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{{3-31-01 p.C-4882}}

[¶11,694**] In the Matter of Security State Bank Of Wewoka, Oklahoma, Wewoka, Oklahoma,** Docket No. 99-136b, OSBD-99-C&D-5 (2-2-00)

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 has been terminated by order of the FDIC dated 1-17-01; see ¶16,273.*)

[.1] Management—Comprehensive Review Required
[.2] Assets—Adversely Classified Assets—Reduction Required
[.3] Loan Loss Reserve—Establishment of or Increase Required
[.4] Loans—Extensions of Credit—To Borrowers with Existing Adversely Classified Credits
[.5] Loan Review Committee—Establish
[.6] Technical Exceptions—Correction of Technical Exceptions Required
[.7] Loan Policy—Preparation or Revision of Policy Required
[.8] Concentration of Credit—Reduce
[.9] Asset/Liability Management—Form Monitoring Committee (ALCO)
[.10] Assets—Tier 1 Capital
[.11] Dividends—Dividends Restricted
[.12] Violations of Law—Correction of Violations Required
[.13] Board of Directors—Committee to Review Compliance with Cease and Desist Order Required
[.14] Shareholders—Disclosure of Cease and Desist Order Required

In the Matter of

SECURITY STATE BANK
OF WEWOKA, OKLAHOMA
WEWOKA, OKLAHOMA
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST
FDIC-99-136b
OSBD-99-C&D-5

The Security State Bank of Wewoka, Oklahoma, Wewoka, Oklahoma ("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 section 204(B) of the Oklahoma Banking Code (the "Code"), 6 O.S. § 204(B), and the provisions of the Oklahoma Administrative Procedures Act (75 O.S. Section 250 et seq.), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST {{4-30-00 p.C-4883}} ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and the Banking Commissioner of the State of Oklahoma ("Commissioner") dated February 2, 2000, 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 and the Commissioner. The FDIC and the Commissioner considered the matter and determined that it had reason to believe that the Bank had not engaged in unsafe or unsound banking practices and had violated a law and/or regulation. The FDIC and the Commissioner, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS ORDERED, that the Bank and institution-affiliated parties of the Bank cease and desist from the following unsafe or unsound banking practices and violations of law and/or regulation:

(1) Operating the Bank with management whose policies and practices are detrimental to the

Bank and jeopardize the safety of its deposits;

(2) Operating the Bank without adequate supervision and direction by the board of directors over the management of the Bank;

(3) Operating the Bank with adequate management succession;

(4) Operating the Bank with an excessive level of adversely classified assets;

(5) Engaging in hazardous lending and ineffective and lax collection practices;

(6) Failing to provide an adequate allowance for loan and lease losses;

(7) Operating the Bank with adequate written loan policies and procedures;

(8) Operating the Bank in contravention of written loan policies and procedures;

(9) Renewing or extending credit without adequate and appropriate supporting documentation;

(10) Creating concentrations of credit as more fully set forth on page 42 of the Report of Examination of the Bank as of June 21, 1999;

(11) Failing to accurately reflect the condition of the Bank in published statements and Consolidated Reports of Condition and Income;

(12) Operating the Bank without proper regard for funds management;

(13) Operating the Bank with inadequate earnings to fund growth, support dividend payments, and augment capital; and

(14) Operating the Bank in violation of an applicable State law and regulation and contravention of FDIC's Statements of Policy as more fully set forth on pages 25–27 of the Report of Examination of the Bank as of June 21, 1999.

IT IS FURTHER ORDERED, that the Bank take affirmative action as follows:

[.1**]** 1. Within 60 days after the effective date of this Order, the Bank shall review the performance of current Bank management and the accuracy of Bank position responsibilities as well as overall staffing requirements, and develop a written plan to improve management. The review shall be conducted and the plan developed by an independent committee of the board of directors or an outside consultant reporting to the board of directors. A majority of the committee shall consist of directors not officers of the Bank or family members of officers of the Bank. The plan may include the addition, dismissal, or reassignment of Bank officers and staff. In addition, the Bank shall provide for a plan of management succession, thus ensuring the continuity of a satisfactory management team. The plan shall be submitted to the Regional Director of the FDIC's Dallas Regional Office ("Regional Director") and the Commissioner for review and comment. The Bank shall then immediately initiate actions to have and retain adequate and qualified staff. Each member shall posses qualifications and experience commensurate with his or her duties and responsibilities at the bank. The qualifications of the Bank loan officers shall further include an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loans. The qualifications of management personnel shall also be evaluated on their ability to:

(1) comply with the requirements of the ORDER;

(2) operate the Bank in a safe and sound manner;

(3) comply with applicable laws and regulations; and

(4) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, and liquidity. During the life of the ORDER, the Bank shall notify the Regional Director and 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 prior to the individual(s) assuming the new position(s). In addition, the Bank shall provide for a plan of management succession, thus ensuring the continuity of a satisfactory management team.

[.2**]** 2. (a) Upon 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 and one-half of the assets classified Doubtful as a result of the examination of the Bank commencing on June 21, 1999. 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 60 days after the effective date of this ORDER, the Bank shall submit a written plan to the Regional Director and Commissioner to reduce the remaining assets classified Substandard and Doubtful as of June 21, 1999. The plan shall address each asset so classified with a balance of $100,000 or greater and 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; and
(iv) Time frames for accomplishing the proposed actions.

(c) The Bank shall present the plan to the Regional Director and Commissioner for review. Within 30 days after the response, the plan, including any modifications or amendments requested by the Regional Director and Commissioner, shall be adopted by the board of directors of the Bank. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of the level of adversely classified assets as of June 21, 1999, to a specified percentage of total equity capital and reserves 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 the Oklahoma Department of Banking; or
(iv) Increase of total equity capital and reserves.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any examination conducted by the FDIC or Oklahoma Department of Banking at such time as the report of examination is received by the Bank.

[.3**]** 3. (a) Within 10 days after the effective date of this ORDER, the Bank shall establish and thereafter maintain an adequate allowance for loan and lease losses. Such allowance shall be funded by charges to current operating income. Prior to the end of each calendar quarter, the board of directors of the Bank shall review the adequacy of the Bank's allowance for loan and lease losses. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. The minutes of the board of directors' meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the allowance for loan and lease losses.

(b) Within 30 days after the effective date of this ORDER, the Bank shall review its Consolidated Reports of Condition and Income filed with the FDIC on or after March 31, 1999, and amend said reports if necessary to properly reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain an adequate allowance for loan and lease losses. Reports filed after the effective date of this ORDER shall also accurately reflect {{4-30-00 p.C-4885}} the financial condition of the Bank as of the reporting date.

[.4**]** 4. (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 an extension of credit with the Bank that has been classified Loss, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) 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 whose extension of credit is classified Doubtful and/or Substandard, either in whole or in part, and is uncollected, unless the Bank's board of directors has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable board of directors meeting.

[.5**]** 5. Within 60 days after the effective date of this ORDER, the board of directors shall establish a loan review committee to periodically review the Bank's loan portfolio and identify and categorize problem credits. The committee shall file a report with the board of directors at each board of directors' meeting. This report shall include the following information:

(a) The overall quality of the loan portfolio;
(b) The identification, by type and amount, of each problem or delinquent loan;
(c) The identification of all loans not in conformance with the Bank's lending policy; and
(d) The identification of all loans to officers, directors, principal shareholders or their related interests.

[.6**]** 6. Within 90 days after the effective date of this ORDER, the Bank, to the best of its ability using reasonable effort, shall eliminate and/or correct all technical exceptions with regard to loan documentation existing in the Bank as of June 21, 1999, as more fully set out on pages 39-41 of the June 21, 1999 Report of Examination.

[.7**]** 7. Within 60 days after the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies and procedures to provide effective guidance and control over the Bank's lending function. 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 shall include, at a minimum, the following:

(a) Procedures designed to ensure an independent loan review for risk, compliance, and documentation exceptions;
(b) Collateral inspection and valuation guidelines including frequency and valuation methodology;
(c) Funding procedures which preclude the disbursement of funds without requisite documentation;
(d) Guidelines and procedures under which loans are renewed or have their due dates extended:
(i) without full collection of interest thereon;
(ii) by acceptance of separate notes in payment of interest; or
(iii) by capitalization of interest to the balance of the note;
(e) A provision that deviations from the written lending policies and procedures require prior approval of the board of directors;
(f) A provision that establishes the lending limit of each loan officer commensurate with his or her level of experience;
(g) A requirement that all loans in excess of $100,000 shall be reviewed and receive the prior approval of the Board of Directors;
(h) Guidelines setting limitations on concentrations of credit;
(i) Standard under which unsecured loans may be granted;
(j) Documentation requirements on all secured loans;
(k) A requirement that all loans shall have a written repayment plan; and,
(l) Specific guidelines addressing sub-prime lending in accordance with estab- {{4-30-00 p.C-4886}}lished regulatory guidelines outlined in Financial Institution Letters (FIL) titled Subprime Lending, FIL-44-97, May 2, 1997, and Guidance on Subprime Lending, FIL-20-99, March 4, 1999.

[.8**]** 8. Within 90 days after the effective date of this ORDER, the Bank shall adopt and implement a plan to reduce the concentration of credit as reported on page 42 of the Report of Examination dated June 21, 1999. The bank shall submit the plan to the Regional Director and the Commissioner for approval.

[.9**]** 9. Within 60 days after the effective date of this ORDER, the Bank shall appoint members to an active Asset/Liability Committee (ALCO). The ALCO shall take an active role in monitoring the funds management of the bank and report monthly to the Board of Directors concerning the Bank's status.

[.10**]** 10. (a) Following the effective date of this ORDER, and for so long thereafter as this ORDER is outstanding, the Bank shall maintain adjusted Tier 1 capital equal to or greater than 7 percent of its adjusted total assets after establishing an adequate allowance for loan and lease losses as required by paragraph 2.

(b) If such ratio is less than 7 percent as determined at an examination by the FDIC or the Oklahoma Department of Banking or at the end of any calendar quarter as determined by the Bank, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director or the Commissioner present to the Regional Director and the Commissioner a plan to increase the Tier 1 capital of the Bank or to take other measures to bring the ratio to 7 percent. After the Regional Director and Commissioner respond to the plan, the board of directors of the Bank shall adopt the plan, including any modifications or amendments requested by the Regional Director and Commissioner.

Thereafter, the Bank shall immediately initiate measures detailed in the plan, to the extent such measures have not previously been initiated, to increase its Tier 1 capital by an amount sufficient to bring the ratio to 7 percent within 90 days after the Regional Director and Commissioner respond to the plan. Such increase in Tier 1 capital and any increase in Tier 1 capital necessary to meet the ratio required by this ORDER may be accomplished by:

(i) The sale of securities in the form of common stock; or
(ii) The direct contribution of cash by the directors and/or shareholders of the Bank; 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 by this ORDER is to be accomplished by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned 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 financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with Federal and State securities and other 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, Disclosure and Securities Operations Unit, Washington, D.C. 20429 and the Commissioner for review. Any changes requested to be made in the plan or the materials by the FDIC and/or the Commissioner shall be made prior to their dissemination. If the increase in Tier 1 capital is to be provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue 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 and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be fur-{{3-31-01 p.C-4887}}nished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(e) In addition to the requirements of subparagraphs 10(a) and (b), the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, App. A.

(f) For the purposes of this ORDER the terms "allowance for loan and lease losses," "Tier 1 capital," and "total assets" shall have the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, respectively sections 325.2(a), (t), and (v), 12 C.F.R. § § 325.2(a), (t), and (v). "Adjusted total assets" and "average total assets" shall be calculated according to the methodology set forth in the Analysis of Capital section in a report of examination of the FDIC or the quarterly submission of the Bank's Report of Condition.

[.11**]** 11. While this ORDER is in effect, the Bank shall neither declare nor pay, directly or indirectly, any cash dividend to shareholders without the prior written consent of the Regional Director and Commissioner. Such consent shall not be unreasonably withheld.

[.12**]** 12. After the effective date of this ORDER, the Bank, consistent with sound banking practices, shall eliminate and/or correct the violation of law and/or regulation and contravention of FDIC's Statement of Policy existing in the Bank as of June 21, 1999, as more fully set forth on pages 25-27 of the June 21, 1999, Report of Examination. In addition, the Bank shall ensure its future compliance with all applicable laws and regulations.

[.13**]** 13. Within 60 days after the effective date of this ORDER, the board of directors shall establish a committee of the board of directors charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least 50 percent of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. 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 meeting of the board of directors. Nothing contained herein shall diminish the responsibility or liability of the entire board of directors to ensure compliance with the provisions of this ORDER.

[.14**]** 14. 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, Registration, Disclosure and Securities Operations Unit, Washington, D.C. 20429 and the Commissioner, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the Commissioner and FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

15. Within 30 days after 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. Such 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.

16. The effective date of this ORDER shall be 20 days after the date of its issuance. This ORDER shall be binding upon the Bank 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, suspended, or set aside by the FDIC and the Commissioner.

Pursuant to authority delegated to the Regional Director and the authority of the Commissioner under the Oklahoma Banking Code.

Dated at Oklahoma City, Oklahoma, this 2nd day of February, 2000.