

**FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.**

And

**KANSAS OFFICE OF THE STATE BANK COMMISSIONER
TOPEKA, KANSAS**

In the Matter of)	CONSENT ORDER
)	
FORD COUNTY STATE BANK)	FDIC-19-0200b
SPEARVILLE, KANSAS)	OSBC-2019-234
)	
(Insured State Nonmember Bank))	
)	

Ford County State Bank, Spearville, Kansas (Bank) is an “insured depository institution” and an insured “State nonmember bank” as those terms are defined in sections 3(c)(2) and 3(e)(2) of the Act, 12 U.S.C. §§ 1813(c)(2) and 1813(e)(2). The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for the Bank under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q). The State of Kansas, Office of the State Bank Commissioner is the appropriate State banking authority for the Bank under Kansas Statutes Annotated § 9-1807.

Based on the findings of the FDIC examination of the Bank as contained in the September 3, 2019, Report of Examination (Report of Examination), the FDIC and the Kansas Office of the State Bank Commissioner (collectively, Supervisory Authorities) determined that the requirements for an Order under 12 U.S.C. § 1818(b) and Kansas Statutes have been satisfied.

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of a Consent Order (Consent Agreement), dated January 29, 2020. With the Consent Agreement, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law and/or regulations, to the issuance of this Consent Order (ORDER) by the Supervisory Authorities.

Based on the above, the Supervisory Authorities each hereby order the following:

1. Assessment of Management.

(a) The Bank shall have and retain qualified management, including a new Senior Loan Officer. Each member of management shall have the qualifications and experience commensurate with assigned duties and responsibilities at the Bank and shall be provided appropriate written authority from the Board to implement the provisions of this ORDER. Management shall include the chief executive officer, senior lending officer, and chief financial officer.

(b) Within 30 days from the effective date of this ORDER, the Board shall engage an independent third party consultant (Consultant) acceptable to the Supervisory Authorities who possesses appropriate expertise and qualifications to analyze and assess the Bank's management and staffing needs, performance, and compensation, including, but not limited, to its ability to:

- (i) comply with the requirements of this 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, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity, and sensitivity to market risk.

Prior to execution, a copy of the Consultant's proposed engagement letter and a description of the Consultant's expertise and qualifications shall be provided to the Supervisory Authorities. The engagement shall require that the Consultant's analysis and assessment (Consultant's Study) be summarized in a written report to the Board within 90 days from the date of engagement.

(c) Within 30 days of receipt of the Consultant's Study, the Board shall prepare an acceptable written management plan (Management Plan) that among other things:

- (i) addresses the findings of the Consultant's Study;
- (ii) presents a plan of action in response to each recommendation contained in the Consultant's Study, and a time frame for completing each action, including in particular the identification and appointment of a new Senior Loan Officer of the Bank;
- (iii) contains a current management succession plan and identifies adequate back-up personnel for management officials; and
- (iv) establishes procedures to review and update the Management Plan at least annually from the effective date of this ORDER.

(d) A copy of the Consultant's Study and Management Plan and any subsequent modifications thereto shall be submitted to the Supervisory Authorities for

review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Management Plan and record its approval in its minutes. Thereafter, the Bank and its directors, officers, and employees shall implement and follow the Management Plan. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from said plan.

2. Charge-off of Adversely Classified Assets.

(a) Within 30 days from the effective date of this ORDER and within 30 days after the receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, the Bank shall eliminate from its books, by charge off or collection, all assets or portions of assets classified "Loss" in the Report of Examination, and such future reports of examination that have not been previously collected or charged off.

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

3. Reduction of Adversely Classified Assets.

(a) Within 60 days from the effective date of this ORDER, and within 60 days from the receipt of future reports of examination from either of the Supervisory

Authorities, and within 60 days following receipt of any review downgrading an asset to a "Substandard" or "Doubtful" classification, the Bank shall prepare a written asset plan to reduce the Bank's risk exposure in each such asset in excess of \$100,000 (collectively, "Asset Plans"). For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of the asset to warrant its removal from such adverse classification.

(b) In developing the Asset Plans, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including sources of repayment and repayment ability, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(c) The Board shall review the Asset Plans and note the review in its minutes.

(d) The Bank shall submit the Board-reviewed Asset Plans, and any modifications thereto, to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days from receipt of any comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Asset Plans, and any modifications thereto, and record the approval in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Asset Plans. Summaries detailing progress relative to the Asset Plans shall be reviewed and approved by the Board at least quarterly, with such approval noted in the Board's minutes.

4. Restrictions on Advances to Adversely Classified Borrowers.

(a) While this ORDER is in effect, the Bank shall not, without prior Board approval, renew or extend existing extensions of credit (directly or indirectly) or advance

any additional credit to, or for the benefit of, any borrower who has an obligation with the Bank that has been, in whole or in part, charged off or adversely classified “Substandard” or “Doubtful,” either internally or by either of the Supervisory Authorities in the most recent report of examination.

(b) Prior to the renewal, extension, or advancement of any additional credit pursuant to this provision, such credit shall be approved by a majority of the Board or a designated committee thereof, who shall state in writing:

(i) that it would be detrimental to the Bank’s best interests not to renew, extend, or advance such credit;

(ii) how the renewal, extension, or advance will improve the Bank’s position; and

(iii) that an appropriate workout plan has been developed and will be implemented in conjunction with, or furthered by, the additional credit to be extended.

(c) The signed statement shall be made a part of the minutes of the Board or its designated committee and a copy of the signed statement shall be retained in the borrower’s credit file.

5. Loan Policy and Credit Administration.

(a) Within 60 days from the effective date of this ORDER, the Board shall review and revise its written loan policy and credit administration procedures (Revised Loan Policies) to address the deficiencies and recommendations presented on the Examination Conclusions and Comments pages of the Report of Examination including

in particular those regarding strengthening Loan Committee and Board oversight, and loan underwriting and credit administration practices.

(b) A copy of the Revised Loan Policies, and any modifications thereto, with all changes highlighted, shall be provided to the Supervisory Authorities for review and comment, with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Revised Loan Policies, or subsequent modification and record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the Revised Loan Policies.

(c) In the event the Bank considers making a loan that would not conform with the Revised Loan Policies, the Board or an appropriate committee thereof shall review and approve the loan before it is made. The reason for nonconformance and the Board's or committee's review and approval shall be documented in the minutes of the Board or the committee and in the loan file for that loan.

6. Concentrations of Credit.

(a) Within 90 days from the effective date of this ORDER, the Bank shall prepare a written plan to reduce the concentrations of credit listed in the Report of Examination and strengthen the Bank's management of concentrations of credit (Concentration Plan). The Concentration Plan shall, at a minimum, include:

(i) policies and procedures to identify, limit, and manage all concentrations of credit, including, but not limited to, the development of concentration risk limits by individual borrower, type of loan product, geographic

location, and other common risk characteristics, including loan participations purchased;

(ii) a schedule for reducing and the means by which the Bank will reduce the dollar volume of concentrations, and timeframes for achieving the reduced levels; and

(iii) procedures for monitoring the Bank's compliance with the Concentration Plan.

(b) The Bank shall submit the Concentration Plan to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the Concentration Plan, and record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or such borrower's related interests or affiliates if such extension or commitment would result in the Bank exceeding any limit in the Concentration Plan.

(d) Subparagraph (c) of this provision shall not apply if it would be detrimental to the Bank's best interests. Prior to extending credit pursuant to this subparagraph (d), whether in the form of a renewal, extension, or advance of credit, such credit shall be approved by the Board, who shall state in writing:

(i) that it would be detrimental to the Bank's best interests not to renew, extend or advance funds;

(ii) how the renewal, extension, or advance will improve the Bank's position; and

(iii) that the plan of action to reduce the concentration of credit required by subparagraph (a) of this provision has been revised to address any new credit extension or renewal made with respect to this subparagraph (d). The written statement shall be made a part of the Board's minutes, with a copy retained in the borrower's credit file.

7. Independent Loan Review Program.

(a) Within 60 days from the effective date of this ORDER, the Board shall develop a written loan review program (Loan Review Program) that provides for a periodic and independent external review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the Loan Review Program shall require written reports to the Board after each such review.

(b) The Bank shall submit the Loan Review Program to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Loan Review Program, and record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the Loan Review Program.

(c) Upon implementation, a copy of each report submitted to the Board, as well as documentation of the actions taken by the Bank or recommendations to the Board that address identified deficiencies in specific loan relationships or the Bank's policies,

procedures, strategies, or other elements of the Bank's lending activities, as well as any resulting determinations, shall be recorded and retained in the Board's minutes.

8. Maintenance of Allowance for Loan and Lease Losses (ALLL).

(a) Within 10 days from the effective date of this ORDER, and within 10 days of receipt of future reports of examination from either of the Supervisory Authorities, the Board shall make a provision which will replenish the ALLL for the loans charged off as a result of the most recent internal loan review or in the most recent examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard" or "Doubtful" as well as all other loans and leases in its portfolio.

(b) A deficiency in the Bank's ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any capital determinations required by this ORDER and prior to the Bank's submission of its Call Report. The Board shall thereafter maintain an appropriate ALLL.

9. Minimum Capital Requirements.

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital ratios (as defined in Part 324 of the FDIC's Rules and Regulations, 12 C.F.R. §324), after establishing an appropriate ALLL:

(i) Tier 1 Capital "Leverage Ratio" at least equal to 9 percent; and

(ii) "Total Capital Ratio" at least equal to 12 percent.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank shall immediately notify the Supervisory

Authorities and within 45 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a); or (2) submit a written plan to the Supervisory Authorities, describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements of subparagraph (a) above, as well as a contingency plan, including the possible sale or merger of the Bank, in the event the primary sources of capital are not available (Capital Plan). Within 30 days of receipt of any comments on the Capital Plan from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Capital Plan, and record its approval in its minutes. Thereafter, the Bank shall implement and fully comply with the Capital Plan.

(c) Any increase in Tier 1 Capital necessary to meet the requirements of paragraph (a) of this provision may not be accomplished through a deduction from the ALLL without prior written approval from the Supervisory Authorities.

10. Restriction on Certain Payments.

(a) While this ORDER is in effect, the Bank shall not declare or pay dividends, nor shall it incur or pay management fees and bonuses, without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received by the Supervisory Authorities at least 30 days prior to the proposed action, and each request shall contain an analysis and description of the impact such dividend,

management fee, or bonus would have on the Bank's capital, income, and liquidity positions. Requests to incur or pay management fees or pay bonuses shall also describe the Bank's rationale for incurring and making such payments.

(b) During the term of this ORDER, the Bank shall not make any distributions of interest, principal, or other sums on subordinated debentures, if any, without the prior written approval of the Supervisory Authorities.

11. Sensitivity to Market Risk.

(a) Within 90 days from the effective date of this ORDER, the Bank shall revise its Interest Rate Risk (IRR) Policy and Plan to address the comments and criticisms regarding Sensitivity to Market Risk contained in the Report of Examination.

(b) The Bank shall submit the IRR Policy and Plan to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the IRR Policy and Plan and record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the IRR Policy and Plan.

12. Liquidity.

(a) Within 60 days from the effective date of this ORDER, the Board shall assess its level of on-balance sheet liquidity and contingency funding sources, and revise the Bank's written liquidity and contingency funding policies and plans (Liquidity Policies and Plans) to address the comments and criticisms on the Bank's liquidity in the Report of Examination.

(b) The Bank shall submit the Liquidity Policies and Plans to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Liquidity Policies and Plans and record the approval in the its minutes. Thereafter, the Bank shall implement and fully comply with the Liquidity Policies and Plans.

13. Brokered Deposits Restrictions.

(a) Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan for compliance with the brokered deposit requirements, including the interest rate restrictions, set out in Part 337 of the FDIC Rules and Regulations, 12 C.F.R. § 337, applicable to depository institutions that are not well capitalized (Brokered Deposit Plan).

(b) Within 10 days of developing the Brokered Deposit Plan, the Bank shall submit the plan to the Supervisory Authorities for review and comment. Within 30 days of receipt of all comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Brokered Deposit Plan, and record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the Brokered Deposit Plan.

14. Business/Strategic Plan and Profit and Budget Plan.

(a) Within 90 days of the effective date of this ORDER, and within 30 days from the first day in each calendar year thereafter, the Board shall develop a written three-year business/strategic plan (Business/Strategic Plan) and one-year profit and budget plan (Profit and Budget Plan) covering the overall operation of the Bank and its goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The Business/Strategic Plan shall provide specific objectives for asset growth, balance sheet composition, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The Profit and Budget Plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The Business/Strategic Plan and the Profit and Budget Plan, and any subsequent modification thereto, shall be approved by the Board, who shall record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the plans. A copy of the Business/Strategic Plan and Profit and Budget Plan, and any modifications thereto, shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(d) At the Board's first meeting following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plans required by this provision and shall record the results of that evaluation, and any responsive actions taken or to be taken by the Bank, in the Board's minutes.

15. Correction of Technical Exceptions.

(a) Within 90 days from the effective date of this ORDER, and within 90 days after receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, the Bank shall correct the exceptions listed on the “Assets with Credit Data or Collateral Documentation Exceptions” pages of the Report of Examination.

(b) Reports detailing each outstanding exception and the status of the Bank’s corrective action shall be submitted to the Board for review during each regularly scheduled Board meeting. The report shall be made part of, and the review noted in, the Board’s minutes.

(c) For any exception that cannot be corrected, the Bank shall document the reason for such inability in the borrower’s credit file, and the Board shall review and include a copy of the documentation in the Board’s minutes.

(d) While this ORDER is in effect, the Bank shall ensure that the necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

16. Elimination and/or Correction of Violations of Laws, Rules and Regulations.

(a) Within 120 days after the effective date of this ORDER, and within 90 days after receipt of any future report of examination by either of the Supervisory Authorities, the Bank shall eliminate and/or correct all violations of laws and rules and regulations cited in the Report of Examination or such future reports of examination.

(b) For any violation that cannot be corrected, the Bank shall document the reason for such inability for review by the Board at its next monthly meeting. The

Board's review, discussion, and any action upon the uncorrected violation shall be recorded in its minutes. A copy of the minutes shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(c) Within 120 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws and rules and regulations.

17. Disclosure of Order to Shareholders.

Following the effective date of this ORDER, the Bank shall provide a copy of this ORDER to its shareholders, (i) in conjunction with the Bank's next shareholder communication if sent within 90 days of the effective date of this Order or by special mailing if no other shareholder communication is sent within 90 days after the effective date of this Order, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

18. Progress Reports Detailing Compliance with ORDER.

(a) Within 30 days of the end of the first calendar quarter following the effective date of this ORDER, and within 30 days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER, including at a

minimum:

- (i) descriptions of the identified weaknesses and deficiencies;
- (ii) provision(s) of the ORDER pertaining to each weakness or deficiency;
- (iii) actions taken or in-process for addressing each deficiency;
- (iv) results of the corrective actions taken;
- (v) the Bank's status of compliance with each provision of the ORDER;

and

- (vi) appropriate supporting documentation.

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

19. Binding Effect.

This Order shall be effective on the date of issuance. 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 not bar, estop or otherwise prevent the FDIC, the Kansas State Banking Board, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

The provisions of this ORDER shall 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 Supervisory Authorities.

This ORDER is issued and thus effective this 6th day of February, 2020.

FEDERAL DEPOSIT INSURANCE CORPORATION

Issued Pursuant to Delegated Authority

By: _____/s/_____

John R. Jilovec

Deputy Regional Director

Federal Deposit Insurance Corporation

Kansas City Regional Office

STATE OF KANSAS

OFFICE OF THE STATE BANK COMMISSIONER

By: _____/s/_____

David L. Herndon

Bank Commissioner

KANSAS STATE BANKING BOARD

By: _____/s/_____

Casey A. Lair

Chairman