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[{{10-7-05 p.C-5847}}](#)

[¶12,090] In the Matter of Security State Bank, Scott City, Kansas, Docket No. 03-138b (8-29-03).

A cease and desist order was issued, based on findings by the FDIC that it had reason to believe that respondent was engaged in unsafe and unsound practices. *(This order was terminated by order of the FDIC dated 10-7-05; see ¶16,440.)*

- [.1] Management—Qualifications Specified**
 - [.2] Capital—Tier I Capital Increase/Maintain**
 - [.3] Dividends—Dividends Restricted**
 - [.4] Loan Loss Reserve—Establishment of or Increase Required**
 - [.5] Assets—Charge-off or Collection**
 - [.6] Assets—Reduce Substandard Assets**
 - [.7] Loans—Extensions of Credit—To Borrowers with Existing Adversely Classified Credits**
 - [.8] Loans—Collections—Written Policy Required**
 - [.9] Loans—Special Mention**
 - [.10] Loan Committee—Duties Specified**
 - [.11] Loan Policy—Preparation or Revision of Policy Required**
 - [.12] Loans—Review Program**
 - [.13] Assets—Credit Data and Collateral Documentation Exceptions**
 - [.14] Loans—Concentration of Credit—Reduction Required**
 - [.15] Funds Management and Liquidity—Preparation or Revision of Funds Management Policy Required**
 - [.16] Investment Policy—Investment Policy, Preparation or Revision Required**
 - [.17] Profit Plan and Budget—Preparation of Plan Required**
 - [.18] Audit Program—Written Policy Required**
 - [.19] Bank Operations—Internal Controls, Correction of Weaknesses Required**
 - [.20] Information Technology Plan—Implementation of Required**
 - [.21] Violations of Law—Correction of Violations Required**
 - [.22] Shareholders—Disclosure of Cease and Desist Order Required**
 - [.23] Progress Report—Written Progress Report Required**
- [{{10-31-03 p.C-5848}}](#)

**In the Matter of
SECURITY STATE BANK
SCOTT CITY, KANSAS
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST**

FDIC-03-138b

Security State Bank, Scott City, Kansas ("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 regulations alleged to have been committed by the Bank, as well as of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. §1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") dated August 25, 2003, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices or violations of law and 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 and unsound banking practices and violations of law and 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 institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. §1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law and regulations:

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

B. Operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank.

C. Operating with an inadequate level of capital protection for the kind and quality of assets held.

D. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held, and/or failing to make provision for an adequate allowance for possible loan and lease losses.

E. Engaging in hazardous lending and lax collection practices, including, but not limited to:

1. the failure to obtain proper loan documentation;
2. the failure to obtain adequate collateral;
3. the failure to establish and monitor collateral margins of secured borrowers;
4. the failure to establish and enforce adequate loan repayment programs;
5. the failure to obtain current and complete financial information;
6. the extension of credit with inadequate diversification of risk; and
7. other poor credit administration practices.

F. Operating with an excessive level of adversely classified loans or assets, and/or delinquent loans and/or non-accrual loans.

G. Operating with an inadequate loan policy.

H. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

I. Engaging in speculative or hazardous investment practices and/or operating with an inadequate investment policy.

J. Operating with excessive interest rate sensitivity risk.

K. Operating with an inadequate asset/liability and/or funds management policy.

L. Operating with inadequate internal routines and controls.

M. Operating with an inadequate audit program.

N. Failing to keep accurate books and records.

O. Violating laws and/or regulations, including:

1. the record-keeping requirements of section 215.8 of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. §215.8;

2. the requirements of Part 103 of the Treasury Department's Financial Record-keeping and Reporting of Currency and Foreign Transactions Regulation, 31 C.F.R. Part 103 §§ 18–38;

[{{10-31-03 p.C-5849}}](#)

3. the Call Report requirements/prohibitions of section 304.3 of the FDIC Rules and Regulations, 12 C.F.R. §304.3;

4. security program requirements of sections 326.3 and 326.4 of the FDIC Rules and Regulations, 12 C.F.R. §§ 326.3 and 326.4;

5. the requirements/prohibitions of section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. §326.8, regarding the Bank Secrecy Act;

6. the suspicious activity reporting requirements of section 353.3 of the FDIC Rules and Regulations, 12 C.F.R. §353.3; and

7. the loan documentation requirements of Kansas Administrative Regulation 17-11-18, KAR 17-11-18.

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

[.1]1. MANAGEMENT. For purposes of this Order, the qualifications of management shall be assessed on its ability to comply with the requirements of this ORDER, operate the Bank in a safe and sound manner, comply with applicable laws and regulations, and restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk. Furthermore, "senior executive officer" shall be defined as in section 32 of the Act, 12 U.S.C. §1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. §303.101(b). Each member of Bank management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank.

(a) During the life of this ORDER, the Bank shall notify the Regional Director and the State Bank Commissioner, in writing, of the resignation or termination of any of the Bank's directors or senior executive officers.

(b) Effective the date of this ORDER, the Bank's board of directors shall meet at least monthly. The board shall prepare in advance and shall follow a detailed written agenda at each meeting, which shall include consideration of actions of any committees. Nothing in the foregoing sentence shall preclude the board from considering matters other than those contained in the agenda. Detailed written minutes of all board meetings shall be maintained and recorded on a timely basis.

(c) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32, supra, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104.

(d) Within 90 days from the effective date of this ORDER, the Bank shall have and retain qualified management, who shall be provided the necessary written authority to implement the provisions of this ORDER. At a minimum, such management shall include:

(i) a chief executive officer with proven ability in managing a bank of comparable size and complexity, as well as experience in upgrading a low quality loan portfolio; and

(ii) a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio.

(e) Within 30 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and the State Bank Commissioner, who, within 90 days from the effective date of this ORDER, shall make an analysis and assessment of the Bank's management and staffing needs and shall develop and complete a plan ("Management Plan") for the purpose of providing qualified management for the Bank.

(f) The Management Plan shall include, at a minimum:

(i) identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

(ii) identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated

[{{10-31-03 p.C-5850}}](#)

duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and

(iv) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified previously in this ORDER.

(g) Upon completion of the Management Plan, it shall be submitted to the Regional Director and the State Bank Commissioner for review and comment.

(h) Within 30 days of the receipt of any comments from the Regional Director and after due consideration of any recommended changes, the board of directors of the Bank shall meet, approve the Management Plan, and record the approval in its minutes for the meeting. Any subsequent modification of the Management Plan shall require submission to the Regional Director for review and comment prior to approval by the Bank.

(i) Thereafter, the Bank, its directors, officers and employees shall implement and follow the approved Management Plan and any subsequent modifications.

[.2]2. CAPITAL MAINTENANCE.

(a) As used in this ORDER:

(i) "Tier 1 or core capital" ("Tier 1 capital") means the same as the term in section 325.2(t) of the FDIC Rules and Regulations, 12 C.F.R. §325.2(t); and

(ii) "Total assets" means the same as the term in section 325.2(v) of the FDIC Rules and Regulations, 12 C.F.R. §325.2(v).

(b) After appropriate entries for an adequate allowance are made in accordance with the requirements of paragraph 4 of this ORDER, but no later than September 30, 2003, the Bank shall have and maintain Tier 1 capital at or in excess of 8 percent of the Bank's total assets ("Tier 1 leverage capital ratio"). From and after September 30, 2003, for purposes of calculating Tier 1 leverage capital ratio, Tier 1 capital and total assets shall be the dollar amount reported in the Bank's most recent Report of Condition and Income.

(c) During the period this ORDER is in effect, if the Tier 1 leverage capital ratio declines below 8 percent, the Bank shall, within 60 days after the date on which the said ratio so declined, submit a written plan to the Regional Director and the State Bank Commissioner for approval describing the means and timing by which the Bank shall increase such ratio up to or in excess of 8 percent. Upon receiving written notification of the approval of the plan, the Bank shall increase its Tier 1 leverage capital ratio to equal or exceed 8 percent in accordance with the approved plan and shall thereafter maintain its Tier 1 leverage capital ratio at or in excess of such level while this ORDER is in effect.

(d) The Bank's board of directors shall maintain in its minutes a written record of all actions taken by the Bank to comply with the capital requirements of this paragraph.

[.3]3. RESTRICTION ON DIVIDENDS. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend, capital distribution or earnings distribution, without the prior written consent of the Regional Director and the State Bank Commissioner.

[.4]4. ALLOWANCE FOR LOAN AND LEASE LOSSES. For purposes of this ORDER and in making the determinations mandated by this paragraph, the board of directors of the Bank shall consider the Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income, the Interagency Statement of Policy on the Allowance of Loan and Lease Losses ("ALLL") and any analysis of the Bank's allowance for loan and lease losses provided by the FDIC.

(a) Within 30 days from the effective date of this ORDER, the Bank shall replenish its ALLL in the amount of at least \$2,300,000.

(b) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to March 31, 2003, shall be amended and re-filed if they do not reflect a provision for loan and lease losses which is adequate in view of the condition of the Bank's loan portfolio, and which, at a minimum, incorporate the adjustments required by this paragraph.

(c) Prior to the submission of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank

[{{10-31-03 p.C-5851}}](#)

shall review the adequacy of the Bank's ALLL, provide for an adequate

ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided.

(d) While this ORDER is in effect, the Bank shall submit to the Regional Director and State Bank Commissioner the analysis supporting the determination of the adequacy of its ALLL. These submissions may be made at such times as the Bank files the progress reports otherwise required by this ORDER.

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

[.5]5. ASSET CHARGE-OFF. Elimination or reduction of assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph. As of the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" as of March 31, 2003 that have not been previously collected or charged off.

[.6]6. REDUCTION OF SUBSTANDARD AND DOUBTFUL ASSETS. For purposes of this ORDER and as used in this paragraph, "reduce" means to collect, charge off, or improve the quality of "Substandard" and "Doubtful" assets so as to warrant removal of any adverse classification by the FDIC. Furthermore, in developing the plan mandated by this paragraph, the Bank shall, at a minimum, review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources, and evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(a) Within 90 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the State Bank Commissioner, for review and comment, a written plan to reduce the Bank's risk position in each asset in excess of \$250,000 which is classified "Substandard" or "Doubtful" in the FDIC's Report of Examination as of March 31, 2003. Within 30 days from the receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow this plan.

(b) The plan mandated by this paragraph shall include, but not be limited to, the following:

- (i) the dollar levels to which risk in each classified asset will be reduced;
- (ii) a description of the risk reduction methodology to be followed;
- (iii) provisions for the Bank's submission of monthly written progress reports to its board of directors;
- (iv) provisions mandating board review of said progress reports, and
- (v) provisions for the mandated review to be recorded by notation in the minutes of the board of director's meetings.

[.7]7. PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS. As of the effective date of this ORDER, the Bank shall not, directly or indirectly, extend any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (or portion thereof) that has been charged-off the books of the Bank or classified "Loss," "Substandard," or "Doubtful," or is listed for Special Mention, and remains uncollected, unless the board of directors adopts a detailed written statement giving the reasons why such

potential action is in the best interest of the Bank. A copy of such statement shall be placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors' meeting.

[.8]8. REDUCTION OF DELINQUENCIES. Within 90 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the State Bank Commissioner, for review and comment, a written plan for the reduction and collection of delinquent loans.

(a) The plan shall include, but not be limited to, provisions which:

(i) prohibit the extension of credit for the payment of interest;

{{10-31-03 p.C-5852}}

(ii) delineate areas of responsibility;

(iii) establish acceptable guidelines for the collection of delinquent credits;
and

(iv) provide for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(b) Within 30 days from receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

[.9]9. SPECIAL MENTION. Within 90 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the assets listed for "Special Mention" in the FDIC Report of Examination as of March 31, 2003. For any deficiencies for which correction is impossible or impractical due to circumstances outside the reasonable control of the Bank, the Bank's board of directors shall maintain in its minutes a written record of all actions taken by the Bank to comply with the requirements of this paragraph, including specifically noting the conduct and/or conditions making correction of any deficiency impossible or impractical.

[.10]10. LOAN COMMITTEE. As of the effective date of this ORDER, the Bank's loan committee shall meet on a regular basis. The loan committee shall include at least 2 directors who are "independent." An independent director shall be any individual who:

- is not an officer of the Bank, any subsidiary, or any of its affiliated organizations;
- does not own more than 10 percent of the outstanding shares of the Bank or its holding company;
- is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 10 percent of the outstanding shares of the Bank or its holding company, and who does not otherwise share a common financial interest with such officer, director or shareholder;
- is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or
- is deemed to be an independent director for purposes of this ORDER by the Regional Director or the State Bank Commissioner.

(a) The loan committee shall, at a minimum, perform the following functions:

(i) evaluate, grant and/or approve loans in accordance with the Bank's loan policy as amended to comply with this order;

(ii) provide a thorough written explanation of any deviations from the loan policy which shall:

(A) address how such exceptions are in the Bank's best interest;

(B) be included in the minutes of the corresponding committee meeting; and

(C) be maintained in the borrower's credit file.

(iii) review and monitor the status of repayment and collection of overdue and maturing loans, of all loans classified "Substandard" or "Doubtful" in the FDIC's Report of Examination as of March 31, 2003 or subsequent regulatory examination, and of all loans included on the Bank's internal watch list;

(iv) review all applications for new loans and renewals of existing loans to Bank directors, executive officers, and their related interests, and issue a written opinion as to whether the credit is in conformance with the Bank's loan and conflicts of interest (or ethics) policies, as well as all applicable laws and regulations;

(v) refer each aforementioned application and written opinion to the Bank's board of directors for consideration;

(vi) maintain written minutes of the committee meetings, including a record of the review and status of the loans considered; and

(vii) all loan committee minutes shall be made available to the Bank's board of directors at their next scheduled meeting.

[.11]11. LOAN POLICY.

(a) Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions [{{10-31-03 p.C-5853}}](#)

to the policy necessary to strengthen lending procedures and abate additional loan deterioration. The initial revisions to the Bank's loan policy required by this paragraph, at a minimum, shall include provisions addressing the policy deficiencies described on pages 6–8 of the FDIC's Report of Examination as of March 31, 2003.

(b) The revised written loan policy shall be submitted to the Regional Director and the State Bank Commissioner, for review and comment, before its adoption.

(c) Within 30 days from the receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the written loan policy and any subsequent modification thereto, which approval shall be recorded in the minutes of a board of directors' meeting.

(d) Thereafter, the Bank shall implement and follow this policy.

[.12]12. LOAN ADMINISTRATION.

(a) In addition to the requirements for the Loan Policy set forth above, within 90 days from the effective date of this ORDER, the Bank shall develop a plan to establish an effective loan review and risk administration function that, at a minimum, addresses the lending deficiencies described on pages 8 through 13 of the FDIC's Report of Examination as of March 31, 2003.

(b) The Bank shall submit the plan to the Regional Director and the State Bank Commissioner for review and comment. Within 30 days from the receipt of any comments from the Regional Director, and after adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

[.13]13. CREDIT DATA AND COLLATERAL DOCUMENTATION EXCEPTIONS. Within 90 days from the effective date of this ORDER, the Bank shall correct the exceptions listed for Assets with Credit Data or Collateral Documentation Exceptions in the FDIC Report of Examination as of March 31, 2003. "Correct" shall include documented attempts to collect missing information. The Bank shall initiate and implement a program to ensure its credit files contain complete, adequate and current documentation.

[.14]14. REDUCTION OF CONCENTRATIONS OF CREDIT. Within 90 days from the effective date of this ORDER, management will review concentrations of credit in order to identify the level of risk. The Bank shall formulate and adopt a written plan of action to manage the risk of each concentration. This will be accomplished, where appropriate, through strengthened administration or risk reduction.

[.15]15. FUNDS MANAGEMENT PLAN AND POLICY. Within 90 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the State Bank Commissioner, for review and comment, a written plan and policy addressing the Bank's deficiencies regarding sensitivity to market risk, liquidity, and asset/liability management, as set forth on pages 15–18 of the FDIC Report of Examination as of March 31, 2003. Within 30 days from the receipt of all such comments from the Regional Director, and after due consideration of any recommended changes, the Bank shall approve the plan and policy, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan and policy. Annually during the life of this ORDER, the Bank shall review this plan and policy for adequacy and, based upon such review, shall make appropriate revisions to the plan and policy that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs.

[.16]16. INVESTMENT POLICY. Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's investment policy for adequacy and shall make the necessary revisions to address the actual and contemplated condition of investments held to maturity and/or available for sale.

(a) At a minimum, the revised policy shall:

(i) address the criticized practices set forth on pages 19–20 of the FDIC's Report of Examination as of March 31, 2003;

(ii) be consistent with generally accepted accounting principles;
[{{10-31-03 p.C-5854}}](#)

(iii) be consistent with the Bank's loan and funds management plans and policies;

(iv) be consistent with the FDIC's Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities, 63 Fed. Reg. 20191 (April 23, 1998); and

(v) be consistent with the Federal Financial Institutions Examination Council's Instructions for the Preparation of Reports of Condition and Income, under which the Bank shall properly segregate and account for trading account securities.

(b) The Bank's policy, when revised as required by this paragraph, shall be submitted to the Regional Director and the State Bank Commissioner for review and comment. Within 30 days from the receipt of any recommended changes, the Bank shall approve the policy, which approval shall be recorded in the minutes of the board of directors' meeting.

(c) Thereafter, the Bank shall implement and follow the policy.

[.17]17. PROFIT PLAN AND BUDGET. The plan and budget required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, as well as a description of the operating assumptions that form the basis for major projected income and expense components.

(a) At a minimum, the written profit plan and budget shall address the practices related to "earnings" set out in pages 14–15 of the FDIC Report of Examination as of March 31, 2003.

(b) Within 90 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the State Bank Commissioner, for review and comment, a written profit plan and a realistic/comprehensive budget for all categories of income and expense for calendar years 2003 and 2004. Within 30 days from the receipt of any comments from the Regional Director, and after adoption of any recommended changes, the Bank shall approve the plan and budget, which approval shall be recorded in the minutes of the board of directors' meeting. Thereafter, the Bank shall implement and follow the plan and budget.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance against them, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

[.18]18. AUDITS. Within 90 days from the effective date of this ORDER, the Bank's board of directors shall formulate and submit to the Regional Director and the State Bank Commissioner, for review and comment, a comprehensive written audit program, addressing, at a minimum, the deficiencies identified on pages 21–22 of the FDIC Report of Examination as of March 31, 2003. Within 30 days from the receipt of any such comments from the Regional Director and after due consideration of any recommended changes, the Bank shall approve the audit program, which approval shall be recorded in the minutes of the board of directors' meeting. The Bank shall thereafter implement and enforce an effective system of internal and external audits. The internal auditor shall make written monthly reports of audit findings directly to the Bank's board of directors. The minutes of the meetings of the board of directors shall reflect consideration of these reports and describe any action taken as a result thereof.

[.19]19. INTERNAL ROUTINES AND CONTROLS. Within 90 days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls, which are identified on page 22 in the FDIC's Report of Examination as of March 31, 2003. Additionally, policies and procedures shall be established to prevent the recurrence of any deficiencies noted.

[.20]20. INFORMATION TECHNOLOGY. Within 60 days from the effective date of this ORDER, the Bank's board of directors shall formulate and submit to the Regional Director and the State Bank Commissioner, for review and comment, a plan to implement or otherwise address the recommendations listed on page 1 of the

FDIC Report of Examination of the Bank's Information Technology Procedures and Practices as of May 5, 2003, in order to correct

{{11-30-03 p.C-5855}}

the deficiencies described in that report. Within 30 days from the receipt of any such comment from the Regional Director and after due consideration, the Bank shall approve the plan, which approval shall be recorded in the board of directors' minutes. The Bank shall thereafter implement and follow the plan.

[.21]21. VIOLATIONS OF LAW AND REGULATION. No more than 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulations and contraventions of statements of policy committed by the Bank as described on pages 32–45 of the FDIC's Report of Examination of the Bank as of March 31, 2003.

[.22]22. DISCLOSURE TO SHAREHOLDERS. Following the effective date of this ORDER, the Bank shall send to its shareholders, or otherwise furnish a description of this ORDER, in conjunction with the Bank's next shareholder communication, and 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, notice or statement shall be sent to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Room F-6043, Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any requests for changes made by the FDIC shall be made prior to dissemination of the description, communication, notice or statement.

[.23]23. PROGRESS REPORTS. Within 15 days of December 31, 2003, and thereafter within 15 days from the end of each calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the State Bank Commissioner, signed by each member of the Bank's board of directors, detailing the form and manner of any actions taken to secure compliance with this ORDER. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be 10 days after its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

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