

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

OKLAHOMA STATE BANKING DEPARTMENT
OKLAHOMA CITY, OKLAHOMA

Written Agreement by and among)
THE COMMUNITY STATE BANK) Docket No. 04-023-WA/RB-SM
Poteau, Oklahoma)
FEDERAL RESERVE BANK)
OF KANSAS CITY)
Kansas City, Missouri)
and)
OKLAHOMA STATE BANKING)
DEPARTMENT)
Oklahoma City, Oklahoma)

WHEREAS, The Community State Bank, Poteau, Oklahoma (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, is taking steps to ensure the Bank's safe and sound operation and its compliance with all applicable federal and state laws and regulations, and it is the common goal of the Bank, the Federal Reserve Bank of Kansas City (the "Reserve Bank"), and the Oklahoma State Banking Department (the "Department") that these steps be continued and enhanced; and

WHEREAS, on October 14, 2004, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing e Robert Reed to enter into this Written Agreement (the "Agreement") on behalf of the Bank and consenting to compliance by the Bank and its institution-affiliated parties, as defined in section 3(u) of the

Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. 1813(u)), with each and every provision of this Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the Department agree as follows:

Management

1. (a) Within 30 days of this Agreement, the Bank’s board of directors shall submit to the Reserve Bank and the Department a written plan to address management weaknesses identified in the most recent Report of Examination of the Bank (the “Report of Examination”).

(b) Within 120 days of this Agreement, the Bank shall take such steps as are necessary to appoint a qualified senior lending officer with responsibility for the Bank’s credit function.

(c) In appointing any new officers or directors, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System.

(d) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. 1828) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. Part 359)

Board Oversight

2. Within 60 days of this Agreement, the Bank’s board of directors shall submit to the Reserve Bank and the Department a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The actions that the board of directors will take to maintain effective control over and supervision of the Bank's senior management and major operations and activities, including, at a minimum: (i) the credit risk management program, including loan underwriting, documentation, grading, and administration; and (ii) compliance programs;
- (b) the responsibility of the board of directors to monitor management's adherence to approved policies and procedures, and applicable laws and regulations; and
- (c) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank.

Credit Risk Management

3. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department acceptable revised written loan policies and procedures that shall, at a minimum, address, consider, and include:

- (a) Underwriting standards that require loan officers to assess the financial condition of the borrower, including a written analysis of the borrower's repayment capacity, the identification of the sources of repayment, and the value of any supporting collateral;
- (b) a complete description of required loan documentation and collateral for each specific type of loan, and a requirement for the maintenance of such documentation in the loan files;
- (c) a description of the detailed information to be provided to the Bank's loan committee and board of directors to assist the directors in making informed decisions on proposed credits;

- (d) procedures for renewing, extending, or modifying existing loans, including documentation of the basis for each renewal, extension, or modification;
- (e) other credit and collections recommendations in the Report of Examination; and
- (f) controls to ensure uniform adherence to all loan policies and procedures.

4. Within 30 days of the adoption of the revised loan policies and procedures, the Bank shall take such steps as are necessary to ensure that all appropriate Bank personnel receive prompt, comprehensive training in the revised loan policies and procedures.

5. (a) Within 60 days of this Agreement, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies noted in the Report of Examination, including obtaining accurate and current financial statements and appraisals.

(b) The Bank shall not extend any additional credit to any borrower, including any related interest of the borrower, who is obligated in any manner to the Bank on any extension of credit or portion thereof that has been charged-off by the Bank or classified “loss,” “doubtful,” or “substandard” in the Report of Examination or in any subsequent report of examination as long as such credit remains uncollected unless: (i) the proposed transaction is approved by the Bank’s board of directors; and (ii) the Bank provides written notice of the proposed transaction to the Reserve Bank and the Department at least 10 days before the request for credit approval is presented to the Bank’s board of directors.

Asset Improvement Plan

6. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional collateral or other means on each loan

or other asset in excess of \$50,000 that was past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank's watch list, or was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$50,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent examination or visitation of the Bank, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to improve the Bank's position on such loan or asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's loan committee and shall, at a minimum, include:

- (i) The current status of the loan or other asset, including book and nonbook carrying value, the source of funds for repayment or collection, including the nature and value of supporting collateral; and
- (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and the projected balance owing and value of any anticipated additional collateral.

(d) Within 30 days of the end of the next calendar quarter following the due date for submission of the initial asset improvement plan, and within 30 days of the end of each calendar quarter thereafter, the Bank shall submit a written progress report to update the asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list and past due/nonaccrual reports.

Allowance **for Loan and** Lease Losses

7. (a) Within 10 days of this Agreement, 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 that have not been previously collected in full or charged-off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss," unless otherwise approved in writing by the Reserve Bank and the Department.

(b) The Bank shall continue to maintain an adequate valuation reserve for loan and lease losses. The adequacy of the reserve shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, and the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001.

(c) Within 60 days of this Agreement, the Bank shall submit a description of the reserve methodology to the Reserve Bank and the Department. Thereafter, at a minimum on a calendar quarterly basis, the Bank shall conduct an assessment of its loan loss reserve and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Department the quarterly assessment, including the methodology used in determining the amount of loan loss reserve for that quarter.

Earnings Improvement Plan

8. (a) Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a written business plan and budget for the calendar year 2005 for

improving the earnings and overall condition of the Bank. The plan, at a minimum, shall provide for or describe:

- (i) the major areas in and means by which the Bank's board of directors will seek to improve the Bank's operating performance;
- (ii) the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and
- (iii) quarterly reports to the Reserve Bank and the Department on the variance of actual income and expenses from budgetary projections, including a narrative explanation of any significant variances.

(b) A business plan for each calendar year subsequent to 2005 shall be submitted to the Reserve Bank and the Department at least one month prior to the beginning of that calendar year.

Anti-Money Laundering Compliance

9. (a) The Bank shall continue to retain an independent consultant to conduct a comprehensive review of the Bank's anti-money laundering compliance and to make recommendations, as appropriate, for new policies and procedures to be implemented by the Bank. The comprehensive review shall include, at a minimum:

- (i) a review of the Bank's policies and procedures for compliance with the Bank Secrecy Act (31 U.S.C 5311 *et seq.*) (the "BSA"), the rules and regulations thereunder, and sections 208.62 and 208.63 of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63); and

(ii) a transaction review for the period January 1, 2003 to the present to evaluate compliance with anti-money laundering reporting and recordkeeping requirements and to determine whether suspicious activity at, by, or through the Bank was properly identified and reported in accordance with applicable regulations.

(b) Upon completion of the review, but no later than 60 days after this Agreement, the consultant shall provide a report detailing the findings, conclusions, and recommendations of the review. A copy of the consultant's report shall be provided to the Reserve Bank and the Department at the same time it is provided to the Bank.

(c) Upon completion of the consultant's review, the Bank shall ensure that all transactions previously required to be reported have been reported in accordance with applicable regulations and guidelines.

10. Within 45 days of the completion of the consultant's report required by paragraph 10(b) hereof, the Bank shall submit to the Reserve Bank and the Department an acceptable BSA compliance program as required by Regulation H of the Board of Governors (12 C.F.R. 208.63). The program shall, at a minimum:

(a) Establish a system of internal controls to ensure compliance with the BSA, including procedures for compliance with recordkeeping and reporting requirements for currency transactions over \$10,000;

(b) provide for independent testing of compliance with the BSA and the rules and regulations issued thereunder and ensure that compliance audits are performed frequently, are fully documented, and are conducted with the appropriate segregation of duties; and

(c) provide appropriate training to all affected personnel, conducted by qualified staff, which includes all relevant BSA and related requirements with a specific

concentration on accurate recordkeeping, form completion and the detection and reporting of known or suspected criminal activity; and ensure that the training is reviewed on a regular basis so that all personnel have the most current and up to date information.

11. Within 45 days of the completion of the consultant's report required by paragraph 10(b) hereof, the Bank shall submit to the Reserve Bank and the Department an acceptable enhanced customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62). The enhanced customer due diligence program shall include:

(a) A risk focused assessment of the customer base of the Bank to:

(i) Identify the categories of customers whose transactions and banking activities are usual and routine; and

(ii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

(b) for those customers whose transactions require enhanced due diligence, procedures to:

(i) Determine the appropriate documentation necessary to confirm the identity and business activities of the customer; and

(ii) understand the normal and expected transactions of the customer; and

(c) procedures designed to ensure proper identification and reporting of all known or suspected violations of law and suspicious transactions, including but not limited to adequate referral of information about potentially suspicious activity through appropriate levels of management and the establishment of a policy for determining action to be taken in the event of multiple filings of Suspicious Activity Reports on the same customer or where a customer fails to provide due diligence information.

Progress Reports

12. Within 30 days after the end of each calendar quarter (December 31, March 31, June 30, and September 30) following the date of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Department written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof. Such reports may be discontinued when the corrections required by this Agreement have been accomplished and the Reserve Bank and the Department have, in writing, released the Bank from making further reports.

Approval of Plans, Policies, Procedures, and Programs

13. The written plans, policies, procedures, and programs required by paragraphs 3, 6, 10, and 11 of this Agreement shall be submitted to the Reserve Bank and the Department for review and approval. Acceptable plans, policies, procedures, and programs shall be submitted within the time periods set forth in this Agreement. The Bank shall adopt all applicable approved plans, policies, procedures, and programs within 10 days of approval by the Reserve Bank and the Department and then shall fully comply with them. During the term of this Agreement, the approved plans, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

Communications

14. All communications regarding this Agreement shall be sent to:

- (a) Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
925 Grand Blvd.
Kansas City, Missouri 64198-0001
- (b) Mick Thompson
Bank Commissioner
Oklahoma State Banking Department
4545 N. Lincoln Blvd., Suite 164
Oklahoma City, Oklahoma 73105
- (c) Larry Spradley
President
The Community State Bank
P.O. Box 769
Poteau, Oklahoma 74953

Miscellaneous

15. Notwithstanding any provision of this Agreement to the contrary, the Reserve ~~Bank~~ and the Department may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

16. The provisions of this Agreement shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

17. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve ~~Bank~~ and the Department.

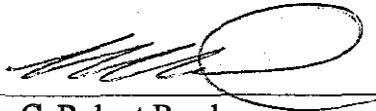
18. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

19. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 14 day of October, 2004.

The Community State Bank

By:



C. Robert Reed
Chairman of the Board

Federal Reserve Bank of Kansas City

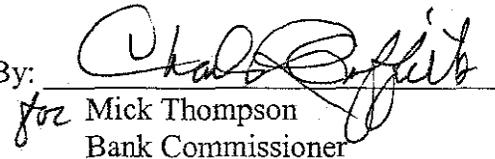
By:



Susan E. Zubradt
Vice President

Oklahoma State Banking Department

By:


for Mick Thompson
Bank Commissioner