

{{5-31-04 p.C-5081}}

[¶11,773] **In The Matter of PBK Bank, Inc., Richmond, Kentucky**, Docket No. 01-007b (3-22-01).

A cease and desist order was issued, based on findings by the FDIC that it had reason to believe that respondent had engaged in unsafe and unsound practices.

(This order was terminated by order of the FDIC dated 3-15-04; see ¶16,374.)

[.1] **Management—Qualifications Specified**

[.2] **Capital—Increase Required**

[.3] **Loan Loss Reserve—Establishment of or Increase Required**

[.4] **Profit Plan—Preparation of Plan Required**

[.5] **Ethics—Written Policy Required**

[.6] **Loans—Risk Position—Reduction of Adversely Classified Lines of Credit Required**

[.7] **Loans—Extensions of Credit—To Borrowers with Existing Adversely Classified Credits**

[.8] **Loan Policy—Preparation or Revision of Policy Required**

[.9] **Loans—Internal Review Procedure**

[.10] **Real Estate Activities—Other Real Estate (ORE), Management Policy Required**

[.11] **Violations of Laws—Correction of Violations Required**

[.12] **Funds Management and Liquidity—Preparation or Revision of Funds Management Policy Required**

[.13] **Dividends—Dividends Restricted**

**In the Matter of
PBK BANK, INC.
RICHMOND, KENTUCKY
Insured State Nonmember Bank
ORDER TO CEASE AND DESIST
FDIC-01-007b**

PBK Bank, Inc., Richmond, Kentucky (the "Bank"), 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 regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. §1818(b)(1), 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 March 22, 2001, 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 committed violations of law and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED that the Bank, its directors, officers, employees, agents, and other institution-affiliated parties (as that term [{{5-31-04 p.C-5082}}](#)

is defined in Section 3(u) of the Act, 12 U.S.C. §1813(u)), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations:

- (a) Engaging in hazardous lending and lax collection practices;
- (b) Operating with less than satisfactory capital in relation to the kind and quality of assets held by the Bank;
- (c) Operating with a large volume of poor quality loans;
- (d) Operating with an inadequate loan valuation reserve;
- (e) Operating with inadequate provisions for liquidity;
- (f) Operating in such a manner as to produce low earnings;
- (g) Operating in violation of 12 C.F.R. Part 323, 12 C.F.R. §323.3(b) and 4(a); 12 C.F.R. Part 337, 12 C.F.R. §337.2(d); Section 23A and 23B of the Federal Reserve Act, 12 U.S.C. §371c, made applicable to state nonmember banks by section 18(j)(1) of the Act, 12 U.S.C. §1828(j)(1); Section 215.4(e)(2)(ii) and 215.5(d)(3) of the Board of Governors of the Federal Reserve System Regulation O, 12 C.F.R. §§ 215.4(e)(2)(ii) and 215.5(d)(3), made applicable to state nonmember banks by section 18(j)(2) of the Act, 12 U.S.C. §1828(j)(2); 12 C.F.R. Part 365, 12 C.F.R. §365; and §§ 287.280(1), 287.280(3) and 287.100(1)(b), Kentucky Revised Statutes.
- (h) Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits; and
- (i) Operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank.

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

[.1]1. (a) During the life of this ORDER, the Bank shall have management qualified to restore the Bank to a sound condition. Such management shall include a chief executive officer and an experienced senior lending officer responsible for supervising the Bank's overall lending function.

(b) Present management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Improve and thereafter maintain the Bank in a safe and sound condition, including asset quality, capital adequacy, liquidity adequacy, and earnings adequacy;
- (iii) Comply with all applicable State and Federal laws, regulations; and FDIC and Federal Financial Institutions Examination Council policy statements;
- (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 Memphis Regional Office ("Regional Director") and the Commissioner of Financial Institutions for the Commonwealth of Kentucky ("Commissioner") in writing of any resignations and/or terminations of any members of its board of directors and/or any of its senior executive officer(s) within 15 days of the event.

(d) Bank shall comply with section 32 of the Act, 12 U.S.C. §1831i.

(e) (i) To ensure both compliance with this ORDER and qualified management for the Bank, the board

of directors, within 60 days from the effective date of this ORDER shall develop a written policy ("Management Policy") which shall incorporate an analysis of the Bank's management and staffing requirements and shall, at a minimum address (1) both the number and type of positions needed to properly manage the Bank, (2) a clear and concise description of the needed experience and pay for each job, (3) an evaluation of present management, (4) a plan to recruit, hire or replace personnel with requisite ability and experience, (5) a periodic evaluation of each individual's job performance, and (6) the establishment of procedures to periodically review and update the Management Policy.

(ii) The Management Policy and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the board of directors shall approve the Management Policy which approval shall be recorded in the minutes of the meeting of the [{{5-31-01 p.C-5083}}](#)

board of directors. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Policy and any modifications thereto.

(f) Within 30 days from the effective date of this ORDER, the 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 two-thirds of the members of such committee shall be independent, outside directors as defined herein. The committee shall report monthly to the entire board of directors, and a copy of the report and any discussion relating to the report or the ORDER shall be included in the minutes of the board of directors. Nothing contained herein shall diminish the responsibility of the entire board of directors to ensure compliance with the provisions of this ORDER.

(g) For the purposes of this ORDER, an "outside director" shall be an individual:

(i) Who shall not be employed, in any capacity, by the Bank or its affiliates other than as a director of the Bank or an affiliate;

(ii) Who shall not own or control more than ten (10%) percent of the voting stock of the Bank or its holding company;

(iii) Who shall not be indebted to the Bank or any of its affiliates in an amount greater than five (5%) percent of the Bank's equity capital and reserves;

(iv) Who shall not be related to any directors, principal shareholders of the Bank or affiliates of the Bank; and

(v) Who shall be a resident of, or engage in business in, the Bank's trade area.

(h) Within twelve months from the effective date of this ORDER, each member of the board of directors shall attend at least eight (8) hours of training relating to the duties and responsibilities of bank directors. This training shall be conducted by a recognized organization of bankers or sponsored and approved by such an organization.

[.2]2. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall have Tier I capital equal to or greater than seven and one half percent (7 1/2%) percent of the Bank's adjusted Part 325 total assets. Thereafter, during the life of this ORDER, the Bank shall maintain Tier I capital equal to or greater than seven and one half percent (7 1/2%) percent of the Bank's adjusted Part 325 total assets.

(b) Any increase in Tier I capital necessary to meet the ratio required by Paragraph 2(a) of 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, shareholders, or parent Bank holding company of the Bank; or

(iii) Any other method acceptable to the FDIC.

(c) If all or part of the increase in Tier I capital required by Paragraph 2(a) of this ORDER is accomplished by the sale of new 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 (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the Bank's financial condition 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, Registration and Disclosure Unit, 550 17th Street, N.W., Room F-250, 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 allows any part of the increase in Tier I 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 for prior approval.

(d) In complying with the provisions of Paragraph (2) of this ORDER, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other
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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 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(e) For purposes of this ORDER the terms "Tier I capital", and "Part 325 total assets" shall have the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, respectively subsections 325.2(t), and 325.2(v), 12 C.F.R. §§ 325.2(t) and (v). The Capital Calculations schedule on page 85 of the Report of Examination provides the method for determining the ratio of Tier I capital to adjusted Part 325 total assets as required by this ORDER.

(f) The Bank shall not lend funds directly or indirectly, whether secured or unsecured, to any purchaser of Bank stock or to any investor by any other means for any portion of any increase in Tier I capital required herein.

[.3]3. (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 valuation reserve for loan and lease losses. In determining the adequacy of the valuation reserve for loan and lease losses, the board of directors of the Bank shall at a minimum consider the following:

(i) Prevailing 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) General and local economic conditions affecting the collectibility of the Bank's loans;

(vi) Previous loan loss experience by loan type, including the trend of net charge-offs as a percent of average loans over the past several years;

(vii) Off balance sheet credit risks;

(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 valuation reserves.

(b) Prior to the submission of any Report of Condition or Report of Income, the board of directors of the Bank shall review the adequacy of the Bank's valuation reserve for loan and lease losses and make such charges as are necessary to current operating income to provide an adequate loan valuation reserve. The minutes of the board meetings at which each review is undertaken shall indicate the results of the review, the amount of any increase to the reserve, and the basis for the amount of the valuation reserve.

(c) Notwithstanding the provisions of Paragraph 3(a) and 3(b) above, the Bank shall achieve, within 30 days of the effective date of this ORDER, a valuation reserve for loan and lease losses, after charge off of loans classified "Loss" as required in Paragraph 6 below, of not less than \$2,285,000, and shall thereafter maintain, through charges to current operating income, an adequate valuation reserve for loan and lease losses.

(d) In the event that the Regional Director and/or the Commissioner determine, at subsequent examinations and/or visitations, that the Bank's valuation reserve for loan and lease losses is inadequate, the Bank shall amend its Consolidated Reports of Condition and Income.

[.4]4. (a) Within 60 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 a written profit plan consisting of goals and strategies for improving the earnings of the Bank for each calendar year. The written profit plan shall include, at a minimum:

- (1) Identification of the major areas in, and means by, which the board of directors will seek to improve the Bank's operating performance;
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- (2) Guidelines that specify the sources and uses of Bank deposits and other funds;
- (3) Describe the acceptable types and amounts of assets that the Bank will acquire;
- (4) Guidelines for growth that ensure the maintenance of acceptable capital ratios in accordance with the capital adequacy guidelines contained in Paragraph 2 of this ORDER;
- (5) Realistic and comprehensive budgets;
- (6) Budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections on not less than a quarterly basis; and
- (7) Describe the operating assumptions that form the basis for, and adequately support, major projected income and expense components; loan growth within capital and liquidity parameters established through the Bank's annual budget; and any approved written capital plan pursuant to Paragraph 2(c) of this ORDER.

(b) Within 60 days from the effective date of this ORDER, the Bank shall formulate and implement a long range planning process. At a minimum, the Bank shall formulate a written strategic plan which includes long range goals and objectives, steps for achieving these goals and objectives, competitive factors of new markets, and periodic monitoring of performance to allow for both the actual results and the making of necessary revisions.

(c) Both the profit plan and the long term strategic plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. No more than 30 days after the receipt of any comment from the Regional Director and/or the Commissioner, the board of directors shall approve the written profit plan and the written strategic plan, which approval shall be recorded in the minutes of the board of directors. Thereafter, the Bank, its directors, officers, and employees shall follow the profit plan, the strategic plan, and/or any subsequent modification.

[.5]5. Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written ethics policy and procedures with regard to the ethical conduct and other standards of conduct and responsibilities for its directors, officers, employees, agents and other persons participating in the conduct of the affairs of the Bank. ("Ethics Policy") At a minimum, the Ethics Policy shall address the financial interests and obligations of individuals that appear to conflict with that

individual's duties and responsibilities such as participating in any manner in any transaction or loan in which the individual, his spouse, child, partner, or organization is involved, or in which the individual serves as an officer, director, trustee, partner, or employee.

[.6]6. Within 10 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" as of October 23, 2000, that have not been previously collected or charged-off. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and approval a written plan of action directed at lessening the Bank's risk position in each line of credit or other asset which was classified "Substandard" as of October 23, 2000, and which aggregated \$150,000.00 or more. Such plan shall include but not be limited to, the following:

(i) Target dollar levels to which the Bank will reduce each line of credit or other asset within three months, six months, and twelve months from the effective date of this ORDER; and

(ii) Provisions for the submission of monthly written progress reports under this Paragraph 6 to the Bank's board of directors for review and recordation in the board minutes.

(b) Within 90 days of the effective date of this ORDER, the Bank shall sufficiently reduce or otherwise improve assets subject to Special Mention as of October 23, 2000, to warrant removal from the Special Mention category. Specifically, where appropriate, the Bank shall correct any technical exceptions for these loans and obtain current financial information for the loans.

(c) As used in Paragraph 6 the word "reduce" means (1) to collect, (2) to charge off, or (3) to sufficiently improve the quality of
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assets adversely classified to warrant removing any adverse classification, as determined by the FDIC.

[.7]7. (a) Beginning with 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 has a loan or other extension of credit with the Bank that has been charged off or classified, in whole or in part "Loss" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after collection in cash of interest due from the borrower) any credit already extended to any borrower.

(b) Beginning with the effective date of this ORDER, the Bank shall not make any further extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified "Substandard" as of October 23, 2000, 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 full compliance with the Bank's loan policy, that the extension of credit is necessary to protect the Bank's interest or is adequately secured, that credit analysis has determined the customer to be credit worthy, and that all necessary loan documentation is on file, including current financial and cash flow information and satisfactory appraisal, title and lien documents.

(c) This paragraph shall not prohibit the Bank from extending funds pursuant to a valid pre-existing loan commitment or unfunded letter of credit to any borrower whose other loans are adversely classified as of October 23, 2000, provided all necessary loan documentation is on file for such borrower including current financial and cash flow information and satisfactory appraisal, title and lien documents.

(d) If any borrower whose loans are adversely classified as of October 23, 2000, has a pre-existing loan commitment or unfunded letter of credit with the Bank, and such commitment or letter of credit expires, it shall not be renewed or extended unless the Bank complies with the provisions of Paragraph 7(a) or (b), respectively, as appropriate.

[.8]8. (a) Within 90 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. Proper and adequate loan documentation as is required by sound banking practices before disbursement of the loan proceeds to borrowers or before renewal or extensions of existing loans shall be part of the review. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policies and their implementation shall be in

a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Within 90 days from the effective date of this ORDER, the board of directors shall develop a written plan for the making of real estate construction loans, consisting of goals and strategies for minimizing the inherent risks of this type of lending by controlling disbursements and collateral margins and assuring timely completion of the projects and timely repayment of the Bank's loans. The written real estate construction loan plan shall include, at a minimum:

(i) Guidelines to ensure that the Bank investigates the character, expertise and financial standing of any person (and any related parties) seeking a real estate construction loan from the Bank;

(ii) Maintenance of documentation files including background information concerning the reputation, work and credit experience for the developers or contractors, and also obtaining draw inspection reports, lot releases, appraisals, and insurance policies;

(iii) Require that before entering into any real estate construction financing agreements, the Bank, builder and property owner shall enter into a written building loan agreement that specifies the performance of each party during the entire course of construction and is backed by a purchase or takeout agreement from a financially responsible permanent lender;

(iv) Guidelines for the disbursement of loan funds appropriate to the type of project financed, including procedures to ensure that all funds advanced are used properly to complete construction or development of the property serving as collateral; and

(v) Ensure that the Bank has retained sufficiently trained personnel to monitor real estate construction loans before it extends any such loans.

(c) Evidence of the review and establish-
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ment of procedures to ensure compliance with the loan policy shall be reduced to writing. The policy and its implementation shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(d) Beginning with the effective date of this ORDER, the Bank shall initiate and implement a program to strengthen its credit files and correct the technical exceptions as detailed on page 78-82 of the Report of Examination. In all future operations, the Bank shall ascertain that all documents or evidence thereof, properly completed, have been obtained before credit is extended.

(e) Within 180 days from the effective date of this ORDER, the Bank shall submit a written proposal, for review and comment, to the Regional Director and the Commissioner for reducing and monitoring the Bank's concentration in real estate construction lending (the "concentration plan") as of October 23, 2000, to an amount which shall be less than one hundred (100%) percent of the Bank's Tier I capital. In addition, the concentration plan will provide procedures for monitoring the Bank's compliance with the plan and provide for written reports to the board of directors regarding such compliance at least quarterly, and copies of such reports, shall be made part of the minutes of the board of directors. No more than 30 days after the receipt of any comment from the Regional Director and/or the Commissioner, the board of directors shall approve the concentration plan, which approval shall be recorded in the minutes of the board of directors. Thereafter, the Bank, its directors, officers, and employees shall follow the plan and/or any subsequent modification.

[.9]9. (a) Within 30 days of the effective date of this ORDER, the board shall establish an internal loan review and grading system ("System") to periodically review the Bank's loan portfolio and identify and categorize problem credits, assets, or letters of credit. At a minimum the System shall provide for:

(i) The identification of the overall quality of the loan portfolio;

(ii) The identification and amount of each delinquent asset;

(iii) An identification or grouping of loans that warrant the special attention of management;

(iv) For each loan identified, a statement of the amount, and an indication of the degree of risk

that the loan will not be fully repaid according to its terms and the reason(s) why the particular loan merits special attention;

(v) An identification of credit and collateral documentation exceptions;

(vi) An identification and status of each violation of law, rule, or regulation;

(vii) An identification of assets not in conformance with the Bank's policies, and exceptions to the Bank's lending policy;

(viii) An identification of insider loan transactions; and

(ix) A mechanism for reporting periodically, no less than quarterly, to the board of directors on the status of each asset identified and the action(s) taken by management.

(b) A copy of the reports submitted to the board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be kept with the minutes of the board of directors.

(c) Within 90 days from the effective date of this ORDER the Bank's board of directors shall establish and appoint a loan committee to review and approve in advance all extensions of credit, and/or renewals that when aggregated with all other extensions of credit (including unfunded loan commitments and unfunded letters of credit) to the borrower, either, directly or indirectly, exceed or would exceed \$150,000. At least two-thirds of the members of the loan committee shall be outside directors. The review should include financial, income, and cash flow information, collateral values and lien information, repayment terms, past performance by the borrower, the purpose of the extension, and whether the extension complies with the Bank's loan policy and applicable laws, rules and regulations. The loan committee shall maintain written minutes which detail the information reviewed by the loan committee, its conclusions, approvals, denials, recommendations, and reasons for the approval of any credit which does not fully comply with the review requirements set forth in this paragraph. At least
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monthly the loan committee shall submit its written minutes to the board of directors.

[.10]10. (a) Within 90 days from the effective date of this ORDER, the board of directors shall develop a plan for managing the Other Real Estate ("ORE") of the Bank. The written ORE plan shall include, at a minimum:

(i) A quarterly review of the ORE portfolio by an ORE committee to be appointed by the Bank;

(ii) Realistic and comprehensive budgets for each piece of ORE, including projections of the Bank's cost of marketing the ORE, and the Bank's costs of carrying the ORE on its books (e.g., upkeep, repairs and insurance costs);

(iii) A determination by the ORE committee for each piece of ORE that the property is listed with a real estate broker or otherwise made widely available for sale in an appropriate manner, and that the proposed selling price is realistic;

(iv) Guidelines to ensure that periodic appraisals are obtained for the ORE and that progress reports are obtained from all real estate brokers marketing the ORE, including a projected sales time frame for each piece of ORE;

(v) Guidelines to ensure that all taxes and insurance premiums are timely paid for all ORE;

(vi) An identification of any ORE that warrants the special attention of management;

(vii) An identification of documentation exceptions on any ORE; and

(viii) An identification of all ORE not in conformance with the Bank's policies, and exceptions to the Bank's ORE policy;

(b) Reports from the ORE committee shall be submitted to the board of directors on at least a quarterly basis and a copy of such reports, as well as documentation of the action taken by the Bank to facilitate the timely sale of ORE, shall be made part of the minutes of the board of directors.

[.11]11. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law or regulation as well as all contraventions of FDIC policy, which are set out on page 39-45 of the Report of Examination of the Bank as of October 23, 2000. In addition, the Bank shall henceforth comply with all applicable laws and regulations.

[.12]12. Within 60 days from the effective date of this ORDER, the Bank shall formulate and adopt a written liquidity and funds management policy. Such policy shall include the establishment of acceptable ranges of ratios in the following areas: volatile liability dependence, total loans to total deposits and temporary investments to volatile liabilities. In addition, the liquidity policy shall incorporate a funds management program which designates acceptable levels for: volatile liabilities, including borrowings; lines of credit, including, loan commitments and letters of credit; asset mix, including temporary funds and investments, long-term investment securities and classes of obligors, and loans to deposits; and rate-sensitive assets as a percent of rate-sensitive liabilities. The written liquidity and funds management policy shall be submitted to the Regional Director and the Commissioner for review and comment.

[.13]13. The Bank shall not pay cash dividends in any amount except as follows:

(a) Such declarations and payments are made in accordance with applicable State and Federal laws and regulations;

(b) That after payment of such dividends, the ratio of Tier I capital to adjusted Part 325 total assets of the Bank will be not less than seven and one-half (7 1/2) percent;

(c) That after payment of such dividends, the Bank's net earnings remain positive for the current year;

(d) That such declaration and payment of dividends shall be approved in advance by the board of directors of the Bank;

(e) That such declaration and payment of dividends shall be approved in advance, in writing, by the Regional Director and the Commissioner.

14. On the fifteenth day of the second month following the effective date of this ORDER, and on the fifteenth day of every third month thereafter, 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. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has released the Bank in writing from making further reports.

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15. This ORDER shall become effective 10 days from the date of its issuance.

16. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated: March 22, 2001.