

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

In the Matter of:)
Home National Bank)
Blackwell, OK)

AA-EC-10-42

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Home National Bank, Blackwell, Oklahoma (“Bank”) is a “significantly undercapitalized” bank pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6;

WHEREAS, the Comptroller of the Currency (“Comptroller”) is authorized, pursuant to 12 U.S.C. § 1831o(f), to take certain supervisory actions against significantly undercapitalized banks;

WHEREAS, on May 6, 2010, the Director for Special Supervision ("Director") notified the Bank it was "critically undercapitalized pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6; and

WHEREAS, the Comptroller finds it necessary in order to carry out the purpose of 12 U.S.C. § 1831o to issue this Prompt Corrective Action Directive (“Directive” or "Order") pursuant to 12 C.F.R. § 6.21(a)(2) requiring the Bank to immediately follow proscriptions and take actions;

NOW THEREFORE, pursuant to the authority in 12 U.S.C. § 1831o, the Comptroller hereby issues this Directive.

ARTICLE I

JURISDICTION

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1, *et seq.*

(2) The Office of the Comptroller of the Currency is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1831o.

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1831o.

(4) This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

(5) A violation of this Directive constitutes a violation of a final order under section 1831o and is subject to the assessment of civil money penalties under 12 U.S.C. § 1818(i)(2)(A).

ARTICLE II

APPOINTMENT OF NEW PRESIDENT AND DIRECTORS

(6) Within twenty-four (24) hours of receipt of this Directive, the Board shall identify an acting President and shall obtain the prior written supervisory non-objection from the Director for the appointment of an acting President, who shall serve as the Bank’s President until a permanent successor is hired by the Bank. In addition, within sixty (60) days of the date of this Directive, the Board shall appoint at least two new and fully qualified directors to serve on the Bank’s Board.

(7) Prior to the appointment of any individual as a director or senior executive officer of the Bank, the Board shall submit to the Director written notice as required by 12 C.F.R. § 5.51 and in accordance with the Comptroller’s Licensing Manual.

ARTICLE III

SEVERANCE PAYMENTS

(8) The Bank shall not make any payments of severance or remuneration to any institution-affiliated party unless approved pursuant to 12 U.S.C. § 1828(k)(4) and 12 C.F.R. Part 359.

(9) The Bank shall make no indemnification payments to, or on behalf of any institution-affiliated party unless such payments fully comply with 12 U.S.C. § 1828(k)(5) and 12 C.F.R. Part 359. Pursuant to 1831o(f)(2)(J), the Bank shall not cause any indemnification payments to be made to, or on behalf of, any institution-affiliated party without obtaining the prior written supervisory non-objection from the Director. Any request for the Director's supervisory non-objection shall include a legal opinion from independent counsel setting forth the basis under which such indemnification payments fully satisfy the requirements of 12 U.S.C. § 1828(k)(5) and 12 C.F.R. Part 359.

ARTICLE IV

LIMITATIONS ON NEW CONTRACTS

(10) The Bank shall not enter into or renew any contracts over \$5,000 without obtaining the prior written supervisory non-objection from the Director.

(11) The Bank shall not enter into or renew contracts in any amount with any shareholders, insiders, or affiliated companies of insiders without obtaining the prior written supervisory non-objection from the Director.

(12) Any request for the Director's supervisory non-objection shall include:

- (a) a description of the services to be performed, including a copy of the proposed contract or engagement;

- (b) a description of the Bank's due diligence process for selecting the contractor or service provider and the results of the due diligence review, including a description of why an individual was selected;
- (c) a cost/benefit analysis for engaging the shareholder, insider, or any insider-affiliated companies as a contractor or service provider;
- (d) a determination by the Board that the contract or engagement is being entered into at arm's length on terms and conditions fair and reasonable to the Bank, including the ability of the parties to perform under the contract or commitment; and
- (e) a determination by the Board that the contract is in the best interests of the Bank.

(13) Following any supervisory non-objection granted by the Director, the Board must routinely monitor the performance of the contractor or service provider to ensure that committed goods and services are received, and that they are in compliance with the written contract or engagement.

(14) The Board shall ensure that the Bank develops and thereafter maintains processes, personnel, and control systems sufficient to ensure implementation of and adherence to this Article.

ARTICLE VI

ASSET QUALITY

(15) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in any Report of Examination, by any internal or external loan review, or in any list provided to management by the national bank examiners during any examination.

(16) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in any Report of Examination, or by any internal or external loan review, or in any list provided to management by the national bank examiners during any examination as “doubtful,” “substandard,” or “special mention.” This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank’s lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis 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.

(17) Upon adoption, a copy of the program for all criticized assets equal to or exceeding one hundred fifty thousand dollars (\$150,000) shall be forwarded to the Director.

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

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds one hundred fifty thousand dollars (\$150,000);
- (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.
- (e) A copy of each review shall be forwarded to the Director on a quarterly basis.

(19) 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 Report of Examination, in any internal or external loan review, or in any list provided to management by the national bank examiners during any examination and whose aggregate loans or other extensions exceed one hundred fifty thousand dollars (\$150,000) only if each of the following conditions is met:

- (a) the Board, or designated committee thereof, 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 comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(20) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE VII

CREDIT RISK RATING SYSTEM

(21) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to an effective and on-going internal loan and lease risk rating system that accurately identifies, categorizes, and reports problem loans and leases. The system shall use a loan and lease grading process consistent with the guidelines set forth in the Rating Credit Risk booklet,

A-RCR, of the Comptroller's Handbook. The system shall provide for the submission of a monthly written report to the Board detailing, at a minimum:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification of credit and collateral documentation exceptions;
- (c) the identification of all loans and leases not in conformance with the Bank's lending and leasing policies; and
- (d) the identification and status of credit related violations of law, rule or regulation.

For all loans and leases and violations of law identified by the system, the officer originating and responsible for the matter must be identified.

(22) The Board shall evaluate each internal loan and lease review report it receives pursuant to the first paragraph of this article and shall ensure that immediate, adequate, and continuing remedial action is taken, if appropriate, for all findings noted in the report.

(23) 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 VIII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(24) The Board shall immediately require and the Bank shall implement and thereafter adhere to a written policy and procedures for the maintenance of an adequate Allowance for Loan and Lease Losses ("ALLL"). The policy and procedures shall be consistent with the comments on maintaining a proper ALLL found in the Interagency Policy Statement on the ALLL contained in

OCC Bulletin 2006-47 (December 13, 2006) and with “Allowance for Loan and Lease Losses,” Booklet A-ALLL of the Comptroller’s Handbook, and shall incorporate the following:

- (a) internal risk ratings of loans;
- (b) results of the Bank’s independent loan review;
- (c) criteria for determining which loans will be reviewed under FAS 114, how impairment will be determined, and procedures to ensure that the analysis of loans complies with FAS 114 requirements;
- (d) criteria for determining FAS 5 loan pools and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with generally accepted accounting principles and regulatory guidance;
- (f) loan loss experience;
- (g) trends of delinquent and non-accrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and projected economic and market conditions.

(25) The policy and procedures shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to filing the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL, and made available for review by national bank examiners.

(26) A copy of the Board’s ALLL policy and procedures, and any subsequent revisions, shall be submitted to the Director for review within 30 days of adoption by the Board.

ARTICLE IX

APPRAISALS

(27) The Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal, in accordance with 12 C.F.R. Part 34, on any loan exceeding five hundred thousand dollars (\$500,000) that is secured by real property:

- (a) where the loan was criticized in the most recent Report of Examination, in any subsequent Report, or by the Bank's internal or external loan review, and the most recent independent appraisal is more than twelve (12) months old; or
- (b) where the borrower has failed to comply with the contractual terms of the loan agreement and the loan officer's analysis of current financial information does not support the ongoing ability of the borrower or guarantor(s) to perform in accordance with the contractual terms of the loan agreement, and the most recent independent appraisal is more than twelve (12) months old.

(28) The Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal, in accordance with 12 C.F.R. Part 34, on each parcel of Other Real Estate Owned ("OREO") where it is needed to bring an existing OREO appraisal into conformity with the provisions of 12 C.F.R. Part 34. The Board shall require and the Bank shall obtain a current independent appraisal or updated appraisal when any new parcel is transferred to OREO.

(29) Appraisals required by this Article shall be ordered within thirty (30) days of the date of this Order, and going forward, within thirty (30) days following the event triggering the appraisal requirement, for delivery to the Bank within sixty (60) days of ordering.

(30) Within thirty (30) days, the Board shall require and the Bank shall develop and implement an independent review and analysis process to ensure that appraisals conform to

appraisal standards and regulations. The appraisal review and analysis process shall ensure that appraisals are:

- (a) performed in accordance with 12 C.F.R. Part 34;
 - (b) consistent with the guidance in OCC Bulletin 2005-6, “Appraisal Regulations and the Interagency Statement on Independent Appraisal and Evaluation Functions: Frequently Asked Questions” (March 22, 2005); and
 - (c) consistent with OCC Advisory Letter 2003-9, “Independent Appraisal and Evaluation Function” (October 28, 2003).
- (31) Written documentation supporting each appraisal review and analysis shall be retained in the loan file, along with the appraisal.

ARTICLE X

NON-ACCRUAL LOANS

(32) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income (“Call Report Instructions”) governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

(33) Within thirty (30) days, the Board shall adopt and implement written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:

- (a) be consistent with the accounting requirements contained in the Call Report Instructions;

- (b) address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and
- (c) require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(34) Within thirty (30) days, the Board shall develop and implement a written policy governing the identification of and accounting treatment for nonaccrual loans. The policy shall address the first paragraph of this article and shall be consistent with the accounting requirements contained in the Call Report Instructions.

(35) Within thirty (30) days, the Board shall develop and implement a written policy that shall provide for auditing accrued interest on loans. The policy shall, at a minimum, provide for quarterly audits of loan accruals and incorporate procedures for periodically testing the Bank's identification of nonaccrual loans as governed by the policies adopted pursuant to this Article.

(36) Upon adoption, a copy of the written policies and procedures shall be forwarded to the Director and the Board shall thereafter ensure Bank adherence to all policies and procedures developed pursuant to this Article.

ARTICLE XI

EXECUTIVE COMPENSATION AND BENEFITS

(37) Effective immediately, the Board, or a compensation committee thereof, shall formally vote to approve any changes or renewals to Bank management compensation. The actions proposed and the vote taken must be clearly recorded in the Board or compensation committee minutes.

(38) Within ninety (90) days from the effective date of this Order, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan for executive compensation, including salaries, bonuses, fees, expenses, and other benefits, for each executive management position. The written compensation plan shall ensure that total compensation for executive management positions at the Bank is comparable to banks in its peer group.

(39) Within thirty (30) days of adoption, a copy of the compensation plan shall be submitted to the Director.

ARTICLE XII

CAPITAL RATIOS

(40) Effective immediately, the Bank shall achieve and maintain total risk-based capital to risk-weighted assets of at least twelve percent (12%) and Tier 1 capital to adjusted total assets of at least nine percent (9%).¹

ARTICLE XIII

PRESERVATION OF BOOKS AND RECORDS

(41) Effective immediately upon issuance of this Directive, the Bank shall ensure that all documents, books, and records are accurately maintained and shall continue to ensure that no Bank documents, books, or records are destroyed, altered or removed from the Bank's premises until further notice from the Director.

(42) For purposes of this Article, "documents, books and records" shall have the broadest possible meaning reasonably imaginable and shall include, without limitation, paper and electronic

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total assets figure required to be computed for and stated in the Bank's most recent quarterly *Consolidated Report of Condition and Income* minus end-of-quarter intangible assets, deferred tax assets, and credit-enhancing interest-only strips, that are deducted from Tier 1 capital, and minus nonfinancial equity investments for which a Tier 1 capital deduction is required pursuant to section 2(c)(5) of Appendix A of 12 C.F.R. Part 3.

records of all kinds, reports, notes, calendars, phone logs, e-mails, voice-mails, financial instruments, and tapes.

(43) The Bank shall provide OCC personnel with prompt and unrestricted access to the books, records, directors, officers, and staff of the Bank.

ARTICLE XIV

VIOLATIONS OF LAW

(44) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited in the April 30, 2010 Interim Report of Examination and in any subsequent Report of Examination.

(45) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the Report and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(46) Within thirty (30) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the Report and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(47) Upon adoption, a copy of these procedures shall be promptly forwarded to the Director.

ARTICLE XV

OTHER ACTIONS REQUIRED

(48) Immediately upon issuance of this PCA Directive, the Bank shall not do any of the following without the prior written approval of the Bank's Board of Directors and the prior written non-objection of the OCC²:

- (a) enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, or other similar action;
- (b) engage in the sale or transfer of any Bank asset or pool of assets exceeding a fair market value of one hundred thousand dollars (\$100,000). Any asset sale or transfer less than \$100,000 should be reported to the OCC after the sale;
- (c) transfer any asset to the holding company or other affiliated party or person;
- (d) engage in any transaction for the transfer of funds, the extension of credit, acceptance or transference of risk and/or the conferring of another type of benefit, directly or indirectly, involving any Bank affiliates, as defined in 12 U.S.C. § 371c, or current or former Bank directors, shareholders, senior executive officers, or their respective family members;
- (e) amend the Bank's charter or bylaws, except to the extent necessary to carry out any other requirement of law, regulation, or order;
- (f) make any change in accounting methods; or
- (g) increase compensation or other payments, including bonuses, to any employee, agent or independent contractor above the average rate of compensation paid to that employee, agent or independent contractor by the

² This is in addition to any approval required by the FDIC.

Bank during the 12 months preceding the month in which the bank became undercapitalized.

ARTICLE XVI

OTHER PROVISIONS

(49) The provisions of this Directive supplement, and do not replace, the requirements of a June 18, 2008 Formal Agreement imposed on the Bank.

(50) This Directive is enforceable under 12 U.S.C. § 1818(i). Each provision of this Directive shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other persons participating in the affairs of the Bank.

(51) Any time limitations imposed by this Directive shall begin to run from the effective date of this Directive. Such time limitations may be extended in writing by the Director for good cause upon written application by the Board asking for relief. Such application shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with the provision within the required timeframe, and be accompanied by relevant supporting documentation and any other facts upon which the Bank relies. The Director's decision concerning a request is final and not subject to further review.

(52) The provisions of this Directive are effective upon issuance of this Directive by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Directive shall have been stayed, amended, suspended, waived, or terminated in writing by the Comptroller.

(53) 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, or any institution-affiliated party of the Bank, nothing in this Directive shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(54) Unless notified otherwise, all written petitions or appeals, or submissions required to be submitted to the Comptroller pursuant to this Directive shall be forwarded via overnight mail to:

Henry Fleming, Director
Special Supervision Division, Mail Stop 6-4
Office of the Comptroller of the Currency
250 E Street SW
Washington, DC 20219

IT IS SO ORDERED, this 11th day of May, 2010.

/s/ Henry Fleming
Henry Fleming
Director for Special Supervision
Office of the Comptroller of the Currency