

UNITED STATES OF AMERICA

Before The

OFFICE OF THRIFT SUPERVISION

In the Matter of:

RIVER VALLEY SAVINGS BANK, FSB
Ozark, Arkansas

Re: No. DAL-96-03

Date: January 26, 1996

STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision ("OTS"), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against River Valley Savings Bank, FSB (the "Association") pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b). 1/

WHEREAS the Association desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist except those as to jurisdiction (as set forth in Paragraph 1, below), hereby stipulates and agrees to the following terms:

1. Jurisdiction.

(a) The Association is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. § 1813(b), and Section 2(4) of the Home Owners' Loan Act, 12 U.S.C. § 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).

(b) Pursuant to section 8(b) of the FDIA, 12 U.S.C. § 1818(b), the appropriate Federal banking agency may issue a cease and desist order against any insured depository institution that engages in unsafe or unsound practices in conducting its business and/or violates a rule or regulation.

1/ All references to the United States Code ("U.S.C.") are as amended.

Stipulation and Consent

(c) Pursuant to Section 3(q) of the FDIA, 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking agency" to maintain an administrative proceeding against such a savings association. Therefore, the Association is subject to the jurisdiction of the OTS to initiate and maintain an administrative proceeding against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b).

2. OTS Findings of Fact. The OTS finds that:

(a) The Association has failed to comply with 12 C.F.R. §§ 215.4(a), 215.5(d), 226.19(a), 545.33(c), 552.11(a), 562.1(b), 563.41, 563.42, 563.43, 563.97, 563.101, 563.161(a), 563.170(c), 563.176, 563.180, 566.2, 566.4, and 574.9(b) and 12 C.F.R. Part 564, as further discussed in the Report of Examination for the examination of the Association commenced on January 31, 1995 ("ROE");

(b) The Association has failed to monitor and document interest-rate risk exposure and has failed to maintain the required level of regulatory liquid assets (as required by 12 C.F.R. § 566.2) and accurate liquidity records (as required by 12 C.F.R. § 566.4), as further referenced in the ROE;

(c) The Association has made loans to executive officers that were not on substantially the same terms, or that were not made in accordance with the same credit-underwriting procedures, as loans available to others, in violation of 12 C.F.R. §§ 215.4 and 563.43 and as further referenced in the ROE;

(d) The Association has made loans to one or more executive officers that were not preceded by the submission of a detailed current financial statement and/or were not promptly reported to the Board, in violation of 12 C.F.R. § 215.5 and as further referenced in the ROE;

(e) The Association has failed to obtain adequate supporting documentation on various loans of high risk, in violation of 12 C.F.R. § 563.170(c) (and in some cases in violation of 12 C.F.R. § 564.3 or 12 C.F.R. § 564.4 with regard to appraisals) and as further referenced in the ROE;

(f) The Association has failed to maintain complete minutes of its Board's deliberations, in violation of 12 C.F.R. § 552.11(a) and as further referenced in the ROE;

(g) The Association has failed to maintain or attempt to maintain a true record of its beneficial stockholders, making it more difficult to determine who its affiliates and affiliated parties are;

(h) The Association failed to adopt and maintain written policies that establish appropriate limits and standards for

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extensions of credit secured by real estate, in violation of 12 C.F.R. § 563.101 and as further referenced in the ROE;

(i) The Association filed an inaccurate Thrift Financial Report for December of 1994 (in violation of 12 C.F.R. §§ 562.1(b) and 563.180) and has failed to maintain books, records, and schedules to support its Thrift Financial Report, all as further referenced in the ROE;

(j) The Association purchased a lot in Flippin, Arkansas which was not referenced in its business plan submitted in conjunction with its application to organize only several months before the purchase, which is not deemed feasible to be used as an office facility of the Association in the near future, and which was not purchased in accordance with a prudent program of property acquisition designed to meet the Association's present or reasonable future needs (i.e., the standards set forth in 12 C.F.R. § 545.77), as further referenced in the ROE;

(k) The Association purchased land in Ozark, Arkansas from an affiliate, Sebastian Bankshares, without obtaining an appraisal of the land or otherwise determining the true value of the land, in violation of 12 C.F.R. §§ 563.41 and 563.42 and as further referenced in the ROE;

(l) The Association refinanced a severely delinquent loan, contrary to the best interests of the Association, in order to benefit an affiliate, River Valley Bank & Trust, as further referenced in the ROE;

(m) Following the safety and soundness examination preceding that commenced on January 31, 1995, the Board took very little corrective action prior to the examination commenced on January 31, 1995, to remedy violations that had been brought to its attention and provided extremely little oversight of the Association's management; and

(n) Due to factors adversely affecting the quality of the Association's assets and the Association's failure to reflect such factors in its asset classification and resultant allowance for loan and lease losses, the Association's allowance for loan and lease losses was substantially inadequate, as referenced in the ROE.

3. Consent. The Association consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.
4. Finality. The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director or designee for the Midwest Region, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).

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5. Waivers.

(a) The Association waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

(b) The Association acknowledges and agrees that the consent to the issuance of the Order is for the purposes of resolving this OTS enforcement matter only (solely with regard to deficiencies referenced in Paragraph 2 hereof to the extent known by the OTS at the time the Order is issued) and does not resolve, affect or preclude any other civil or criminal proceeding which may be or has been brought by the OTS or another governmental entity, including but not limited to actions that may be taken by the OTS against institution-affiliated parties with regard to the same or different subject matters.

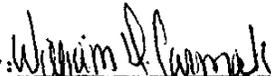
6. Signature of Directors. Each Director signing this Stipulation attests that s/he voted in favor of a resolution authorizing the execution of the Stipulation.

Stipulation and Consent

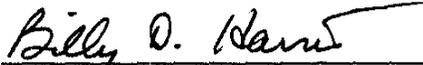
WHEREFORE, the Association, by a majority of its directors, execute this Stipulation and Consent to the Issuance of an Order to Cease and Desist, intending to be legally bound hereby.

River Valley Savings Bank, FSB
by a majority of its directors

Accepted by:
Office of Thrift Supervision

By: 
William D. Carmack


Frederick R. Casteel
REGIONAL DIRECTOR
Midwest Region

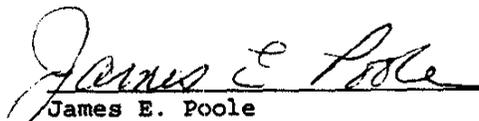

Billy D. Harris

Date: 1-26-96


Jan K. Nielsen


Larry D. Owen


James C. Patterson


James E. Poole

UNITED STATES OF AMERICA

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OFFICE OF THRIFT SUPERVISION

In the Matter of:

RIVER VALLEY SAVINGS BANK, FSB
Ozark, Arkansas

Re: No. DAL-96-03

Date: January 26, 1996

ORDER TO CEASE AND DESIST

WHEREAS, River Valley Savings Bank, FSB, Ozark, Arkansas (the "Association"), OTS Docket Number 11025, by and through its Board of Directors ("Board"), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Stipulation"); and

WHEREAS, the Association, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b). ¹/₁

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to each of the Regional Directors of the OTS the authority to issue Orders to Cease and Desist on behalf of the OTS where the Association has consented to the issuance of the Order.

NOW THEREFORE, IT IS ORDERED THAT the Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of any unsafe or unsound practice or any violation of:

(a) 12 C.F.R. § 215.4(a) (regarding terms and creditworthiness of loans to insiders);

(b) 12 C.F.R. § 215.5(d) (regarding additional restrictions on loans to executive officers);

¹/₁ All references to the United States Code ("U.S.C.") are as amended.

Order to Cease and Desist

- (c) 12 C.F.R. § 226.19(a) (regarding disclosure on certain residential mortgage transactions);
- (d) 12 C.F.R. § 545.33(c) (regarding adjustments on home loans);
- (e) 12 C.F.R. § 552.11(a) (regarding books and records);
- (f) 12 C.F.R. § 562.1(b) (regarding records and reports);
- (g) 12 C.F.R. § 563.41 (regarding transactions with affiliates);
- (h) 12 C.F.R. § 563.42 (regarding additional standards applicable to transactions with affiliates);
- (i) 12 C.F.R. § 563.43 (regarding loans to insiders);
- (j) 12 C.F.R. § 563.97 (regarding loans in excess of 90 percent of value);
- (k) 12 C.F.R. § 563.101 (regarding real estate lending standards);
- (l) 12 C.F.R. § 563.161(a) (regarding maintenance of safe and sound management);
- (m) 12 C.F.R. § 563.170(c) (regarding establishment and maintenance of records);
- (n) 12 C.F.R. § 563.176 (regarding interest-rate-risk-management procedures);
- (o) 12 C.F.R. § 563.180 (regarding reports and statements);
- (p) 12 C.F.R. Part 564 (regarding appraisals);
- (q) 12 C.F.R. § 566.2 (regarding liquidity requirements);
- (r) 12 C.F.R. § 566.4 (regarding liquidity records); and
- (s) 12 C.F.R. § 574.9(b) (regarding prior notice for additions of directors and employment of senior executive officers).

IT IS FURTHER ORDERED THAT:

CORRECTIVE PROVISIONS

1. Construction of Facilities and Divestiture of Real Estate.

(a) The Association shall neither commence construction on, nor contract or otherwise commit to construct, any office, branch, or similar facility without the prior written approval of the Regional Director of the Midwest Region, OTS, or his successor or designee ("Regional Director").

Order to Cease and Desist

(b) Within six months (or such longer period that is approved in writing by the Regional Director) of the effective date of this Order, the Association shall divest of its real estate now held in Flippin, Arkansas.

2. Liquidity.

(a) The Association at all times shall maintain adequate amounts of liquid assets, short-term liquid assets, and liquidity base in order to ensure that it satisfies the requirements of 12 C.F.R. § 566.2.

(b) The Association shall maintain accurate and complete records that shall enable the Board and staff of the OTS to determine at any given time the liquidity position of the Association and whether the Association is in compliance with 12 C.F.R. § 566.2.

3. Transactions with Affiliates and Affiliated Persons

The Association shall not, without the prior written approval of the Regional Director, engage or commit to engage in any transaction with any affiliate or affiliated person, as such terms are defined in 12 C.F.R. §§ 561.4 and 561.5, respectively, except for the following:

(a) the continuation of the Association's existing data processing arrangement with River Valley Bank and Trust under terms that have been accurately and completely disclosed in writing to the OTS prior to the issuance of this Order, provided that such arrangement is consistent with all applicable laws and regulations and provided that the Association is not informed in writing of OTS objection to such arrangement; and

(b) the continuation of compensation arrangements for officers, employees, and directors under terms currently in effect that have accurately and completely been disclosed in writing to the OTS prior to the issuance of this Order, provided that such arrangements are in compliance with all applicable laws and regulations and provided that the Association is not informed in writing of OTS objection to such arrangements.

4. Allowance for Loan and Lease Losses.

On at least a quarterly basis, beginning with the first quarter of 1996, the Board shall conduct a thorough review of the Association's asset classifications and allowance for loan and lease losses, making a determination as to whether such allowance is adequate. The findings of such review shall be documented in minutes of the Board.

5. Reports and Documentation.

(a) The Association shall obtain and maintain all documentation required by 12 C.F.R. §§ 563.170(c) and 564.3.

(b) The Association shall accurately complete its Thrift Financial Reports and all other reports required by statute, regulation, or this Order in accordance with all applicable statutes and regulations, published OTS guidance, and this Order.

Order to Cease and Desist

(c) The Association shall maintain its books, records, and schedules in a manner that is complete, accurate, and reconcilable with, and supportive of, reports that are submitted to the OTS.

(d) The Board and each of its committees shall maintain an accurate and complete record of their deliberations and actions.

(e) The Association, through its officers and the Board, shall ensure that it maintains an accurate stock register and maintains a written record, to the extent feasible, of those of its of-record stockholders who are serving, or are suspected of serving, as stockholders on behalf of other persons, together with the names of such persons for whom such nominee stockholders or suspected nominee stockholders are or appear to be acting.

(f) The Association shall use its best efforts to obtain documentation as necessary to remedy, to the extent feasible and as promptly as is feasible, its documentation deficiencies (in violation of 12 C.F.R. § 563.170(c) or 12 C.F.R. § 564.3) on all of its outstanding loans and investments.

6. Compensation; Terms of Employment; and Changes in Management Officials.

(a) The Association shall not pay or commit to pay, without the prior written approval of the Regional Director, any bonus, severance pay, or increase in salary, fee, other compensation, or other benefit, to any director, officer, employee, or agent beyond the level of payment that is already in place and has been disclosed in writing to the OTS prior to the issuance of this Order.

(b) The Association shall not, without the prior written approval of the Regional Director, pay or commit to pay, any fees for service on a committee.

(c) As required by Section 32 of the FDIA, 12 U.S.C. § 1831i, and 12 C.F.R. § 574.9, the Association shall provide at least 30-days prior, written notice to the OTS of any change to its directorate or executive officer staff before the employment or change in directorate becomes effective, and shall not make any such change if the OTS issues a notice of disapproval before the end of the 30-day period beginning on the date that the complete notice is filed.

(d) Pursuant to the guidelines of OTS Regulatory Bulletin 27a, the Association shall not enter into, renew, extend, or revise any contractual arrangement related to compensation or benefits with any director or senior executive officer (including anyone acting functionally in such position) of the Association or any subsidiary thereof unless (i) it provides a minimum of thirty-days advance notice of the proposed transaction and (ii) it receives a written notice of non-objection from the Regional Director with regard thereto.

(e) The Association shall not make any "golden parachute payment", as that term is defined in Section 18(k) of the FDIA, 12 U.S.C. § 1828(k), and as it may be further defined in regulations adopted by the Federal Deposit Insurance Corporation under that authority, unless it (i) provides a mini-

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imum of thirty-days advance, written notice of the proposed payment to the OTS and (ii) receives a written notice of non-objection from the Regional Director with regard thereto.

7. Capital Distributions.

The Association shall not make, declare, or commit to make or declare any capital distribution, as that term is defined in 12 C.F.R. § 563.14(a)(1), unless it first (a) provides a minimum of thirty-days advance, written notice of the proposed capital distribution to the Regional Director and (b) receives a prior, written notice of non-objection from the Regional Director.

8. Asset Growth.

Without the prior, written approval of the Regional Director, the Association shall not increase its Total Assets during any quarter in excess of \$500,000 from its Total Assets as of the previous quarter end.

9. Third Party Contracts; TB 50 Review.

The Association shall not enter into any third party contracts outside of the normal course of business, pursuant to the guidelines of OTS Thrift Bulletin 50, dated November 19, 1991, unless it (a) provides a minimum of thirty-days advance, written notice of the proposed contract and its terms, and (b) receives the prior, written approval of the contract by the Regional Director.

10. Restrictions on Lending.

The Association shall not, without the prior, written approval of the Regional Director, make or commit to make any of the following: (a) any nonresidential real estate loan in excess of \$40,000; (b) any multi-family dwelling construction loan in any amount; or (c) any commercial loan of any other kind in excess of \$10,000.

11. Board Committees.

The Association's Board shall, within 30 days of the effective date of this Order, create (if not already created), and shall thereafter utilize, a Loan Committee, an Internal Asset Review Committee, and an Interest Rate Risk/Liquidity Management Committee, the majority of each of which shall consist of directors who are not officers or employees of the Association.

BOARD OF DIRECTORS

12. Director Responsibility.

Notwithstanding the requirements of this Order that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual Board member's continuing fiduciary duty. The Board shall have the ultimate

Order to Cease and Desist

responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Order.

13. Compliance with Order.

(a) The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Order and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Order.

(b) The Board, on a monthly basis, shall adopt a Board resolution (the "Compliance Resolution"), formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Order currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption.

(c) The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

(d) No later than the 25th calendar day of the month following the end of a calendar quarter, beginning with the first calendar quarter of 1996, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolutions adopted at the Board meeting of each month in such calendar quarter. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association.

(e) The Board shall promptly respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Order.

MISCELLANEOUS

14. Definitions.

All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, FDIA or OTS Memoranda. Any such technical words or terms used in this Order and undefined in said Code of

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Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

15. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Order to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Order and references to successor provisions as they become applicable.

16. Duration, Termination or Suspension of Order.

(a) This Order shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

(b) The Regional Director, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Order.

17. Time Limits.

Time limitations for compliance with the terms of this Order run from the effective date of this Order, unless otherwise noted.

18. Effect of Headings.

The section headings herein are for convenience only and shall not affect the construction hereof.

19. Separability Clause.

In case any provision in this Order is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

20. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted.

Nothing in this Order shall be construed as: (a) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject; or (b) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

21. Successors in Interest/Benefit.

The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Order, express or implied, shall give to any person or

Order to Cease and Desist

entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Order.

THE OFFICE OF THRIFT SUPERVISION

By: *F. Casteel*
Frederick R. Casteel
Regional Director
Midwest Region

Date: 1-26-96