

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

**And**

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

<b>In the Matter of</b>	)	<b>CONSENT ORDER</b>
	)	
<b>THE FOWLER STATE BANK</b>	)	<b>OSBC-2020-9</b>
<b>FOWLER, KANSAS</b>	)	<b>FDIC-20-0016b</b>
	)	
<b>(Insured State Nonmember Bank)</b>	)	
	)	

The State of Kansas, Office of the State Bank Commissioner (OSBC) is the appropriate State banking authority for The Fowler State Bank, Fowler, Kansas (Bank) under Kansas Statutes Annotated (K.S.A.) § 9-1807. The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for the Bank under Section 3(q)(2) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813 (q)(2).

Based on the findings of the joint OSBC and FDIC examination of the Bank as contained in the October 21, 2019, Report of Examination (Report of Examination), the OSBC and the FDIC (collectively, Supervisory Authorities) determined that the requirements for issuance of an order under K.S.A. § 9-1807 and 12 U.S.C. § 1818(b) 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 April 29, 2020. With the Consent Agreement, the Bank has consented, without admitting or denying any charges of unsafe or unsound 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. Qualified Management**

The Bank shall have and retain qualified management for all key functions of the institution. 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 Bank's Board to implement the provisions of this ORDER.

**2. 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 Board shall review the Business/Strategic Plan and the Profit and Budget Plan, and any subsequent modification thereto, and 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 its minutes.

**3. 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 policies and credit administration procedures (Revised Loan Policies) to address the comments and recommendations presented in the Examination Conclusions and Comments pages of the Report of Examination. The Bank's Revised Loan Policies 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 any recommended changes, the Board shall approve the Revised Loan Policies, which approval shall be recorded in its minutes. Thereafter, the Bank shall implement and fully comply with the Revised Loan Policies.

(b) In the event the Bank considers making a loan that would not conform to the Revised Loan Policies, the Board or an appropriate committee thereof shall review and approve the loan before it is made. The reason for non-conformance 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.

**4. Independent Loan Review Program**

(a) The Board shall maintain an independent loan review program (Loan Review Program) that provides for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits.

(b) A copy of each report shall be 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. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the Board's minutes.

**5. Risk Reduction Plans and 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 and the Board shall adopt plans to reduce the Bank's risk exposure (Risk Reduction Plans) in each asset or borrower with aggregate indebtedness equal to or exceeding \$100,000 and note such actions in their minutes.

Progress toward meeting the Risk Reduction Plans will be reported to the Board monthly.

The Risk Reduction Plans will, at a minimum, require the Bank to:

- (i) Include target dollar levels for each adversely classified asset within the next 6 and 12 months;
- (ii) review, analyze, and document each borrower's current financial condition, current and alternative repayment sources, and ability to refinance;

- (iii) provide and document the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position and establish repayment programs; and
- (iv) appraise and consider other action to improve the Bank's position.

As used in this paragraph, the term "reduce" means (1) to collect, (2) to charge off, or (3) to improve the quality of an asset to warrant removal of any adverse classification. A loan or extension of credit to the same borrower that is renewed is not considered collected.

(b) 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, the Board shall also adopt plans to reduce the aggregate volume of assets classified "Substandard" or "Doubtful" in the Report (Aggregate Volume Plan) to target dollar levels and target percentages of Tier 1 capital plus the Allowance for Loan and Lease Losses (ALLL) within the next 6 and 12 months.

(c) The Bank shall submit the Risk Reduction 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 Risk Reduction Plans, and any modifications thereto, and record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the Risk Reduction Plans. Summaries detailing progress relative to the Risk Reduction Plans shall be reviewed and approved by the Board at least quarterly, with such approval noted in its minutes.

## **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 to

strengthen the Bank's management of concentrations of credit (Concentration Plan). The Concentration Plan shall 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, industry, collateral type, and other common risk characteristics;
- (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, which approval shall be recorded 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 funds, 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 new 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. Charge off of Adversely Classified Assets**

(a) Within 30 days of 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.

**8. Allowance for Loan and Lease Losses**

(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. Restrictions on Advances to Adversely Classified Borrowers**

(a) Without prior Board approval, the Bank shall not extend or renew, directly or indirectly, any additional credit to or for the benefit of any, borrower who has:

- (i) Nonledger debt;
- (ii) any loan classified "Substandard," "Doubtful," or "Loss" which is uncollected; and
- (iii) any loan where the borrower has not provided current financial statements and/or adequate information concerning collateral protection so that the borrower's primary and/or secondary repayment ability cannot be properly assessed.

(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.

**10. 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 and such future reports of examinations.

(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 its 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.

**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 procedures 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 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 record the approval in its minutes. Thereafter, the Bank shall implement and fully comply with the IRR Policy.

**12. Liquidity and Funds Management**

(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 its minutes. Thereafter, the Bank shall implement and fully comply with the Liquidity Policies and Plans.

**13. Policy Exceptions**

Within 60 days from the effective date of the ORDER, the Board will provide for a review of the Bank's compliance with its written Loan and Funds Management policies. All exceptions will be reported to the Board at the next regularly scheduled Board meeting. For each policy exception, the report to the Board will include a justification for the exception or management's plans for bringing the Bank into policy compliance. A similar review will be conducted at the end of each calendar quarter with a similar report to the Board.

**14. Elimination and/or Correction of Violation of Laws, Rules, and Regulations**

(a) Within 90 days after the effective date of this ORDER, and within 90 days after receipt of any future report of examination of the Bank 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 examinations.

(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 term of this ORDER.

(c) Within 90 days after 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.

**15. Brokered Deposit Restriction**

(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 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.

**16. 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 Leverage Capital necessary to meet the requirements of paragraph (a) of this provision may not be accomplished through a deduction from the ALLL without the prior written approval from the Supervisory Authorities.

**17. Restriction on Certain Payments**

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.

**18. 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.

**19. Compliance with the ORDER**

Within 60 days from the effective date of this ORDER, the Board shall have in place a program that will provide the monitoring of compliance with this ORDER (Compliance Monitoring Program). Following the adoption of the Compliance Monitoring Program, the Board shall review compliance with this ORDER and record its review in the minutes of each regularly scheduled Board of Director's meeting.

**20. 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.

## **21. 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 Kansas State Banking Board, FDIC, 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 6 day of May, 2020.


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

By:   
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David L. Herndon  
Bank Commissioner

**FEDERAL DEPOSIT INSURANCE CORPORATION**  
Issued Pursuant to Delegated Authority

By: JOHN JILOVEC Digitally signed by JOHN JILOVEC  
Date: 2020.05.04 07:19:28 -0500  
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John R. Jilovec  
Deputy Regional Director  
Federal Deposit Insurance Corporation  
Kansas City Regional Office

**KANSAS STATE BANKING BOARD**

By:   
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Casey A. Lair  
Chairman