a fully amortizing repayment schedule;

(vii) Require that when the Bank uses risk-layered features, such as reduced documentation loans or simultaneous second lien mortgages, the Bank shall demonstrate the existence of effective mitigating factors that support the underwriting decision and the borrower's repayment capacity;

(viii) Require that all communications with consumers, including advertisements, oral statements, and promotional materials, provide clear and balanced information about the relative benefits and risks of the products, and that such communications shall be provided in a timely manner to assist consumers in the product selection process, not just upon submission of an application or at the consummation of the loans;

(ix) Provide adequate oversight of established or new Broker arrangements to ensure compliance with all Consumer Laws, particularly fair lending regulations and Section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45(a), which prohibits unfair or deceptive acts or practices; and

(x) Establish a quality control program ("Quality Control Program"). At a minimum, the Quality Control Program shall:

(1) Establish an independent, quality control function for loans originated for sale in the secondary market to preclude the accumulation of loans with impaired marketability and reduce risks associated with repurchase agreements for loans sold in the secondary market;

(2) Ensure that all loans are originated, processed, underwritten, closed and serviced according to the Bank's and investors' standards;

(3) Provide that a minimum of 30 percent of closed retail and wholesale loans are reviewed within 30 days of closing;

(4) Establish procedures for identifying and correcting the causes for failed sales;

(5) Provide for the investigation of suspected fraudulent activity and issuing appropriate management reports;

(6) Develop management information systems which identify closed loans as either held-to-maturity or held-for-sale; segregate loans by product type and geographic region; identify the dollar amount and percentage of total loans for each type; monitor the volume of loan applications throughout the origination process including calculation of fallout rates for specific loan types; reflect the mortgage department's daily position including pipeline commitments, and forward sales

contracts; detail the volume of loans sold; volume of loans held-for-sale in excess of 90 days; and volume of loans repurchased from the secondary market; and

(7) Expand capital assessment to ascertain auxiliary capital levels required to offset the additional risks associated with the subprime lending program, including increased risk weights for those loans originated for sale but unsold for more than 90 days. The assessment shall be fully documented and include the Bank's methodology and analysis supporting the specific amount of capital needed. The assessment shall also include stress testing to estimate unexpected losses in the subprime lending program.

(c) The Bank shall submit the revised written loan policy to the Regional Director and the Commissioner for review and comment. After the Regional Director and the Commissioner respond to the policy, the Bank's board of directors shall adopt the policy as amended or modified by the Regional Director and the Commissioner. Thereafter, the Bank shall immediately initiate measures detailed in the policy to the extent such measures have not previously been initiated.

13. While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner, within two business days, if the Bank is contacted for secondary market mortgage repurchase requirements exceeding \$500,000, or when mortgage repurchase requirements accumulate or exceed \$1,000,000 within any calendar year.

14. (a) Within 90 days from the effective date of this

ORDER, the Bank shall develop and implement a Broker monitoring program and plan ("Monitoring Plan").

(b) The Monitoring Plan shall be in a form and manner acceptable to the Regional Director and the Commissioner. At a minimum, the Monitoring Plan shall provide for the following:

(i) A selection process that fully evaluates the integrity, character, and financial viability of a potential Broker;

(ii) A functional and validated due diligence process for entering and maintaining relationships with Brokers;

(iii) Establishment of criteria for Broker compensation designed to avoid providing incentives for originations inconsistent with sound underwriting and consumer protection principles;

(iv) Procedures and systems to monitor Broker compliance with applicable agreements, Bank policies, and applicable laws, rules, and regulations;

(v) Corrective actions in the event that a Broker fails to comply with applicable agreements, Bank policies or applicable laws, rules and regulations; and

(vi) Procedures and systems for determining which Brokers generate substantial putbacks, measured as a fraction of the Broker's loan volume, and for implementing appropriate corrective action by the Bank with respect to the Brokers.

15. Within 60 days from the effective date of this ORDER, the Bank shall evaluate all credit files for loans which have

been transferred from held-for-sale to held-for-investment in excess of \$100,000 since January 1, 2006, to determine and document reasons for nonconforming and/or unsaleable loans. The Bank's board of directors shall review this analysis and determine appropriate risk mitigation strategies relative to secondary market activities. A copy of this review shall be provided to the Regional Director and the Commissioner with the initial quarterly progress report required by paragraph 24 of this ORDER.

16. Within 60 days from the effective date of this ORDER, the Bank shall obtain an independent review of cost accounting practices in order to assist management in accurately evaluating the Bank's financial condition. A copy of the review shall be provided to the Regional Director and the Commissioner with the initial quarterly progress report required by paragraph 24 of this ORDER.

17. (a) Within 30 days from the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC as a result of the Report of Examination. The Bank shall not rebook such loans without the prior written consent of the Regional Director and the Commissioner. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 30 days from the effective date of this ORDER, the Bank shall submit a written plan ("Asset Plan") to the Regional Director and the Commissioner to reduce all the assets classified Doubtful and Substandard in the Report of Examination in excess of \$250,000. At a minimum, the Asset Plan shall provide the following:

(i) The name under which the asset is carried on the books of the Bank;

(ii) Type of asset;

(iii) Actions to be taken in order to reduce the classified asset;

(iv) Time frames for accomplishing the proposed actions;

(v) A review of the financial position of each classified borrower, including the source of repayment, repayment ability, and alternate repayment sources;

(vi) An evaluation of the available collateral for each classified asset, including possible actions to improve the Bank's collateral position;

(vii) A targeted, specific, reduction in the dollar amount of the adversely classified assets in the Report of Examination, for 90 days, 120 days and 365 days from the effective date of this ORDER; and

(viii) A monthly written progress report to the board of directors.

(c) After the Regional Director and the Commissioner respond to the Asset Plan, the Bank's board of directors shall

adopt the Asset Plan including any modifications or amendments requested by the Regional Director and the Commissioner.

Thereafter, the Bank shall immediately initiate measures detailed in the Asset Plan to the extent such measures have not previously been initiated.

(d) For purposes of the Asset Plan, the reduction of the level of adversely classified assets in the Report of Examination, to a specified percentage of Tier 1 capital plus the ALLL may be accomplished by:

- (i) Charge-off;
- (ii) Collection;
- (iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC; or
- (iv) Increase of Tier 1 Capital.

18. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional extension of credit to, or for the benefit of, any borrower whose loans with the Bank have been charged off or classified, in whole or in part, "Loss" or "Doubtful" in the Report of Examination, and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing any credit already extended to any borrower or from force-placing insurance in circumstances to protect the Bank's collateral position, after collection in cash of interest due from the borrower. The requirements of this paragraph shall also apply to any borrower whose extension of

credit is classified, in whole or in part, "Loss" or "Doubtful" in subsequent regulatory examination reports or visitations.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional extensions of credit to or for the benefit of any borrower whose loans are adversely classified "Substandard" in the Report of Examination, without prior approval by the Bank's board of directors, after the board's affirmative determination as reflected in the minutes of the meeting, that the extension of credit is in compliance with the Bank's loan policy; that the extension of credit is necessary to protect the Bank's interest; is adequately secured; that a credit analysis has determined the borrower to be creditworthy; and that all necessary loan documentation is on file, including current financial and cash flow information, satisfactory appraisal, title and lien documents.

(c) The requirements of paragraph (b) shall not prohibit the Bank from renewing, after collection in cash of interest and fees due from the borrowers, any credit already extended to any borrower or from force-placing insurance in circumstances to protect the Bank's collateral position. The requirements of this paragraph shall also apply to any borrower whose extension of credit is classified, in whole or in part, "Substandard" in subsequent regulatory examination reports or visitations.

(d) While this ORDER is in effect, the Bank shall not renew any loan without the full collection in cash of interest due. The issuance of separate notes to the borrower or a third



party, the proceeds of which pay interest due, shall not satisfy the requirements of this paragraph unless these separate notes receive prior written approval by the board of directors.

(e) As used in this paragraph, the term "further extensions of credit" shall include renewals, extensions, and a further advancement of funds.

19. (a) Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of laws and regulations identified in the Report of Examination and ensure that the Bank's new procedures will result in future compliance with all applicable laws and regulations.

(b) Within 60 days from the effective date of this ORDER, the Bank shall eliminate any contraventions of policy noted in the Report of Examination.

20. (a) By February 15, 2008, the Bank shall develop and submit to the Regional Director and the Commissioner for review and comment a written profit plan ("Profit Plan") and a realistic, comprehensive budget ("Budget") for all categories of income and expenses for the calendar year 2008; thereafter a Profit Plan and a Budget shall be submitted, no later than February 15th for each calendar year that this ORDER remains in effect. The Profit Plan(s) required by this paragraph shall contain formal goals and strategies; be consistent with sound banking practices; reduce discretionary expenses; improve the Bank's overall earnings (net interest income); and contain a

description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 30 days from the end of each calendar quarter following completion of the Profit Plan(s) and Budget(s) required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the Profit 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.

21. (a) By February 15, 2008, the Bank shall submit a revised strategic plan ("Strategic Plan") to the Regional Director and the Commissioner covering a three year forward-looking period addressing, at a minimum, the board of directors' goals and guidance for the operation of the Bank as well as the examiners' comments and recommendations as delineated in the Examination Comments and Conclusions section of the Report of Examination. Incorporated within the revised Strategic Plan should be an earnings plan and a capital maintenance plan covering the three-year forward-looking period. The Strategic Plan should also incorporate the Budget that the Bank prepares as part of its Profit Plan required by paragraph 20 of this ORDER.

(b) The Strategic Plan and/or separate components of the Strategic Plan shall also establish policies and procedures for achieving balanced risk tolerance and policies and procedures to, among other things, mitigate the risk of the Bank's mortgage loan origination activities.

(c) The capital maintenance plan shall address how the Bank will maintain sufficient capital, as required by paragraph 9 of the ORDER, for at least a three year, forward-looking period.

(d) The revised Strategic Plan shall be submitted to the Regional Director and the Commissioner for review and comment. After the Regional Director and the Commissioner respond to the Strategic Plan, the Bank's board of directors shall adopt the Strategic Plan including any modifications or amendments requested by the Regional Director and the Commissioner. Thereafter, the Bank shall immediately initiate measures detailed in the Strategic Plan to the extent such measures have not previously been initiated.

22. (a) While this ORDER is in effect, the Bank shall not enter into any new lines of business without submitting to the Regional Director and the Commissioner a business strategy plan ("Business Strategy Plan") for the proposed new line of business.

The Business Strategy Plan shall describe the manner in which the new line of business compliments the Bank's established business lines or is part of a new business strategy adopted by the Bank's board of directors.

(b) At a minimum, the Business Strategy Plan shall contain:

(i) a time line setting out the Bank's projected milestones for establishing the new business line;

(ii) a pro forma projection detailing the Bank's anticipated direct and indirect costs, funding sources for those costs, and the returns; and

(iii) an assessment of the credit, operational, liquidity, market, compliance, reputational, and any other risks associated with the proposed activity.

(c) The Business Strategy Plan shall be submitted to the Regional Director and the Commissioner for review and comment. After the Regional Director and the Commissioner respond to the Business Strategy Plan, the Bank's board of directors shall adopt the Business Strategy Plan including any modifications or amendments requested by the Regional Director and the Commissioner. Thereafter, the Bank shall immediately initiate measures detailed in the Business Strategy Plan to the extent such measures have not previously been initiated.

23. Within 30 days from the effective date of this ORDER, the Bank's board of directors shall establish a committee of the board of directors with the responsibility to ensure that the Bank complies with the provisions of this ORDER. At least a majority of the members of the committee shall be independent, outside directors as defined in paragraph 1(c) of this ORDER. The committee shall report monthly to the entire board of directors, and a copy of the monthly report and any discussion relating to the monthly report or this ORDER shall be included in the minutes of the Bank's board of directors' meetings. Nothing contained herein shall diminish the responsibility of the entire board of directors to ensure compliance with the provisions of this ORDER.

24. Within 45 days from the end of the first calendar quarter following the effective date of this ORDER, and within 30

days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. The 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 additional reports.

25. 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 & Securities Unit, 550 17th Street, N.W., Room F-6043, 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.

26. This ORDER shall become effective ten (10) calendar days after its issuance by the FDIC. This ORDER shall be binding upon the Bank, its successors and assigns, and all institution-affiliated parties of the Bank. The provisions of this ORDER shall remain effective and enforceable except to the extent that,

and until such time as, any provision of this ORDER shall have been modified, terminated, superseded, or set aside by the FDIC.

Pursuant to delegated authority.

Dated: 10-10, 2007.

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M. Anthony Lowe  
Acting Regional Director  
Dallas Region  
Division of Supervision and  
Consumer Protection  
Federal Deposit Insurance Corporation