

THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

by

THE FEDERAL RESERVE BANK OF KANSAS CITY
KANSAS CITY, MISSOURI

STATE OF OKLAHOMA
OKLAHOMA STATE BANKING DEPARTMENT
OKLAHOMA CITY, OKLAHOMA

Written Agreement by and among)	
)	
FIRST AMERICAN BANCORP, INC.)	
Stonewall, Oklahoma)	
)	
FIRST AMERICAN BANK)	
Stonewall, Oklahoma)	Docket Nos. 02-005 WA/RB-HC
)	02-005 WA/RB-SM
FEDERAL RESERVE BANK)	
OF KANSAS CITY)	
Kansas City, Missouri)	
)	
and)	
)	
OKLAHOMA STATE BANKING)	
DEPARTMENT)	
Oklahoma City, Oklahoma)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of First American Bancorp, Inc., Stonewall, Oklahoma ("First American"), a registered bank holding company, and its subsidiary bank, the First American Bank, Stonewall, Oklahoma (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, First American, the Bank, the Federal Reserve Bank of Kansas City (the "Reserve Bank"), and the Oklahoma State Banking Department (the "Commissioner") have mutually agreed to enter into this Written Agreement (the "Agreement");

WHEREAS, as a result of the identification of deficiencies in its operations, the Bank is taking steps to enhance and improve its policies and procedures for compliance with all applicable laws, regulations and guidelines, including the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 et seq.) and the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. 103.11 et seq.) (collectively referred to as the Bank Secrecy Act (the "BSA")) and the applicable provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63); and

WHEREAS, on _____, 2002 the boards of directors of First American and the Bank, at duly constituted meetings adopted resolutions authorizing and directing Jack A. Blair, chairman of the boards of directors of First American and the Bank, to enter into this Agreement on behalf of First American and the Bank, respectively, and consented to compliance by First American and the Bank and their institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and (b)(3)) (the "FDI Act"), with each and every applicable provision of this Agreement.

NOW, THEREFORE, First American, the Bank, the Reserve Bank, and the Commissioner agree as follows:

1. Within 45 days of this Agreement, the Bank's board of directors shall submit to the Reserve Bank and the Commissioner 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 Bank's board of directors will take to improve the Bank's condition and to maintain effective control over and supervision of the senior management, major operations, and activities of the Bank, including, at a minimum:
 - (i) the credit risk management program, including loan underwriting, documentation, approval, and administration;
 - (ii) operational risk;
 - (iii) liquidity and funding operations; and
 - (iv) the budgeting and strategic planning processes;
 - (b) the responsibility of the Bank's board of directors to monitor management's adherence to approved Bank policies and procedures; and
 - (c) deficiencies related to board of directors' oversight of management noted in the report of examination of the Bank conducted by the Reserve Bank in January 2002 (the "Report of Examination").

2.
 - (a) Within 60 days of this Agreement, the Bank's board of directors shall conduct a review of the functions and performance of the Bank's officers and shall forward to the Reserve Bank and the Commissioner a written report describing the specific actions that the Bank's board of directors proposes to take to strengthen the Bank's management structure and correct the deficiencies related to management noted in the Report of Examination.
 - (b) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written plan providing for orderly management succession. The plan shall, at a minimum, identify the individual(s) at the Bank who are considered to have the potential for advancement or promotion, the area(s) in which such individual(s) may assume new duties or responsibilities or the position(s) to which they may be promoted, and the training to be provided such individual(s) to ensure adequate successor management.

3.
 - (a) The Bank shall submit a plan to add at least two outside directors and shall report quarterly to the Reserve Bank and the Commissioner on efforts to secure additional outside directors.
 - (b) Prior to the election or appointment of any director or senior executive officer during the term of this Agreement, First American and 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 (12 C.F.R. 225, Subpart H).

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner acceptable written revisions to the loan policy and procedures that address the deficiencies noted in the Report of Examination. At a minimum, the revised loan policy and procedures shall consider and include:
 - (a) procedures for the origination, renewal, and approval of loans;
 - (b) guidelines for renewing watch list and past due loans;
 - (c) a requirement that all loans, including loan renewals, be supported by current and complete financial data, a clearly defined purpose, an analysis of the borrower's repayment capacity and the identification of the repayment sources, and, where applicable, a written cash flow analysis and complete collateral documentation and valuation; and
 - (d) the Interagency Guidelines for Real Estate Lending Policies (12 C.F.R. Part 208, App. C).

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written loan review program. This program shall be designed to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio, and shall, at a minimum, address, consider, and include:
 - (a) the designation of the individuals who will be responsible for determining initial loan grades and subsequent reviews;
 - (b) the frequency of loan review;
 - (c) a description of which loans will be reviewed;
 - (d) for each loan identified as a watch list loan, a written statement, maintained in the credit file, describing the reasons why such loan merits special attention and a proposed asset improvement plan;
 - (e) the development of an adequate internal loan review report; and
 - (f) periodic reporting to the board of directors of the status of the loan reviews and the action(s) taken by management to improve the Bank's position on each loan adversely graded.

6. The Bank shall not make or renew any extension of credit to or for the benefit of a borrower, including any related interest of the borrower, whose line of credit has been adversely classified in the Report of Examination or in any subsequent federal or state report of examination, or in any internal loan review, without the prior approval of the Bank's board of directors who shall document the reasons for the extension of credit or renewal.

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral or other means on each loan in excess of \$50,000 that was past due as to principal or interest in excess of 90 days as of the date of this Agreement, is on the Bank's watch list, or was adversely classified or listed as special mention in the Report of Examination.
- (b) Within ~~30~~ ⁶⁰ days of the date that any additional loan or other asset in excess of \$50,000 becomes past due as to principal or interest for more than 90 days, is placed on the Bank's watch list, or is adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve the Bank's position on such loan or other asset.
- (c) The plan for each loan or other asset shall be formally approved by the Bank's board of directors and shall, at a minimum, include:
- (i) the current status of the loan or other asset, including book and nonbook carrying value, and the nature and value of supporting collateral;
 - (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and projected balance owing and value of any anticipated additional collateral; and
 - (iii) where appropriate, the borrower's acknowledgement of and response to the plan.
8. The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan 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. A description of the reserve methodology shall be submitted to the Reserve Bank and the Commissioner within 60 days of this Agreement. 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 Commissioner the quarterly assessment, including the methodology used in determining the amount of loan loss reserve for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.
9. Within 60 days of this Agreement, First American and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable joint written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:
- (a) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors (12 C.F.R. Part 208, App. A and B);
 - (b) any planned growth in the Bank's assets;

- (c) the level of concentrations of credit;
 - (d) the volume of adversely classified assets;
 - (e) the anticipated level of retained earnings and dividends; and
 - (f) the source and timing of additional funds to fulfill the future capital and allowance for loan and lease loss needs of the Bank.
10. (a) The Bank shall not, directly or indirectly, violate the BSA or the rules or regulations issued pursuant thereto, and shall correct all BSA violations cited in the Report of Examination.
- (b) For the purposes of this Agreement, the term "violate" shall include any action (alone or with others) for or toward causing, bringing about, participating in, counseling or aiding or abetting a violation.
- (c) To ensure that the Bank does not violate any of the provisions of the BSA or the rules or regulations issued pursuant thereto, the Bank shall, within 60 days of this Agreement, submit to the Reserve Bank and the Commissioner an acceptable written plan designed to ensure compliance with:
- (i) the recordkeeping and reporting requirements for currency transactions over \$10,000 (31 C.F.R. 103.22);
 - (ii) the identification requirements relating to the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.28); and
 - (iii) the recordkeeping requirements for the purchase of bank checks and drafts, cashier's checks, money orders and traveler's checks (31 C.F.R. 103.29).
11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written enhanced customer due diligence program 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 the supervisory authorities, as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62).
12. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written compliance program, as required by the applicable provisions of Regulation H of the Board of Governors, designed to, among other things, ensure and maintain the Bank's compliance with the BSA and the rules and regulations issued pursuant thereto. The program, at a minimum, shall address the deficiencies noted in the Report of Examination and:
- (a) establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations;
 - (b) provide for independent testing of compliance with all applicable rules and regulations related to the BSA and the reporting of suspicious transactions, and ensure that compliance audits are performed

frequently, are fully documented, and are conducted with appropriate segregation of duties; and

- (c) provide appropriate training to all affected personnel, conducted by competent 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 and/or suspected criminal activity.
13. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director"), and the Commissioner. All requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, current and projected information on the Bank's earnings, cash flow, capital levels, asset quality, and loan loss reserve needs.
- (b) First American shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director. All requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, current and projected information on consolidated earnings, Bank capital levels, cash flow, asset quality, and loan loss reserve needs.
- (c) First American shall not 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.
14. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written business plan and budget for the remainder of 2002, which shall, at a minimum, provide for or describe:
- (i) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly pro forma financial statements;
 - (ii) a description of the operating assumptions that form the basis for major projected income and expense components, and the sources and uses of cash flow; and
 - (iii) the establishment of a quarterly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections.
- (b) A business plan and budget for each calendar year subsequent to 2002 shall be submitted to the Reserve Bank and the Commissioner at least one month prior to the beginning of that calendar year.
15. Within 30 days of the end of each calendar quarter (June 30, September 30, December 31, and March 31) following the date of this Agreement, the Bank's board of directors shall submit a written progress report to the Reserve Bank and the Commissioner detailing the actions taken to comply with each applicable provision of this Agreement and the results of those actions. The Bank's board of directors shall certify in writing to the Reserve Bank and the Commissioner that each director has

reviewed each quarterly progress report required by this paragraph. Such reports may be discontinued when the Reserve Bank and the Commissioner, in writing, release the Bank from making further reports.

16. The Bank, and First American where applicable, shall submit the policy, programs, plans, and procedures required by paragraphs 4, 5, 7, 9, 10(c), 11, and 12 hereof that are acceptable to the Reserve Bank and the Commissioner within the time periods set forth in this Agreement. The Bank, and First American where applicable, shall adopt the policy and all programs, plans, and procedures that are approved by the Reserve Bank and the Commissioner within 10 days of approval and then shall fully comply with them. During the term of this Agreement, First American and the Bank shall not amend or rescind the approved policy, programs, plans or procedures without the prior written approval of the Reserve Bank and the Commissioner.
17. All communications regarding this Agreement shall be sent to:
 - (a) Mr. Stephen McBride
Vice President
Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198
 - (b) Mr. Mick Thompson
Oklahoma State Bank Commissioner
Oklahoma State Banking Department
4545 N. Lincoln Boulevard
Suite 164
Oklahoma City, Oklahoma 73105
 - (c) Mr. Jack A. Blair
Chairman and Chief Executive Officer
First American Bank
P.O. Box 307
Stonewall, Oklahoma 74871-0307
18. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to First American and the Bank to comply with any provision of this Agreement.
19. The provisions of this Agreement shall be binding upon First American and the Bank and all of their institution-affiliated parties, in their capacities as such, and their successors and assigns.
20. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank and the Commissioner.

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

22. 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 the 19th day of June, 2002.

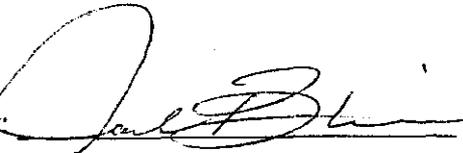
First American Bancorp, Inc.

By: 

Federal Reserve Bank of Kansas City

By: 

First American Bank

By: 

Oklahoma State Banking Department

By: 