

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

WYOMING STATE BANKING COMMISSIONER  
CHEYENNE, WYOMING

In the Matter of	)	
	)	
COWBOY STATE BANCORP, INC.	)	Docket Nos. 04-001-B-HC
Ranchester, Wyoming	)	04-001-B-SM
	)	
and	)	Cease and Desist Order Issued on Consent
	)	Pursuant to the Federal Deposit Insurance
COWBOY STATE BANK	)	Act, as Amended, and Title 13 of the
Ranchester, Wyoming	)	Wyoming Statutes
	)	
	)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Cowboy State Bancorp, Inc., Ranchester, Wyoming (“Bancorp”), a registered bank holding company, and its subsidiary bank, the Cowboy State Bank, Ranchester, Wyoming (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System (the “Board of Governors”), the Wyoming State Banking Commissioner (the “Commissioner”), Bancorp, and the Bank have mutually agreed to enter into this consent Cease and Desist Order (the “Order”);

WHEREAS, after being advised of the deficiencies identified by the Federal Reserve Bank of Kansas City (the “Reserve Bank”) and the Commissioner, the Bank is taking corrective measures to enhance and improve its programs and procedures for complying with the Currency and Foreign Transactions Reporting Act (31 U.S.C. 5311 et seq.) (the Bank Secrecy Act

(the “BSA”) and the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103), and with the anti-money laundering (“AML”) provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62 and 208.63); and

WHEREAS, on February 5, 2004, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing B. Bradford Waters to enter into this Order on behalf of Bancorp and the Bank, and consenting to compliance with each and every applicable provision of this Order by Bancorp, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818(b)(3)) (the “FDI Act”) and waiving any and all rights that Bancorp and the Bank may have pursuant to section 8 of the FDI Act (12 U.S.C. 1818), Title 13 of the Wyoming Statutes and the Wyoming Administrative Procedure Act to: (i) a hearing for the purpose of taking evidence on any matters set forth in this Order; (ii) to judicial review of this Order; (iii) to contest the issuance of this Order by the Board of Governors pursuant to section 8 of the FDI Act and the Commissioner pursuant to Title 13 of the Wyoming Statutes; and (iv) to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED that, pursuant to sections 8(b)(1) and (3) of the FDI Act, Bancorp, the Bank, and their institution-affiliated parties, and pursuant to Title 13 of the Wyoming Statutes, the Bank shall cease and desist and take affirmative action as follows:

## Board Oversight

1. Within 60 days of this Order, 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 board of directors will take to improve the Bank's condition and 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) training and compliance programs;
- (b) the responsibility of the board of directors to: (i) implement policies and procedures that are commensurate to the Bank's size and complexity; and (ii) monitor management's adherence to approved policies and procedures, and applicable laws and regulations;
- (c) a description of the 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; and
- (d) the deficiencies related to the board of directors' oversight of management noted in the joint combined report of examination of the Bank conducted by the Reserve Bank and the Commissioner in November 2003 (the "Report of Examination").

2. (a) Within 120 days of this Order, the Bank shall take such steps as are necessary to employ a qualified, full-time chief lending officer with demonstrated experience in the lending areas associated with the Bank's business plan, credit work-outs, and collections.

(b) In appointing any senior executive officer or director, Bancorp 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.

(c) Bancorp and 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).

### **Loan Policies and Procedures**

3. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner acceptable revised written loan policies and procedures that are appropriate to the Bank's size, loan products, and market strategies. The revised loan policies and procedures shall, at a minimum, address, consider, and include:

- (a) Underwriting standards that require loan officers to assess the financial condition of the borrower, including an 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 the 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 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; and
- (d) the deficiencies in loan policies and procedures noted in the Report of Examination.

### **Loan Documentation**

4. Within 60 days of this Order, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies and loan policy exceptions listed in the Report of Examination, including obtaining accurate and current financial statements and appraisals. During the term of this Order, the Bank shall maintain current and complete documentation on all loans consistent with its approved loan policies. In all cases where the Bank is unable to obtain needed documentation or credit information, it shall document the actions taken to secure

the information, the reason the information could not be obtained, and shall maintain such documentation in the appropriate file for subsequent supervisory review.

### **Loan Review**

5. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written revised loan review program. The program shall provide for an independent loan review function to identify, categorize, and monitor problem credits, to assess the overall quality of the Bank's loan portfolio, and to address the loan review deficiencies described in the Report of Examination. The program shall, at a minimum, address, consider, and include the following:

- (a) A description of the risk grades to be assigned to each loan;
- (b) the scope and frequency of loan review and grading; and
- (c) periodic reporting to the Bank's board of directors the status of the loan reviews and the actions taken by management to improve the Bank's position on each loan adversely graded.

### **Asset Improvement**

6. (a) Within 60 days of this Order, 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 or other asset and any related credits in excess of \$50,000, including other real estate owned, that was past due as to principal or interest more than 90 days as of the date of this Order, is on the Bank's watch list, or that was adversely classified or listed as special mention 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 report of examination and 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 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, 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.

(d) Within 30 days of the end of the next calendar quarter following the due date for submission of the initial asset improvement plans, and within 30 days of the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Commissioner 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.

7. (a) 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 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.

(b) For the purposes of this Order, the term "related interest" shall be defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. 215.2(n)).

### **Allowance for Loan and Lease Losses**

8. (a) 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, the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001, and examiners' criticisms noted in the Report of Examination.

(b) Within 60 days of this Order, the Bank shall submit a description of the reserve methodology to the Reserve Bank and the Commissioner. 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.

### **Accounting, Audit, and Internal Controls**

9. Within 90 days of this Order, the Bank shall review its accounting procedures to ensure that they conform to current industry standards and practices. A written summary of the review and its conclusions shall be retained for future supervisory review.

10. During the term of this Order, the Bank shall annually engage an independent public accounting firm to perform a full scope external financial audit, to be conducted in accordance with generally accepted auditing standards.

11. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner acceptable written procedures designed to strengthen its internal controls and to maintain the accuracy of the Bank's books and records, which shall, at a minimum, address, consider, and include:

- (a) Dual controls and segregation of duties;
- (b) monthly reconciliation of general ledger and subsidiary ledger accounts, and timely resolution of open items;
- (c) the timely and accurate preparation, including supporting schedules, and filing of the Bank's Report of Condition and Income; and
- (d) corrective measures to address the internal control deficiencies noted in the Report of Examination.

#### **Capital Plan**

12. Within 90 days of this Order, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable joint written plan to achieve and maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

- (a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);
- (b) the volume of adversely classified assets;
- (c) the adequacy of the loan loss reserve and loan review program;
- (d) any planned asset growth;
- (e) the anticipated level of retained earnings;
- (f) anticipated and contingent liquidity needs;
- (g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank; and

- (h) the requirements of section 225.4(a) of the Regulation Y of the Board of Governors that Bancorp serve as a source of strength to the Bank.

### **Earnings Plan and Budget**

13. (a) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner a written strategic business plan for 2004 for improving the earnings and overall condition of the Bank. The plan, at minimum, shall provide for or describe:

- (i) The identification of the major areas in and means by which the Bank's board of directors will seek to improve the Bank's operating performance;
- (ii) realistic and comprehensive budgets;
- (iii) a description of 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
- (iv) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) A business plan and budget for each calendar year subsequent to 2004 shall be submitted to the Reserve Bank and the Commissioner at least one month prior to the beginning of that calendar year.

### **Asset/ Liability Management**

14. (a) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner acceptable written revised asset/liability management policies designed to improve management of the Bank's liquidity and sensitivity to market risk.

(b) The revised policy regarding liquidity shall, at a minimum, address, consider, and include: (i) appropriate measures to monitor the Bank's liquidity position; (ii) appropriate standards for volume, mix, and maturity of the Bank's loans, investments,

deposits, and alternative funding sources; (iii) specific liquidity targets and parameters, and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; (iv) a contingency funding plan to identify the sources of liquidity; and (v) the recommendations regarding liquidity in the Report of Examination.

(c) The policy regarding sensitivity to market risk shall, at a minimum, address the following parameters for interest rate risk: (i) appropriate guidelines for “GAP” management; (ii) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and (iii) appropriate parameters governing the economic risk to the Bank’s capital due to changes in interest rates.

#### **BSA Compliance**

15. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written compliance program, as required by applicable provisions of Regulation H of the Board of Governors (12 C.F.R. 208.63) and the BSA (31 U.S.C. 5318(h)), designed to ensure and maintain compliance with all provisions of the BSA. The program shall, at a minimum, include all elements required by Regulation H, and in particular shall provide for:

(a) Adequate AML and other internal controls to ensure compliance with all provisions of the BSA and the regulations issued thereunder, including but not limited to requirements relating to the recordkeeping and reporting requirements for currency transactions of over \$10,000 (31 C.F.R. 103.22);

(b) independent review 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) the training of all appropriate personnel conducted on a regular basis by competent personnel in all aspects of regulatory and internal policies and procedures related to the BSA.

16. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to ensure compliance with the regulations of the U.S. Department of the Treasury's Office of Foreign Asset Control ("OFAC") (31 C.F.R. 500 et seq.), as well as any guidelines issued or administered by OFAC. The plan shall include, at a minimum, procedures to ensure that customer transactions are processed in accordance with OFAC requirements and in accordance with a regularly updated list of entities and individuals whose transactions or assets are required to be blocked, frozen, or monitored.

### **Information Technology**

17. Within 90 days of this Order, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve the Bank's information technology function, which shall, at a minimum, address, consider, and include:

- (a) An enterprise-wide information security risk assessment, as required by Appendix D-2 to Regulation H of the Board of Governors (12 C.F.R. Part 208, App. D-2) and Appendix F to Regulation Y of the Board of Governors (12 U.S.C. Part 225, App. F), to enable the Bank to meet all applicable requirements for protecting nonpublic customer information and to assist the Bank in making future appropriate adjustments to their information security safeguards;
- (b) revisions to current policies, procedures, and controls to address logical information security;
- (c) procedures and controls to strengthen the effectiveness and integrity of the Bank's information security program, including but not limited to segregation of duties and password security; and
- (d) the information technology deficiencies noted in the Report of Examination and the report of the examination of the bank conducted by the Reserve Bank, dated December 16, 2002.

## **Compliance with Laws and Regulations**

18. The Bank shall immediately take all necessary steps consistent with sound banking practices to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the Bank's board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

## **Dividends**

19. (a) Bancorp and 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.

(b) Bancorp 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 and the Commissioner.

(c) All requests for prior approval shall be received by the Reserve Bank and the Commissioner at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings, and cash flow, capital, asset quality, and loan loss reserve needs of the Bank.

## **Debt and Stock Redemption**

20. (a) Bancorp shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank and the Commissioner. 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) Bancorp shall not redeem any stock without the prior written approval of the Reserve Bank and the Commissioner.

### **Compliance with Order**

21. (a) Within 15 days of this Order, the boards of directors of Bancorp and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Bancorp's and the Bank's compliance with the provisions of this Order. The Compliance Committee shall be comprised of three or more outside directors who are not executive officers or principal shareholders of Bancorp or the Bank, as defined in section 215.2 (e)(1) of Regulation O of the Board of Governors (12 C.F.R. 215.2(3)). At a minimum, the Compliance Committee shall keep detailed minutes of each meeting, and shall report its findings to the boards of directors on a monthly basis.

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

### **Approval of Plans, Policies, and Procedures**

22. The written plans, policies, procedures, and programs required by paragraphs 3, 5, 6, 11, 12, 14, 15, 16, and 17 of the Order shall be submitted to the Reserve Bank and the Commissioner for review and approval. Acceptable plans, policies, procedures, and programs shall be submitted within the time periods set forth in the Order. The Bank and, where

applicable, Bancorp shall adopt the approved plans, policies, procedures, and programs within 10 days of approval by the Reserve Bank and the Commissioner and then shall fully comply with them. During the term of this Order, the approved plans, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Commissioner.

### **Communications**

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

- (a) Ms. Susan E. Zubradt  
Vice President  
Federal Reserve Bank of Kansas City  
925 Grand Boulevard  
Kansas City, Missouri 64198
- (b) Mr. Jeffrey C. Vogel  
State Banking Commissioner  
122 W. 25<sup>th</sup> Street  
Cheyenne, Wyoming 82002
- (c) Mr. B. Bradford Waters  
Chairman of the Boards of Directors  
Cowboy Bancorp, Inc. and Cowboy State Bank  
515 Dayton Street, P.O. Box 789  
Ranchester, Wyoming 82839

24. Notwithstanding any provision of this Order to the contrary, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to Bancorp and the Bank to comply with any provision of this Order.

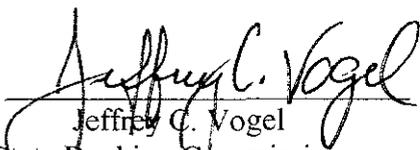
25. The provisions of this Order shall be binding upon Bancorp, the Bank, and all of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

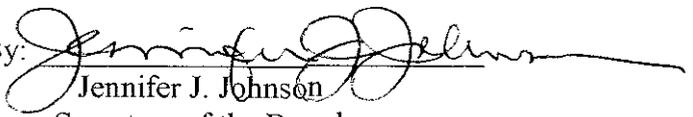
27. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or the Commissioner, or any other federal or state agency from taking any other action affecting Bancorp or the Bank or any of their current or former institution-affiliated parties.

By order of the Board of Governors of the Federal Reserve System and the Wyoming State Banking Commissioner effective this 24<sup>th</sup> day of February, 2004.

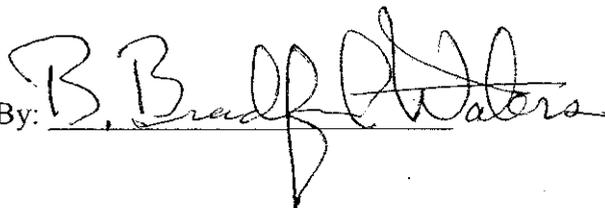
Wyoming State Banking Commissioner

By:   
Jeffrey C. Vogel  
State Banking Commissioner

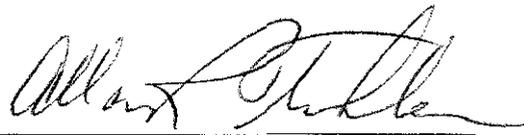
Board of Governors of the  
Federal Reserve System

By:   
Jennifer J. Johnson  
Secretary of the Board

Cowboy State Bancorp, Inc.

By:   
Brad Waters

Cowboy State Bank

By:   
Allan G. Miller