

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
	)	
FIRST STATE BANK	)	CONSENT ORDER
LONOKE, ARKANSAS	)	
	)	FDIC-11-228b
	)	
(Insured State Nonmember Bank)	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for First State Bank, Lonoke, Arkansas (“Bank”), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting board of directors (“Board”), has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated July 8, 2011, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

**CAPITAL INCREASE AND MAINTENANCE**

1. (a) Within 90 days after the effective date of this ORDER, the Bank shall achieve and thereafter maintain its Tier 1 Leverage Capital ratio equal to or greater than 8% of the Bank’s Average Total Assets; shall maintain its Tier 1 Risk-Based Capital ratio equal to or

greater than 10% of the Bank's Total Risk-Weighted Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than 12% of the Bank's total Risk-Weighted Assets. On or before December 31, 2011, the Bank shall achieve and thereafter maintain its Tier 1 Leverage Capital ratio equal to or greater than 9% of the Bank's Average Total Assets; shall maintain its Tier 1 Risk-Based Capital ratio equal to or greater than 11% of the Bank's Total Risk-Weighted Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than 13% of the Bank's Total Risk Weighted Assets. Any increase in the Bank's Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or
- (2) The direct contribution of cash subsequent to January 10, 2011, by the directors and shareholders of the Bank and/or by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to January 10, 2011, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director of the FDIC's Dallas Regional Office ("Regional Director") and the Commissioner of the Arkansas State Bank Department ("Commissioner").

(b) If any such capital ratios are less than the percentages required by this ORDER, as determined as of the date of any Consolidated Reports of Condition and Income ("Call Report") or at an examination by the FDIC or the Arkansas State Bank Department ("State"), the Bank shall, within 30 days after receipt of a written notice of the capital deficiency

from the Regional Director and the Commissioner, present to the Regional Director and the Commissioner a plan to increase the Bank's Tier 1 Capital or to take other measures to bring all the capital ratios to the percentages required by this ORDER. After the Regional Director and the Commissioner respond to the plan, the Bank's Board shall adopt the plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(c) Thereafter, the Bank shall immediately initiate measures detailed in the plan, to the extent such measures have not previously been initiated, to increase the Bank's Tier 1 Capital by an amount sufficient to bring all the capital ratios to the percentages required by this ORDER within 60 days after the Regional Director and the Commissioner respond to the plan.

(d) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new Bank securities, the Bank's Board shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan, and in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If

the increase in Tier 1 Capital is to be provided by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented to the Regional Director and the Commissioner for prior approval.

(e) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(f) The Capital Plan must include a contingency plan ("Contingency Plan") that shall include a plan to sell or merge the Bank in the event that the Bank:

- (1) Fails to maintain the minimum capital ratios required by the ORDER,
- (2) Fails to submit an acceptable Capital Plan, or
- (3) Fails to implement or adhere to a Capital Plan to which no written objection was provided by the Regional Director and the Commissioner.

The Bank shall be required to implement the Contingency Plan only upon written notice from the Regional Director and the Commissioner.

(g) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(h) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

### **DIVIDEND RESTRICTION**

2. While this ORDER is in effect, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

### **PROFIT PLAN**

3. (a) Within 60 days after the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board shall develop, adopt, and implement a written profit plan consisting of goals and strategies for improving the earnings of the Bank for each calendar year. The written profit plan shall include, at a minimum:

- (1) Identification of the major areas in, and means by, which the Board will seek to improve the Bank's operating performance;
- (2) Realistic and comprehensive budgets;
- (3) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections on not less than a quarterly basis; and

(4) A description of the operating assumptions that form the basis for and support major projected income and expense components.

(b) Thereafter, the Bank, its directors, officers, and employees shall follow the written profit plan and/or any subsequent modification.

**CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

4. (a) Within ten days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the State as a result of its examination of the Bank dated January 10, 2011. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered “collection” for the purpose of this paragraph.

(b) Within 60 days after the effective date of this ORDER, the Bank shall submit a written plan to reduce the remaining assets classified Substandard as of January 10, 2011 (“Classified Asset Plan”), to the Regional Director and the Commissioner for review. The Classified Asset Plan shall address each borrowing relationship, security, or other real estate asset so classified with a balance of \$500,000 or greater. The Classified Asset Plan shall include any classified assets identified subsequent to the January 10, 2011 examination by the Bank internally or by the FDIC or the State in a subsequent visitation or examination. For each identified asset, the Classified Asset Plan should provide the following information:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;

- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Time frames for accomplishing the proposed actions.

The plan shall also include, at a minimum:

- (1) Review the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (2) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Bank's Board and a provision mandating a review by the Bank's Board.

(c) The Bank shall present the plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the plan, including any requested modifications or amendments shall be adopted by the Bank's Board, which approval shall be recorded in the Bank's Board meeting minutes. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of adversely classified assets as of January 10, 2011, shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses ("ALLL") and may be accomplished by:

- (1) Charge-off;

- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or
- (4) Increase in the Bank's Tier 1 Capital.

(e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future visitation or examination conducted by the FDIC or the State. The Bank shall also update the Classified Asset Plan as needed to reflect any assets subsequently classified as Doubtful or Substandard by the Bank internally or by the FDIC or the State.

#### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

5. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified Loss by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Substandard by the FDIC or the State as the result of its examination of the Bank,

either in whole or in part, and is uncollected, unless the Bank's Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Bank's Board meeting.

### **CONCENTRATIONS – PLAN FOR REDUCTION**

6. (a) Within 60 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written plan to reduce the commercial real estate loan concentration of credit identified in the Report of Examination as of January 10, 2011, to not more than 300 percent of the Bank's total Tier 1 Capital. Such plan shall prohibit any additional advances that would increase the concentrations above the target level for the current quarter as identified in the plan and shall include, but not be limited to:

- (1) Dollar levels to which the Bank shall reduce each concentration;  
and
- (2) Provisions for the submission of monthly written progress reports to the Bank's Board for review and notation in the Bank's Board meeting minutes.

(b) For purposes of the plan, "reduce" means to:

- (1) Charge-off;
- (2) Collect; or
- (3) Increase Tier 1 Capital.

(c) After the Regional Director and the Commissioner have responded to the plan, the Bank's Board shall adopt the plan as amended or modified by the Regional Director and the Commissioner. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

7. Prior to the end of each calendar quarter, the Bank's Board shall review the adequacy of the Bank's ALLL. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. The minutes of the Bank's Board meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL.

### **LIQUIDITY/ASSET/LIABILITY MANAGEMENT**

8. Within 60 days after the effective date of this ORDER, the Bank shall submit to the Regional Director and the Commissioner for review and comment a written revision of its Master Action Liquidity Plan establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Reports. Annually thereafter, while this ORDER is in effect, the Bank shall review its revised Master Action Liquidity Plan and, based upon such review, shall make necessary revisions to maintain a reasonable range for its net non-core funding ratio and to meet the Bank's liquidity needs.

### **CORRECTION OF VIOLATIONS**

9. (a) Within 30 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the Report of Examination.

(b) Within 30 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.

### **AMENDED CALL REPORTS**

10. Within 30 days after the effective date of this ORDER the Bank shall review Call Reports filed with the FDIC as of December 31, 2010, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. During the life of this ORDER the Bank shall file with the FDIC Call Reports which accurately reflect the financial condition of the Bank as of the end of the period for which the Call Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC or Department examination or visitation of the Bank during that reporting period.

### **BUSINESS PLAN**

11. While this ORDER is in effect, the Bank shall not enter into any new line of business without the prior written consent of the Regional Director and the Commissioner.

### **SELF EXAMINATION**

12. The Board shall continue to participate in the State Bank Department's monthly Self-Examination Program, and the information contained therein shall be correct and submitted on a timely basis.

### **COMPLIANCE COMMITTEE**

13. Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a committee of the Bank's Board charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least two-thirds of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The committee shall report monthly to the full Bank's Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the meeting minutes of the Bank's Board. The establishment of this subcommittee shall not diminish the responsibility or liability of the entire Bank's Board to ensure compliance with the provisions of this ORDER.

### **SHAREHOLDER NOTIFICATION**

14. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

## **PROGRESS REPORTS**

15. Within 30 days after the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Regional Director has released the Bank in writing from making additional reports.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the State.

Issued pursuant to delegated authority this 8th day of July 2011.

/s/ \_\_\_\_\_  
Kristie K. Elmquist  
Acting Regional Director  
Dallas Region  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation