

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

In the Matter of

FSB BANCORP, INC.
Altus, Oklahoma

Docket No. 09-006-B-HC

Cease and Desist Order Issued
Upon Consent Pursuant to the
Federal Deposit Insurance Act,
as amended

WHEREAS, FSB Bancorp, Inc., Altus, Oklahoma (“FSB”) is a registered bank holding company with financial holding company status that owns and controls First State Bank of Altus, Altus, Oklahoma (the “Bank”), a state chartered nonmember bank, and various nonbank subsidiaries, including, but not limited to, First State Insurance Agency, Inc.; Bankers Benefit Solutions, Inc.; Oklahoma Industrial Venture Management Company, LLC; FSB Bancorp Capital Trust I; FSB Development Capital, LLC; Altus Venture Capital Fund III, LLC; Altus Venture Capital Fund IV, LLC; Altus Venture Capital Fund V, LLC; FSB Financial Planning, LLC; Global Industrial Leasing, LLC; and Quartz Mountain Aerospace, Inc., all of Altus, Oklahoma;

WHEREAS, FSB has, *inter alia*, directly or indirectly: (a) failed to timely file required regulatory reports and notices, including Reporting Form FR Y-10 “Report of Changes in Organizational Structure;” (b) engaged in merchant banking activities not in compliance with regulatory requirements for financial holding companies; and (c) participated in the Bank’s violations of section 23A of the Federal Reserve Act (12 U.S.C. § 371c) and Regulation W of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. Part 223);

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of FSB, FSB has consented to the issuance of a Cease and Desist Order (the “Order”) by the Board of Governors; and

WHEREAS, on February 3, 2009, FSB’s board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Larry McLaughlin, President, to consent to this Order on behalf of FSB and consenting to compliance with each and every provision of this Order by FSB, FSB’s nonbank subsidiaries, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)), and waiving any and all rights that FSB may have pursuant to section 8 of the FDI Act (12 U.S.C. 1818) to: (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any and all matters set forth in this Order; (iii) contest the issuance of a cease and desist order by the Board of Governors pursuant to section 8 of the FDI Act; (iv) judicial review of this Order; and (v) challenge or contest, in any manner, the basis, validity, effectiveness, terms or enforceability of the provisions of this Order or any provisions hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED, that pursuant to sections 8(b)(1) and 8(b)(3) of the FDI Act (12 U.S.C. §§ 1818(b)(1), and 1818(b)(3)), that FSB, including its nonbank subsidiaries, and each of their institution-affiliated parties shall cease and desist and take affirmative actions as follows:

Board Oversight

1. Within 60 days of this Order, FSB’s board of directors shall submit to the Federal Reserve Bank of Kansas City (the “Reserve Bank”) a written plan to strengthen board oversight

of the management and operations of FSB and its nonbank subsidiaries. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve FSB's condition and maintain effective control over and supervision of FSB's senior management and the operations and activities of FSB and its nonbank subsidiaries;

(b) the responsibility of the board of directors to monitor management's adherence to, and take appropriate action to address the failure to comply with, applicable laws, regulations, and approved plans, policies, and procedures; 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 FSB and its nonbank subsidiaries.

Accounting and Regulatory Reporting

2. (a) Within 10 days of this Order, FSB shall engage an independent public accounting firm acceptable to the Reserve Bank to conduct a full scope audit of FSB on a consolidated basis, including the bank and FSB's nonbank subsidiaries, for the calendar years 2005, 2006, 2007, and 2008 to be conducted in accordance with generally accepted auditing standards.

(b) Within 10 days of retaining the independent public accounting firm, FSB shall submit to the Reserve Bank an acceptable engagement letter governing the scope and terms of the audit described in paragraph 2(a) that includes a timetable for completion of the audit and a commitment that any interim reports, draft reports, or workpapers associated with the audit will be made available to the Reserve Bank upon request.

(c) FSB, its subsidiaries, and their institution-affiliated parties shall fully cooperate with and provide prompt, complete, and accurate information to the independent public accounting firm.

(d) A copy of the independent public accounting firm's audit report and management letter shall be provided to the Reserve Bank at the same time as it is presented to FSB.

(e) Within 45 days of the receipt of the audit report and management letter, FSB shall provide the Reserve Bank with an acceptable written plan to correct all deficiencies noted in the audit report or management letter.

(f) Within 30 days of receipt of the audit report and management letter, FSB shall file complete and accurate consolidated financial statements and regulatory reports for the years 2005, 2006, 2007, and 2008 with the Reserve Bank.

(g) For each year subsequent to 2008, FSB shall file complete, accurate, and timely audited consolidated financial statements and regulatory reports with the Reserve Bank.

3. (a) Within 60 days of this Order, FSB shall submit to the Reserve Bank acceptable written procedures designed to strengthen accounting controls and maintain accurate books and records for FSB and its nonbank subsidiaries. These procedures shall include steps to ensure that all required regulatory reports and notices filed with the Reserve Bank:

- (i) accurately reflect FSB's condition on the dates for which such reports or notices are filed;
- (ii) are filed in accordance with the applicable instructions for preparation; and
- (iii) are filed in a timely manner.

(b) FSB and its nonbank subsidiaries shall maintain for subsequent supervisory review documentation sufficient to support the accuracy of all required regulatory reports and notices.

Affiliate Transactions

4. (a) Within 30 days of this Order, FSB shall submit to the Reserve Bank an acceptable plan to repay to the Bank all funds received by FSB or its nonbank subsidiaries in connection with the Bank's violations of section 23A of the Federal Reserve Act and Regulation W of the Board of Governors ("Regulation W") that are detailed in the report of the examination of the Bank jointly conducted by the Oklahoma State Banking Department and the Federal Deposit Insurance Corporation (the "FDIC") as of July 7, 2008.

(b) FSB shall take all necessary actions to ensure that the Bank complies with sections 23A and 23B of the Federal Reserve Act and Regulation W in all transactions between the Bank and its affiliates, including, but not limited to FSB and its nonbank subsidiaries.

(c) FSB and its nonbank subsidiaries shall not cause the Bank to violate any provision of sections 23A and 23B of the Federal Reserve Act or Regulation W.

5. (a) FSB and its nonbank subsidiaries shall not, without the prior written approval of the Reserve Bank, engage in: (i) any covered transaction with the Bank; and (ii) any transaction with any Insider.

(b) For the purposes of this Order:

(i) "covered transaction" shall be defined as set forth in section 23A of the Federal Reserve Act and section 223.3(h) of Regulation W (12 C.F.R. § 223.3(h));

(ii) "transaction" shall include, but not be limited to: (A) the transfer or payment of cash, the transfer, contribution, sale or purchase of any other asset, the direct or

indirect payment of any expense or obligation, the direct or indirect assumption of any liability, the provision of any service, the payment of a management or service fee of any nature, any extension of credit, any overdraft, or any advance; and (B) each other transaction posted to the general ledger (either a debit or credit entry), including, but not limited to adjustments of accruals, posting of items held in suspense to their proper accounts, and other month-or quarter-end adjusting entries;

(iii) “extension of credit” shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (“Regulation O”) (12 C.F.R. § 215.3);

(iv) “Insider” shall include any current or former officer, director, or principal shareholder, as defined in section 215.2 (m) of Regulation O (12 C.F.R. § 215.2 (m)), of FSB or its nonbank subsidiaries, their related interests, any member of their immediate families, or any person acting on their behalf;

(v) “related interest” shall be defined as set forth in section 215.2(n) of Regulation O (12 C.F.R. § 215.2(n)); and

(vi) “immediate family” shall be defined as set forth in section 225.41(b)(3) of Regulation Y of the Board of Governors (12 C.F.R. § 225.41(b)(3)).

(c) For the purposes of paragraph 5(a), “transaction” shall not include the payment of any money to the Bank by FSB, its nonbank subsidiaries, or any Insider.

Ethics and Conflict of Interest Policy

6. Within 90 days of the Order, FSB shall submit to the Reserve Bank a written code of ethics and conflicts of interest policy that applies to all institution-affiliated parties of FSB and its nonbank subsidiaries. The code of ethics and conflicts of interest policy shall address the responsibilities of institution-affiliated parties and the avoidance of conflicts of interest, in

transactions with FSB, its nonbank subsidiaries, and the Bank. At a minimum, the code of ethics and conflicts of interest policy shall:

(a) Prohibit self-dealing by institution-affiliated parties and their related interests, and the advancing of personal, business, or other interests at the expense of FSB, its nonbank subsidiaries, or the Bank; and

(b) describe the ethical conduct and other standards expected of institution-affiliated parties in the performance of their duties and responsibilities.

7. Within 90 days of this Order, FSB shall submit to the Reserve Bank an acceptable written plan to ensure compliance by institution-affiliated parties of FSB and its nonbank subsidiaries with the code of ethics and conflicts of interest policy described in paragraph 6 of this Order. The plan shall, at a minimum, address, consider, and include:

(a) Policies and procedures to require all institution-affiliated parties to:

(i) file comprehensive written conflict of interest statements on a periodic basis that describe actual or potential conflicts with the interests of FSB, its nonbank subsidiaries, or the Bank; and

(ii) immediately report any new conflicts of interest or the discovery of previously unreported conflicts of interest;

(b) policies to identify all institution-affiliated parties and ensure that institution-affiliated parties do not participate in any violations of applicable laws and regulations, including, but not limited to sections 23A and 23B of the Federal Reserve Act, Regulation W, and Regulation O.

(c) internal controls to monitor compliance with the code of ethics and conflicts of interest policy and report any noncompliance or exceptions to the approved policy to FSB's board of directors and the Reserve Bank;

(d) training for all institution-affiliated parties provided on a regular basis regarding the code of ethics and conflicts of interest policy and the requirements of applicable laws, rules, and regulations.

Compliance with Laws and Regulations

8. (a) Within 30 days of this Order, FSB shall submit an acceptable plan, including a timetable, to cease engaging, directly and indirectly, in all activities that are impermissible for a bank holding company that is not a financial holding company.

(b) FSB and its affiliates shall not commence any additional activity or acquire control or shares of any company under section 4(k) of the Bank Holding Company Act (the "BHC Act") (12 U.S.C. § 1843(k)).

(c) FSB shall not commit any violation of the BHC Act (12 U.S.C. § 1841 *et seq.*).

(d) Within 30 days of this Order, FSB shall submit to the Reserve Bank acceptable policies and procedures to ensure that FSB and its nonbank subsidiaries comply with all applicable laws and regulations. At a minimum, the policies and procedures shall establish internal controls to review all proposed transactions among FSB, its nonbank subsidiaries, or the Bank.

(e) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, FSB 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 (12 C.F.R. §§ 225.71 *et seq.*).

(f) FSB shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the FDIC's regulations (12 C.F.R. Part 359).

Capital

9. Within 90 days of this Order, FSB shall submit to the Reserve Bank an acceptable written plan to maintain sufficient capital at the consolidated organization and the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The consolidated organization's and the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D) and the applicable capital adequacy guidelines for the Bank issued by the Bank's appropriate federal regulator;

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, allowance for loan and lease losses ("ALLL"), current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill the consolidated organization's and the Bank's future capital requirements;

(d) federal or state supervisory requests for additional capital at the Bank or the requirements of any supervisory action imposed on the Bank by any federal or state regulator;

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that FSB serve as a source of strength to the Bank; and

(f) procedures for FSB to notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which FSB's consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the plan's minimum ratios and to submit to the Reserve Bank an acceptable written plan that details the steps FSB will take to increase its and the Bank's capital ratios above the plan's minimum within 30 days of such calendar quarter-end date.

Dividends

10. (a) FSB and its nonbank subsidiaries shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(b) FSB and its nonbank subsidiaries shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director").

(c) FSB and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior written approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information on FSB's and, as appropriate, any of its nonbank subsidiaries' capital, earnings, and cash flow; the Bank's capital,

asset quality, earnings, and ALLL; identification of the sources of funds for the proposed payment or distribution; and, to the extent that the proposed payment or distribution will be made with dividends paid by the Bank, whether the Bank's federal and state regulators have approved the dividend payment to FSB. For requests to declare or pay dividends, FSB must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Debt and Stock Redemption

11. (a) FSB and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) FSB and its nonbank subsidiaries shall not, directly or indirectly, purchase or redeem any shares of their stock without the prior written approval of the Reserve Bank.

Compliance with the Order

12. Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof.

Approval and Implementation of Plans, Policies, and Procedures

13. (a) FSB shall submit written plans, policies, procedures, and an engagement letter that are acceptable to the Reserve Bank, within the time periods set forth in paragraphs 2(b), 2(e), 3(a), 4(a), 7, 8(a), 8(d), and 9 of this Order. An independent public accounting firm acceptable to the Reserve Bank shall be retained by FSB within the time period set forth in paragraph 2(a) of this Order.

(b) Within 10 days of approval by the Reserve Bank, FSB shall adopt the approved plans, policies, procedures, and engagement letter. Upon adoption, FSB shall promptly implement the approved plans, policies, and procedures, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

Communications

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

(a) Ms. Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
1 Memorial Drive
Kansas City, Missouri 64198

(b) Mr. Larry McLaughlin
President
FSB Bancorp, Inc.
721 North Main Street
Altus, Oklahoma 73522

15. Notwithstanding any provision of this Order, the Reserve Bank may, in its sole discretion, grant written extensions of time to FSB to comply with any provision of this Order.

16. The provisions of this Order shall be binding upon FSB, its nonbank subsidiaries, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

17. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

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

By order of the Board of Governors of the Federal Reserve System, effective this 11th day of February, 2009.

FSB BANCORP, INC.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Larry McLaughlin
Larry McLaughlin
President

By: /s/ Jennifer J. Johnson
Jennifer J. Johnson
Secretary of the Board