

#2002-74

AGREEMENT BY AND BETWEEN
THE FIRST NATIONAL BANK OF CHELSEA
CHELSEA, OKLAHOMA
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

The First National Bank of Chelsea (Bank), and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules, and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated December 31, 2001 (ROE).

In consideration of the above premises, the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, the Assistant Deputy Comptroller, Tulsa, Oklahoma (Assistant Deputy Comptroller), do hereby agree that the Bank shall operate at all times in compliance with the Articles of this Agreement.

ARTICLE I

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. 1818(e)(1) and 12 U.S.C. 1818(i)(2).

(3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i

(4) This Agreement shall be construed to be a "written agreement" within the meaning of 12 U.S.C. § 1818(u)(1)(A).

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of signing the Formal Agreement, the Board shall appoint a Compliance Committee consisting of three (3) outside directors. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) Within thirty (30) days of the appointment of the Compliance Committee and quarterly thereafter, the Compliance Committee shall submit a written status report to the Board setting forth in detail:

- (a) actions taken to comply with each provision of this Agreement, and
- (b) the results of those actions.

(3) On a calendar quarterly basis and within thirty (30) days of the end of each calendar quarter, the Board shall forward a copy of the Compliance Committee's quarter end progress report, with any additional comments by the Board, to Leigh R. Hoge, Assistant Deputy Comptroller, Office of the Comptroller of the Currency, Executive Center Building, 7134 South Yale, Suite 910, Tulsa, Oklahoma 74136-6310.

ARTICLE III

RISK BASED CAPITAL

(1) The Bank shall achieve by June 30, 2002 and thereafter maintain Tier 1 leverage capital at least equal to eight percent (8%) of adjusted average assets (as defined in 12 C.F.R. Part 3).

(2) By September 30, 2002, the Board shall develop and implement a three year capital program. The program shall include:

- (a) specific plans for the maintenance of adequate capital which may in no event be less than the requirements of paragraph (1);
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans which identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy which permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. 56 and 60; and
 - (iii) with a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(3) The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller for a prior determination of no supervisory objection. Failure to submit an acceptable capital program or annual program review and update shall constitute noncompliance with this Article. Upon receiving a determination of no supervisory objection from the ADC, the Bank shall implement and adhere to the updated capital program.

ARTICLE IV

ACTION PLANS ON CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in any ROE or by internal or external loan review.

(2) The Board shall, by July 31, 2002, adopt and implement a written program designed to eliminate the basis of criticism of assets criticized in the ROE as "doubtful", "substandard", or "special mentioned".his program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) a current valuation and analysis of supporting collateral and the position of the Bank's lien on such collateral and the date and source of value where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis of all income sources and debt service requirements where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets shall be forwarded to the Assistant Deputy Comptroller for a prior determination of no supervisory objection.

(4) The Board, or a designated committee, shall conduct a review, on at least a calendar quarterly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof which is equal to or exceeds twenty-five thousand dollars (\$25,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action, including, but not limited to, initiating a collection program.

(5) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a calendar quarterly basis.

(6) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in any ROE or by internal or external Loan Review and whose aggregate loans or other extensions exceed twenty-five thousand dollars (\$25,000) only if each of the following conditions are met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending, or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records in writing, why such extension is necessary to promote the best interests of the Bank; and

- (b) a written comparison to the program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.
- (7) A copy of the Board's approval shall be maintained in the file of the affected borrower.

ARTICLE V

LENDING POLICY

(1) By July 31, 2002, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the *Loan Portfolio Management* booklet, of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;
- (b) a provision that current and satisfactory credit information will be obtained on each borrower;
- (c) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (d) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (e) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (f) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;

- (g) a definition of the Bank's trade area;
- (h) guidelines and limitations for loans originating outside of the Bank's trade area;
- (i) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;
- (j) a distribution of loans by category;
- (k) when policy exceptions are acceptable and how they should be identified, mitigated, documented, tracked, and reported to the Board;
- (l) guidelines for loans to insiders, including a statement that such loans will not be granted on terms more favorable than those offered to similar outside borrowers;
- (m) guidelines and limitations on concentrations of credit;
- (n) a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
- (o) measures to correct the deficiencies in the Bank's lending procedures noted in any ROE;
- (p) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk. At a minimum, the policy shall:
 - (i) establish dollar limits on extensions of credit to any one borrower, above which the prior approval of the Board, or a committee thereof, would be required;
 - (ii) establish dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower,

regardless of amount, would require the prior approval of the Board, or a committee thereof; and

(iii) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written strategic plan, receive the prior approval of the Board, or a committee thereof.

(q) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum the policy shall:

(i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and

(ii) provide guidelines and limitations on the capitalization of interest;

(r) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery;

(s) guidelines for periodic review of the Bank's adherence to the revised lending policy;

(t) specific underwriting guidelines for consumer lending; and

(u) guidelines detailed in OCC Bulletin 2000-20 - *Uniform Retail Classification and Account Management Policy*.

(2) Upon adoption, the policy shall be implemented, the Board shall thereafter ensure Bank adherence to the policy, and a copy of the policy shall be forwarded to the Assistant Deputy Comptroller for review by August 30, 2002.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE VI

DOCUMENTATION TRACKING SYSTEM

(1) The bank shall monitor and obtain updated, annual and interim satisfactory credit information on all commercial loans lacking such information.

(2) Internal reports detailing the type, volume, and level of documentation exceptions should be forwarded to the Assistant Deputy Comptroller for review by September 30, 2002 and quarterly thereafter.

ARTICLE VII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in OCC Bulletin 2001-37; *Interagency Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions*, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal loan review;
- (b) results of the Bank's external loan review;
- (c) evaluating loans on an individual basis for impairment under FAS 114;

- (d) segmenting the remainder of the portfolio into homogeneous pools and evaluating loans on a group basis to derive appropriate historical loss rates under the guidelines of FAS 5; and
- (e) adjusting historical loss rates for each pool to reflect the impact of environmental factors listed below:
 - (1) levels of and trends in delinquencies and impaired loans;
 - (2) levels of and trends in charge-offs and recoveries;
 - (3) trends in volume and terms of loans;
 - (4) effects of any changes in risk selection and underwriting standards, and other changes in lending policies, procedures, and practices;
 - (5) experience, ability, and depth of lending management and other relevant staff;
 - (6) national and local economic trends and conditions;
 - (7) industry conditions; and
 - (8) effects of changes in credit concentrations.

In addition, the Board and management should implement an independent review process designed to periodically evaluate the effectiveness of the ALLL process. A party independent of the ALLL estimation process should conduct validation of the methodology.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller by July 31, 2002 and quarterly thereafter.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VIII

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within ninety (90) days, the Board shall ensure that the Bank has competent management in place on a full-time basis in all core areas of the Bank and, in particular, a Senior Loan Officer, to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within thirty (30) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties and the Board will determine whether management changes should be made, including the need for additions to or deletions from current management.

(3) For incumbent officers in the positions mentioned in Paragraph (1) of this Article, the Board shall within thirty (30) days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.

(4) If the Board determines that an officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within sixty (60) days develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured; and

- (d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

(5) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within ninety (90) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(6) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(7) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(8) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. 1818(b) and do not require the Comptroller to complete his/her review and act on any such information or authority within ninety (90) days.

ARTICLE IX

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the ADC for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (i) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (ii) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (iii) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (iv) require corrective action be taken in a timely manner of any non-compliance with such actions.

(3) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United

States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(4) Time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(5) This Agreement shall be effective upon execution by the parties hereto, and its provisions shall continue in full force and effect unless or until such provisions are amended by mutual consent of the parties to the Agreement or excepted, waived, or terminated by the Comptroller.

(6) All correspondence related to this Agreement, and any information or documentation required hereunder to be submitted to the Comptroller, shall be sent, by overnight mail, hand delivery, or facsimile to:

Leigh R. Hoge, Assistant Deputy Comptroller
Office of the Comptroller of the Currency
7134 South Yale, Suite 910
Tulsa, Oklahoma 74136-6360
Facsimile Number: (918) 492-2092

/s/ Leigh R. Hoge

6/18/2002

Leigh Hoge, Assistant Deputy Comptroller

Date

Agreed and Accepted:

Signed

6/18/02

Quintin Draeger

Date

Signed

6-18-02

Will Farrior

Date

Signed

6-18-02

Nancy Mason

Date

Signed

6-18-02

David H. Sanders, Sr.

Date

Signed

6-18-02

David H. Sanders, Jr.

Date

Signed

6-18-02

Steve Savage

Date

Signed

6-18-02

Rick D. Johnson

Date