

**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>TOWANDA STATE BANK</b>	)	<b>OSBC-2020-10</b>
<b>TOWANDA, KANSAS</b>	)	<b>FDIC-20-0007b</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 Towanda State Bank, Towanda, 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) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813 (q).

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 to the Issuance of a Consent Order (Consent Agreement), dated           May 14          , 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**

(a) The Bank shall operate with qualified management for all key functions of the institution, as identified in paragraph (b). 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. Management shall include staff capable of performing the duties normally associated with the positions of chief executive officer, senior lending officer, and chief financial officer. Given the noncomplex profile of the institution, multiple positions may be filled by one individual after consideration of the workload and number of officer positions needed to properly supervise the bank's affairs.

(b) Within 60 days from the effective date of this ORDER, the Board shall identify and make employment offer(s) to external candidate(s) who possess the requisite knowledge, skills, ability, and experience, including problem loan workout and funds management experience.

**2. Business/Strategic Plan and Profit and Budget Plan**

(a) Within 90 days from 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 and one-year 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, which approval shall be recorded in the Board's 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.

### **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 to address the comments and criticisms in the Report of Examination. The Bank's revised loan policies and credit administration procedures shall be provided to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of any recommended changes, the Board shall approve the loan policies and procedures, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the revised loan policies.

(b) The Bank shall not make a loan that does not conform to the Bank's loan policies without prior, documented Board review and approval.

**4. Loan Review Program**

(a) Within 60 days from the effective date of this ORDER, the Board shall prepare a written loan review program that provides for a periodic and independent review of the Bank's loan portfolio and the identification and categorization of problem credits.

(b) The Bank shall submit the written 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 due consideration of any recommended changes, the Bank shall approve the program, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the program.

(c) Within 90 days of implementation, the Board will engage a qualified individual to conduct a loan review consistent with the Bank's loan review program. 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 minutes of the meeting of the Board.

**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 a written asset plan to reduce the Bank's risk exposure (Risk Reduction Plans) in each asset or borrower with aggregate indebtedness

equal to or exceeding \$50,000. Progress toward meeting the Risk Reduction Plans shall be reported to the Board monthly. The Risk Reduction Plans shall, at a minimum, include:

- (i) Target dollar levels for each adversely classified asset within the next 6 and 12 months;
- (ii) each borrower's current financial condition, current and alternative repayment sources, and ability to refinance;
- (iii) valuations on pledged collateral and plans for repayment; and
- (iv) 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, 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 Risk Reduction Plans and Aggregate Volume Plan, and any subsequent modifications thereto, shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with these plans. A copy of these plans, 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.

## **6. Charge-off of Adversely Classified Assets**

(a) Within 30 days from 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" 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.

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

The Board shall review the ALLL at least quarterly and make provisions sufficient to assure the ALLL is maintained at an appropriate level. These reviews shall be made in accordance with the Federal Financial Institutions Examination Council's instructions.

**8. Extensions of Credit to Adversely Classified Borrowers**

(a) Without prior Board approval, the Bank shall not renew or extend existing credit, nor advance, directly or indirectly, any additional credit to, any borrower who has:

- (i) Loans that have been charged off;
- (ii) any loan adversely 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) The Board first must determine that any advancement of additional credit, renewal, or extension is in the best interest of the Bank. The Board shall record the determination and approval in the borrower's credit file and the board minutes.

**9. Liquidity and Funds Management**

(a) Within 60 days from the effective date of this ORDER, the Bank shall review its liquidity and contingency funding policies and plans (Funding Policies) to address the concerns detailed in the Report of Examination, and specifically how the Bank will increase the level of on-balance sheet liquidity. The Bank shall improve the sources and uses monitoring report and revise the Contingency Funding Plan. The Funding Policies, and any subsequent modification thereto, shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Funding Policies. A copy of the Funding Policies, 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.

(b) The Bank shall provide liquidity monitoring reports to the Supervisory Authorities every other week or as otherwise directed by the Supervisory Authorities.

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

(a) Within 90 days from the effective date of this ORDER, 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 30 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.

## **11. Minimum Capital Requirements**

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital ratios, 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. Within 30 days of receipt of any such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the written plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the written 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.

## **12. 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 and industry;
- (ii) 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 the Board's 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 certify in writing as follows:

- (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.

**13. 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/or 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.

**14. 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.

**15. Compliance with the ORDER and Exception Tracking**

Within 60 days from the effective date of this ORDER, the Board shall have in place a program that shall provide the monitoring of compliance with this ORDER and other

independent reviews, including examinations and other external reviews. Following the adoption of said program, the Board shall review compliance with this ORDER and other independent reviews and record its review in the minutes of each regularly scheduled Board of Director's meeting.

**16. 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.

**17. 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 26 day of May, 2020.

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

By: \_\_\_\_\_

  
David L. Herndon  
Bank Commissioner


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

By: \_\_\_\_\_

Digitally signed by JOHN JILOVEC  
Date: 2020.05.24 08:44:51 -0500  
John R. Jilovec  
Deputy Regional Director  
Federal Deposit Insurance Corporation  
Kansas City Regional Office

**KANSAS STATE BANKING BOARD**

By: \_\_\_\_\_

  
Casey A. Lair  
Chairman