

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)
ANADARKO BANK & TRUST) Docket No. 07-012-WA/RB-SM
COMPANY)
Anadarko, Oklahoma)
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 Anadarko Bank & Trust Company, Anadarko, Oklahoma (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Kansas City (the “Reserve Bank”), and the Oklahoma State Banking Department (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”);
and

WHEREAS, on April 24, 2007, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Philip Burns

to enter into this 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)(3)), with each and every provision of this Agreement.

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

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank 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 improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including but not limited to its credit risk management program;

(b) measures to strengthen the board loan committee’s oversight of lending activities and to ensure adequate representation by outside directors on the board loan committee;

(c) steps to improve the effectiveness of the loan review function;

(d) a description of the detailed information to be included in periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on proposed credits that require approval by the board loan committee, the Bank’s adversely classified assets, loan loss reserve adequacy, and earnings; and

(e) measures to correct the deficiencies related to the board of directors' oversight of management noted in the Report of Examination of the Bank conducted by the Reserve Bank that commenced on January 22, 2007 (the "Report of Examination").

2. (a) Within 60 days of this Agreement, the Bank shall take such actions as are necessary to employ a permanent, full-time chief lending officer with the requisite ability, qualifications, and demonstrated experience needed to oversee the lending function of the Bank.

(b) The board of directors shall take such steps as are necessary to ensure that clear lines of authority are established over the lending and credit administration functions.

3. The board of directors shall take appropriate action to add to the board as soon as practicable at least one additional outside director with banking, other lending, or significant business experience, and shall submit a written report quarterly to the Reserve Bank and the Department on the board of directors' efforts to secure a new outside director. For purposes of this Agreement, the term "outside director" ("Outside Director") is defined as an individual who (a) is not an employee or officer of the Bank or its holding company, Falcon Bancorp, Inc., Anadarko, Oklahoma, a registered bank holding company ("Holding Company"), and (b) does not own, control, or have the power to vote 5 percent of any class of voting securities of Holding Company or the Bank. Shares owned or controlled by a member of an individual's immediate family are considered to be held by the individual.

4. 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, 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 (12 C.F.R. §§ 225.71 *et seq.*).

5. 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(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Loan Policies, Procedures, and Administration

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

(a) Underwriting standards that are appropriate for each type of loan product offered by the Bank, and include and provide for, at a minimum:

(i) documented analysis of the borrower's repayment source, creditworthiness, and debt service ability;

(ii) clear loan-to-value limits; and

(iii) amortization schedules that are structured to collect principal and interest within a reasonable period of time and consistent with the purpose of the credit;

(b) loan approval process, including but not limited to approval limits for all loan officers and the board's loan committee;

(c) a complete description of required loan documentation and collateral for each specific type of loan, and a requirement for maintenance of such documentation in the loan files;

(d) guidelines for real estate appraisal reviews that are consistent with the Interagency Statement on Independent Appraisal and Evaluation Functions, dated October 27, 2003 (SR 03-18, October 28, 2003), and Interagency Appraisal and Evaluation Guidelines, dated October 27, 1994 (SR-94-55, October 28, 1994), as well as the requirements of

Subpart G of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. Part 225, Subpart G), made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R § 208.50);

- (e) procedures for exceptions to the Bank’s loan policies, including required documentation by the account officer and approval by the board of directors;
- (f) procedures for renewing, extending, or modifying existing loans, including procedures for documenting the basis for each renewal, extension or modification;
- (g) guidelines for periodic written collateral evaluations;
- (h) maintenance of an accurate watch list and an effective independent loan review program;
- (i) requirements that the Bank promptly obtain and maintain current documentation for, and appraisals on, other real estate owned by the Bank (“OREO”); and
- (j) provisions to address the deficiencies noted in the Report of Examination.

7. The Bank’s board of directors and senior management shall take all steps necessary to ensure that, within 90 days after adoption of the revised policies and procedures required by paragraph 6 of this Agreement, all loan officers receive training on such policies and procedures.

Asset Improvement

8. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged-off by the Bank or classified, in whole or in part, “loss” or “doubtful” in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower whose extension of credit has been classified “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors, who shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower’s credit file for subsequent supervisory review.

(c) For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

9. (a) Within 60 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, including OREO, that (i) is past due as to principal or interest

more than 90 days as of the date of this Agreement; (ii) is on the Bank's watch list; or (iii) 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, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's watch list, or is adversely classified in any subsequent report of examination 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) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Department to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current watch list, extension report, and past due/non-accrual report. The first report shall be due 30 days after the quarter ending September 30, 2007.

Allowance for Loan and Lease Losses

10. (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 maintain, in accordance with generally accepted accounting principles ("GAAP"), an adequate valuation reserve for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in accordance with relevant

supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 and December 13, 2006. The elements of supervisory guidance to be considered shall include, but are not limited to, the reliability of the Bank's loan grading system, the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of 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 examiners' criticisms noted in the Report of Examination.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a description of the methodology used to determine the Bank's ALLL. Thereafter, the Bank shall conduct, at least on a quarterly calendar basis, an assessment of its ALLL and, within 30 days after 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 ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Capital Plan

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable 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 Measure and Tier 1 Leverage Ratio, 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;
- (d) any planned asset growth;
- (e) the anticipated level of retained earnings;
- (f) anticipated and contingent liquidity needs; and
- (g) the source and timing of additional funds to fulfill the future capital and

loan loss reserve needs of the Bank.

12. The board of directors shall monitor and review the sufficiency of the Bank's capital position on a monthly basis and shall reflect such reviews in the minutes of the board of directors meetings.

Earnings Plan and Budget

13. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a written business plan for 2007 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; and
- (ii) realistic and comprehensive budgets.

(b) A business plan for each calendar year subsequent to 2007 shall be submitted to the Reserve Bank and the Department at least one month prior to the beginning of that calendar year.

Information Technology

14. Within 90 days of this Agreement, the Bank shall take steps to:

- (a) Prepare and submit to the board of directors for approval an information

security risk assessment and annual status report, as required by Appendix D-2 to Regulation H of the Board of Governors (12 C.F.R. Part 208, App. D-2), designed 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 its information security safeguards;

(b) ensure that the Bank's IT audit scope and testing is adequate and findings are reported to the board of directors; and

(c) perform an annual documented review of system access levels, including access to wire transfer systems, to ensure that proper access levels and internal controls are in place.

Dividends

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

Compliance with the Agreement

16. (a) Within 10 days of this Agreement, the board of directors of the Bank shall appoint a compliance committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include at least two Outside Directors, as defined in paragraph 3 of this Agreement. At a

minimum, the Compliance Committee shall meet no less often than monthly, shall keep detailed minutes of each meeting, and shall report its findings to the board of directors monthly.

(b) Within 30 days after the end of each calendar quarter 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. The first report shall be due 30 days after the quarter ending September 30, 2007.

Approval and Implementation of Plans, Policies, and Procedures

17. (a) The Bank shall submit written plans, policies, and procedures that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 6, 9(a), 9(b), and 11 of this Agreement.

(b) Within 30 days of approval by the Reserve Bank and the Department, the Bank shall adopt the approved plans, policies, and procedures. Upon adoption, the Bank shall implement the approved plans, policies, and procedures and thereafter fully comply with them.

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

Communications

18. All communications regarding this Agreement 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. Mick Thompson
Bank Commissioner
Oklahoma State Banking Department
4545 N. Lincoln Boulevard, Suite 164
Oklahoma City, Oklahoma 73105

(c) Mr. Philip Burns
Chairman of the Board
Anadarko Bank & Trust Company
P.O. Box 667
Anadarko, Oklahoma 73005-0667

19. Notwithstanding any provision of this Agreement, 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.

20. 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.

21. Each provision of this Agreement shall remain effective and enforceable until jointly stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Department.

22. 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.

23. 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 13th day of August, 2007.

ANADARKO BANK &
TRUST COMPANY

By: _____/s/_____
Mr. Philip Burns
Chairman of the Board

FEDERAL RESERVE BANK OF
KANSAS CITY

By: _____/s/_____
Ms. Susan E. Zubradt
Vice President

OKLAHOMA STATE BANKING
DEPARTMENT

By: _____/s/_____
Mr. Mick Thompson
Bank Commissioner