

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)

CENTRAL BANK FOR SAVINGS)
Winona, Mississippi)
OTS Docket No. 07550)

Order No.: MWR-04-19

Date: September 24, 2004

STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF

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 **CENTRAL BANK FOR SAVINGS, Winona, Mississippi** (Bank), OTS Docket No. 07550, pursuant to 12 U.S.C. § 1818(b)¹, and

WHEREAS, the Bank desires to cooperate with OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist, or the Findings of Fact or opinions and conclusions of OTS, except as to Jurisdiction, Paragraph 1, below, which is admitted, hereby stipulates and agrees to the following:

1. Jurisdiction

- A. The Bank is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, it is a “depository institution” as that term is defined in 12 U.S.C. § 1813(c).
- B. Pursuant to 12 U.S.C. § 1813(q), the Director of OTS is the “appropriate Federal Banking agency” to maintain an administrative cease and desist proceeding against such savings association. Therefore, the Bank is subject to the jurisdiction of the OTS to initiate and maintain cease and desist proceedings against it pursuant to 12 U.S.C. § 1818(b). The Deputy Director of OTS, pursuant to delegated authority from the Director of OTS, has delegated to OTS Midwest Regional Director or his/her designee (Regional Director) the authority to issue cease and desist orders where the association has consented to the issuance of the orders.

¹ All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

2. **OTS Findings of Fact**

An examination of the Bank was conducted jointly by the Mississippi Department of Banking and Consumer Finance, and OTS, as of June 28, 2004. Based on the June 28, 2004 Report of Examination of the Bank, OTS finds that the Bank violated:

- A. 12 C.F.R. § 560.170 (regarding credit underwriting and monitoring);
- B. 12 C.F.R. § 563.161 (regarding management and financial policies);
- C. 12 C.F.R. Part 570, Appendix A, Section II.C (regarding loan documentation);
- D. 12 C.F.R. Part 570, Appendix A, Section II.D (regarding credit underwriting);
- E. 12 C.F.R. Part 570, Appendix A, Section II.H (regarding earnings);
- F. 12 C.F.R. § 563.177(c)(2) (regarding independent testing for Bank Secrecy Act compliance); and
- G. 31 C.F.R. § 103.27(d) (regarding the filing of accurate or complete Currency Transaction Reports (CTRs)).

3. **Consent**

The Bank consents to the issuance by the OTS of the accompanying Consent Order to Cease and Desist for Affirmative Relief (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 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director, it shall be a final order, effective and fully enforceable by OTS under the provisions of 12 U.S.C. § 1818(i).

5. **Waivers**

The Bank waives the following:

- A. the right to be served with a written notice of OTS's charges against it as provided by 12 U.S.C. § 1818(b);
- B. the right to an administrative hearing of OTS's charges against it as provided by 12 U.S.C. § 1818(b);
- C. the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order;

- D. any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, the Equal Access to Justice Act, 5 U.S.C. § 504, or 28 U.S.C. § 2412; and
- E. the right to assert this proceeding, its consent to the issuance of the Order, the issuance of the Order, the payment of any monies or the provision of any other financial relief as contemplated by the Order as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity.

6. Other Governmental Actions Not Affected

The Bank acknowledges and agrees that its consent to the issuance of the Order is for the purpose of resolving this OTS enforcement matter only, as set forth in Paragraph 2, OTS Findings of Fact, hereof. The Bank acknowledges and agrees that its consent to the issuance of the Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against or other proceeding, civil or criminal, that may be or has been brought by OTS or another governmental entity. Further, the issuance of this Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against or other proceeding, civil or criminal, that may be or has been brought by OTS or any other governmental entity against any institution-affiliated party of the Bank.

7. Miscellaneous

- A. The construction and validity of this Stipulation and the Order shall be governed by the laws of the United States of America.
- B. In case any provision of the Stipulation or 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 or her sole discretion determines otherwise.
- C. All references to the OTS or the Bank in this Stipulation and the Order shall also mean any of the OTS's or Bank's predecessors, successors, and assigns.
- D. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the construction hereof.
- E. The terms of this Stipulation and the Order represent the final written agreement of the parties with respect to the subject matters hereof, and constitute the sole agreement of the parties with respect to such subject matters.

F. This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Deputy Director, Regional Director or other authorized representative.

8. **Signature of Directors**

Each Director of the Bank's Board of Directors signing this Stipulation attests that he/she voted in favor of a resolution authorizing the execution of the Stipulation. A copy of the resolution of the Board of Directors of Central Bank for Savings authorizing execution of this Stipulation shall be delivered to OTS, along with the executed original of this Stipulation.

WHEREFORE, Central Bank for Savings, Winona, Mississippi, by a majority of its directors, execute this Stipulation and Consent to the issuance of an Order to Cease and Desist for Affirmative Relief, intending to be legally bound hereby.

Accepted by:

OFFICE OF THRIFT SUPERVISION

By:

FR Casteel
Frederick R. Casteel
Midwest Regional Director

Effective Date: 9-24-04

Accepted By:

John S. Allison
John S. Allison, Commissioner
Mississippi Department of Banking
and Consumer Finance

9-22-04
Date

**Central Bank for Savings
Winona, Mississippi**

Accepted by a majority of its directors:

By: *Larry K. Johnson*
Larry K. Johnson, President, Director
and Chief Executive Officer

Donald W. Bond
Donald W. Bond
Chairman of the Board

W. P. Bridges, Jr., Director

Nancy B. Gilpin, Director

Donald E. Eskridge
Donald E. Eskridge, Director

James M. Crisler, Director

Macy B. Hart, Director

Frank E. Herring
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Larry B. McClellan, Director

Philip Ward, Director

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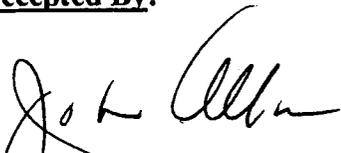
By:



Frederick R. Casteel
Midwest Regional Director

Effective Date: 9-24-04

Accepted By:



John S. Allison, Commissioner
Mississippi Department of Banking
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9-22-04

Date

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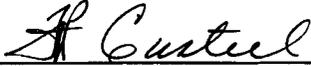

Philip Ward, Director

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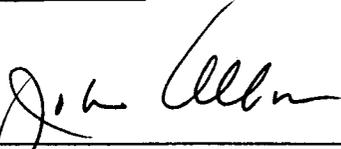
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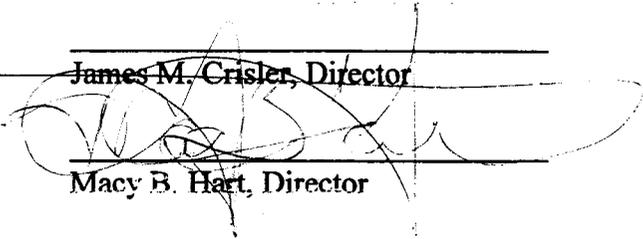
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Frank E. Herring, Director

~~Larry B. McClellan, Director~~

Philip Ward, Director

F. 12 C.F.R. § 563.177(c)(2) (regarding independent testing for Bank Secrecy Act compliance); and

G. 31 C.F.R. § 103.27(d) (regarding the filing of accurate or complete currency transaction reports).

IT IS FURTHER ORDERED THAT:

CORRECTIVE PROVISIONS

1. Resolution and Strategic Plan

A. By no later than September 30, 2004, the Board shall adopt and submit to the Regional Director and the Commissioner for the State of Mississippi Department of Banking and Consumer Finance (Commissioner) for written non-objection a Resolution and Strategic Plan that provides for:

1. Entering into an acceptable binding agreement, by no later than September 30, 2004, for an acquisition by, or merger with, another depository institution, a depository institution holding company, or a qualified entity, or the sale of all of the Bank's assets and liabilities to another depository institution, a depository institution holding company, or a qualified entity by December 30, 2004, unless such timeframe is extended by Regional Director and the Commissioner, or

2. Obtaining prompt capital infusions into the Bank sufficient to obtain and maintain the capital requirements set forth in Paragraph 1.D. Any proposal for the Bank to remain an ongoing entity must (i) provide for the Bank to meet the capital requirements set forth in Paragraph 1.D hereof and implement the Business Plan as required in Paragraph 2 hereof, and (ii) provide for review of management as provided for in Paragraph 3.

B. The Board shall accomplish such capital infusion, merger, acquisition, or sale by no later than December 30, 2004, unless such timeframe is extended in writing by the Regional Director and Commissioner.

C. The Bank must obtain and maintain sufficient capital to have at least 5 percent core capital and 12 percent risk-based capital at all times.

D. If the Board determines not to pursue a sale or acquisition of the Bank, the Board must obtain capital infusions or take other actions to ensure the Bank satisfies and maintains capital in the following amounts:

1. At least 6 percent core capital and at least 12 percent risk-based capital as of September 30, 2004; and

2. At least 8 percent core capital and at least 12 percent risk-based capital as of December 31, 2004.
- E. Neither President Larry Johnson nor any director shall act as a hindrance to any discussion, proposal, or offer for the purchase of the Bank.
- F. The Board and/or President Larry Johnson shall notify the Regional Director or the Commissioner upon the occurrence of any material event that may effect a change in control (as defined in 12 C.F.R. Part 574), reorganization, or sale of the Bank.
- G. The Board shall submit a report to the Regional Director, the Commissioner on the 15th and 30th day each month beginning September 15, 2004, which (i) summarizes all efforts of the Bank (a) to maintain capital of the Bank in compliance with Paragraph 1.D or (b) to sell, merge, or recapitalize the Bank in compliance with Paragraph 1.A.1; (ii) provides current PCA capital ratios as set forth in 12 C.F.R. § 565.4; and (iii) provides the status of (a) closing of Bridges Mortgage Company's (BMC) Biloxi office, (b) reduction of personnel and operations in BMC's Picayune office, and (c) status of operations of BMC's Madison and Ocean Spring offices, including profitability, volume of mortgage loans, and amount of mortgage buyback or repurchases, if any.
- H. The Bank, including its Board and management, shall take all necessary appropriate actions to follow the Resolution Plan in accordance with the written non-objection of the Regional Director and the Commissioner.

2. **Business Plan**

- A. By no later than November 1, 2004, the Board shall adopt and submit to the Regional Director, and the Commissioner a new, written, detailed three-year business and strategic plan (Business Plan), acceptable to the Regional Director and the Commissioner that:
 1. Provides financial projections for three years, on a quarterly basis, that (i) include major balance sheet and income statement components for the Bank, BMC, and its subordinate organizations, and (ii) set forth the Bank's tangible, core and risk-based capital;
 2. Provides for tangible capital, core capital, and risk-based capital that meet the requirements of Paragraph 1.D;
 3. Incorporates the Bank's liquidity policy that meets the requirements of Thrift Bulletin 77, including, but not limited to (i) an overall liquidity strategy with quantitative and qualitative targets; (ii) procedures for measuring and monitoring the Bank's liquidity and monitoring cash flow; (iii) contingency funding plan for mortgage banking operations; and (iv) Board review and follow-up;

4. Incorporates a three-year strategic plan (i) setting forth specific goals and objectives of the Bank, including BMC, for loan production offices; (ii) addressing the feasibility of any continuing operation of loan production offices, personnel, and locations, the business risks emanating from any such expansion, and the replacement of key personnel; (iii) setting forth limits on loan production based on personnel capabilities to eliminate loan documentation backlog; and (iv) setting forth a contingency plan for generating additional capital and reducing expenses in view of the level of classified assets or continued downturn in mortgage banking or the Mississippi Gulf Coast economy and for meeting goals and objectives in the strategic plan;
 5. Provides for increase in earnings to maintain adequate capital and asset valuation allowances in accordance with 12 C.F.R. § 560.160, after considering the Bank's asset quality and growth rate;
 6. Provides an analysis of the Bank's future staffing needs, the cost structure associated with those needs, the cost containment procedures in place in the event that the Bank does not attain its budgeted lending volumes;
 7. Provides an analysis of the volume of originations needed in order for the Bank to attain a break-even profit level in its mortgage lending and mortgage banking operations;
 8. Provides for reduction of classified assets;
 9. Provides for contingency for mortgage buy-backs;
 10. Provides for any contingency from litigation, including litigation from mortgage sales;
 11. Describes in detail all assumptions used, including the assumed economic environment, interest rate, and strategy scenario for each interest earning asset and interest cost liability over the term of the Business Plan; and
 12. Incorporates a Strategic Plan for Information Technology for the Bank, as required by Paragraph 17 of this Order.
- B. The Bank shall comply with the Business Plan.
- C. After implementation of the Business Plan, the Bank's management shall submit to the Board quarterly variance reports. The Board shall assess, on a quarterly basis, (1) whether the Bank can meet the projections in the Business Plan and (2) whether the Board should revise the goals and projections. The Bank shall submit a copy of the variance reports and any revisions to the Business Plan to the Regional Director and Commissioner for review and a notice of non-objection by no later than ten (10) calendar days after the Board meeting.

3. **Management Study**

- A. If the Board determines to pursue recapitalization in lieu of a sale or acquisition of the Bank, by no later than November 1, 2004, the Board shall request an independent review of management and the directorate by a qualified third party, after receipt of written non-objection of the Regional Director and the Commissioner, regarding the selection to (i) determine whether the current directorate should be augmented with additional expertise, (ii) address the size of the Board, (iii) address the role of the advisory directors, (iv) review the competency and effectiveness of senior management, (v) determine the depth of management succession, and (vi) make recommendations regarding (a) resolution of factions and ineffective deliberative process of the Board, and (b) additional support to, or replacement of executive management.
- B. Within 30 days of receipt of the management study, the Board shall submit to the Regional Director and the Commissioner, a copy of the management study provided for in Paragraph 3.A, and its plan for addressing the findings and recommendations (Management Plan). The Board shall implement the Management Plan after receipt of written non-objection of the Regional Director and the Commissioner.

4. **Restrictions on Asset Growth**

The Bank shall not increase its assets in any calendar quarter in excess of the amount of the net interest credited on its deposit liabilities during that calendar quarter, except pursuant to the written non-objection of the Regional Director and the Commissioner.

5. **Restrictions on Golden Parachute Payments**

The Association shall not make any "golden parachute payments" (as that term is defined in 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359), except as permitted under the applicable statute and regulation.

6. **Regulatory Review of Certain Third-Party Contracts**

The Association shall not enter into any third-party contracts outside of the normal course of business unless it (i) provides to the Regional Director and the Commissioner a minimum of 10-calendar days advance, written notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director and the Commissioner.

7. **Restrictions on Adding or Replacing a Board Member, Employing a Senior Executive Officer, or Changing the Responsibilities of a Senior Executive Officer**

The Association shall not add or replace any member of its Board of Directors (Board), employ any new senior executive officer or change the responsibilities of any senior

executive officer, except in accordance with 12 C.F.R. §§ 563.550 through 563.590, and 12 U.S.C. § 1831i.

8. **Restrictions on Compensation**

- A. 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 of the Association unless it first (i) provides to the Regional Director and the Commissioner a minimum of 30 calendar days advance, written notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director and the Commissioner.
- B. The Association shall further not grant to any senior executive officer or any director any bonus or increase in salary or other compensation without the written notice of non-objection of the Regional Director and the Commissioner.

9. **Brokered Deposits**

The Association shall not accept, renew, or roll over any brokered deposits unless it applies for and is granted a waiver of this prohibition by the Federal Deposit Insurance Corporation in accordance with the provisions of 12 C.F.R. § 337.6.

10. **Asset Quality**

- A. The Bank must comply with its current internal review methodology for documenting and supporting the level of classified assets in accordance with 12 C.F.R. § 560.160, Section 260 of the OTS Thrift Activities Handbook, and 12 C.F.R. Part 570, Appendix A, Section II.G.
- B. No later than 30 days after the end of each quarter, the Bank shall submit to the Regional Director and the Commissioner, reports detailing classified assets and loans delinquent 90 or more days in the Bank's portfolio and BMC's warehouse loans, the status of each classified asset, and the actions taken to reduce the level of classified assets.
- C. The Bank shall reduce the ratio of adversely classified assets to the following levels:
 - 1. 50 percent of core capital by March 31, 2005;
 - 2. 25 percent of core capital by September 30, 2005; and
 - 3. 20 percent of core capital by December 31, 2005.

11. **Financial Records and Reports**

- A. The Bank must comply with 12 C.F.R. §§ 562.1 and 562.2 and the requirements of Thrift Bulletin 56 regarding deferred tax assets.
- B. The Bank must continue to obtain a quarterly evaluation of its internal systems and control and the Board must review the management letter detailing findings and direct the appropriate corrective actions.
- C. The Bank must maintain adequate audit trail between the general ledger and amounts reported on its Thrift Financial Reports.
- D. The Bank must continue to have its external auditor verify reconciliation of general ledger accounts and bank accounts, verify a sample or inter-company journal entries, check the accuracy of teller account postings to general ledger and review Thrift Financial Reports. The Board shall review any reports of deficiencies by the Bank's external auditor and make the appropriate corrections.

12. **Loan Underwriting and Credit Monitoring**

- A. By November 15, 2004, the Board must adopt a revised loan policy and procedures that addresses clearly and fully the requirements of 12 C.F.R. § 560.170 and Sections II.C and D to Appendix A of 12 C.F.R. Part 570, and all other applicable statutes and regulations. The revised loan policy and procedures must require the following, but not be limited to the following, for all loans including loan renewals and loan modifications, and purchased loans:
 - 1. Clear defined authority and responsibility of loan officers, senior management, the loan committee, and/or Board in reviewing, ratifying, and approving loans, including extensions, modifications, or restructuring of outstanding loans; all loans made in exception to the loan policy shall require Board approval.
 - 2. Documentation of all decisions on all loans by senior management, loan committee, and the Board and formal loan presentations to the loan committee and/or the Board;
 - 3. A loan approval worksheet for all loans documenting reasons for loan approval, including an assessment of the borrower's ability to repay the debt, validation of the nature and value of any collateral, proof of property insurance, and loan policy exceptions;
 - 4. Written analysis supporting a borrower's and/or guarantor's overall financial condition and resources prior to credit commitment, including income verification, credit analysis, and debt-to-equity ratios;

5. A prohibition on the making of loans unless all required credit and collateral documentation has been obtained and is documented in the file;
 6. A formal system to identify, track, and correct credit and collateral documentation exceptions and loan policy exceptions;
 7. A documented review of all repurchased loans and all new loans regarding whether the Bank and/or BMC has a perfected security interest;
 8. Ongoing credit administration of all loans, including documentation of new financial information from borrowers, changes in collateral, collateral inspections; and
 9. A collection policy, including periodic status reports to the Board.
- B. The Bank shall not make, renew, modify or purchase any loan unless the assigned loan officer has certified in writing that the loan complies with all applicable regulations, the Bank's revised policy, and the requirements of Paragraph 12.A of this Order.
- C. The Bank, including BMC, and all applicable employees of the Bank and BMC shall comply with 12 C.F.R. § 560.170 and 12 C.F.R. Part 570, Appendix A, Sections II.C and II.D and the revised loan policy and procedures.
- D. By December 31, 2004, the Board shall adopt and implement a compensation policy for the Bank and BMC that addresses employees' compliance with applicable regulations and the Bank's revised loan policy and procedures.

13. **Independent Testing**

- A. By no later than December 31, 2004, the Bank shall complete independent testing for its compliance with the Currency and Foreign Transactions Reporting Act, as amended by the USA Patriot Act and other laws (the Bank Secrecy Act or BSA), 31 U.S.C. §§ 5311 *et seq.*, and the regulations issued thereunder by the U.S. Department of the Treasury, 31 C.F.R. § 563.177 (collectively with the aforementioned laws and regulations, the BSA Laws and Regulations). Thereafter, the Bank shall conduct independent testing of all functions no less frequently than on an annual basis or more frequently if deemed appropriate under its Anti-Money Laundering (AML) Program in accordance with requirements set forth in Paragraph 14.B. The Bank shall submit the findings of the independent testing to the Regional Director and the Commissioner. The initial independent test required by December 31, 2004 shall be performed by a qualified outside consultant retained by the Bank. Thereafter, a qualified independent vendor must conduct the independent testing unless the Board determines that a qualified Bank director or officer, who is otherwise independent of all BSA monitoring, loan and deposit, can appropriately conduct the independent test in accordance with Paragraph 14.B.

- B. The independent testing shall cover all requirements of BSA Laws and Regulations and the Bank's AML Program and BSA procedures and cover all applicable departments, BMC, and subsidiaries (Independent Testing Report). The Independent Testing Report shall address, but not be limited to, the following:
1. Compliance with information sharing requirements under Section 314 of the USA Patriot Act, including procedures for receiving, reviewing, and responding to Section 314(a) requests from the Financial Crimes Enforcement Network;
 2. Customer identification program;
 3. Identification and reporting of suspicious activities and filing SARs timely;
 4. Timing and accuracy of the filing of Currency Transaction Forms (CTRs) (FinCEN Form 104 and FinCEN Form 105);
 5. Timing and accuracy of the filing of cash sales of monetary instruments reports;
 6. Review of teller's work, daily cash reports, and high dollar reports;
 7. Confirmation of the integrity and accuracy of the Bank's BSA recordkeeping activities and adherence to in-house record retention schedule;
 8. Compliance with exemption rules and requirements from CTR filing requirements (including review of monitoring of system for exempt customers, the filing of the required forms to designate an entity as exempt from the CTR requirements, and the reasonableness of the exemptions granted);
 9. Compliance with procedures for maintaining required information from customers purchasing monetary instruments for cash in amounts between \$3,000 and \$10,000, and for ensuring that appropriate identification measures are in place;
 10. Wire transfer operations;
 11. Training records of appropriate personnel and assessments reflecting whether the Bank is conducting an ongoing and effective BSA training program;
 12. Compliance with OFAC requirements (31 C.F.R. Part 500 and OFAC guidelines);
 13. High-risk activities/customers/areas, if any; and
 14. Monitoring of cash shipments to and from the Federal Reserve Bank or the Bank's correspondent bank.
- C. The Independent Testing Report shall set forth specific methodology used to conduct the testing, state specific findings, and recommend specific corrective actions to address

any deficiencies. The Bank shall submit a copy of the written Independent Testing Report, along with supporting documentation and work papers and a list of corrective actions to the Regional Director and the Commissioner by no later than 30 days following the submission of the report to the Board. The Bank shall maintain copies of the Independent Testing Report, as well as the detailed work papers (including records of transactions analysis), for five (5) years.

- D. The Board minutes shall reflect clearly and specifically the Board's consideration of all Independent Testing Reports and decisions regarding specific corrective actions. The Board shall require management to provide specific periodic reports on corrective actions taken in response to deficiencies found in the Independent Testing and shall established specific deadlines for completion.

14. **Review of RB 18-6**

By no later than September 30, 2004, each director must certify that he or she has read Regulatory Bulletin 18-6, "Supplemental Guidance on Bank Secrecy Act and Anti-Money Laundering Programs", dated March 31, 2004. Such certification shall be set forth in the minutes of the Board and sent to the Regional Director and the Commissioner.

15. **Review of Currency Transaction Reports**

The Board shall require quarterly reviews of all CTRs for accuracy and timeliness of filings to ensure compliance with 31 C.F.R. §§ 103.22 and 103.27, and for determining whether additional training is required.

16. **Customer Information Security Plan**

- A. The Bank shall comply with Appendix B to 12 C.F.R. Part 570 and the guidelines set forth in the Federal Financial Institutions Examination Council (FFIEC) IT Examination Handbook - Information Security (December 2002)).
- B. The Bank shall comply with its Information Technology Systems and Security Guidelines.
- C. The Board shall conduct an annual review of the Bank's Information Security Plan, the Bank's compliance with the Information Security Guidelines and undertake a risk assessment in accordance with 12 C.F.R. Part 570, Appendix B, Section II.F, by no later than December 31, 2004. The Bank shall submit a copy of the risk assessment to the Regional Director and the Commissioner.

17. **Information Technology Strategic Plan**

- A. By no later than November 1, 2004, the Bank must adopt a strategic plan for Information Technology (IT) that addresses the factors set forth in Section 341 of OTS

Thrift Activities Handbook; FFIEC IT Examination Handbook-Management (June 2004), including, but not limited to the following:

1. Sets forth objectives for the Bank's IT on a short-term and long-term basis;
 2. Addresses transactional risks, reputational risks, and compliance (legal) risks;
 3. Considers outsourcing or in-house expertise;
 4. Sets forth measurement and monitoring factors that effectively identify ways to manage risk exposure, including appropriate controls;
 5. Requires monitoring of IT projects and initiatives after implementation to determine the actual costs and benefits; and
 6. Incorporates budgetary and staffing requirements for oversight and implementation of Customer Information Security Program and IT Audit Plan.
- B. The Board must annually review and make the appropriate revisions in its IT Strategic Plan. Such review shall be recorded in the minutes of the Board.

18. **IT Audit Plan**

- A. By November 1, 2004, the Board shall develop and implement an audit program to review IT risks in the Bank's and BMC's operations. The audit program shall cover the factors set forth in FFIEC IT Examination Handbook-Audit, (August 2003), and Section 341 of OTS Thrift Activities Handbook, and include but not limited to the following requirements:
1. External audit at least annually by a qualified service provider;
 2. Internal audit by a qualified third-party, in accordance with Thrift Bulletin 81, Interagency Policy Statement on the Internal Audit Function and IT Outsourcing, dated March 17, 2003, or an independent qualified employee of the Bank at a specified time intervals;
 3. Delineation of areas of IT risks;
 4. Determination of confidentiality, integrity, and availability of information systems, including but not limited to (a) periodic samples of customer records files to verify against source documents for accuracy and authorization, (b) spot-checks of computer calculations such as interest on deposits, loans, securities, ARM calculations, service charges, and past due loans; and (c) tests of balancing procedures of automatic applications, including the disposition of rejected and unposted items;

5. Evaluation of management's planning and oversight of IT activities;
 6. Evaluation of adequacy of operating process and internal controls; and
 7. Requirement for third party reviews of service providers that generally conform to scope of the American Institute of Certified Public Accountants Statement of Auditing Standards No. 70.
- C. The written audit report shall be completed by December 31, 2004 and at specific time intervals thereafter, and, at a minimum, describe the scope and objectives, list of deficiencies, recommend corrective actions, and provide follow-up on prior audit exceptions.
- D. By no later than 30 days after receipt of a written audit report, the Board shall submit a copy of the audit report and its directed corrective actions to the Regional Director and the Commissioner.
- E. The Bank shall comply with the IT audit plan.

19. **Automated Clearing House Policy**

By no later than November 1, 2004, the Board must adopt and implement a policy to govern Automated Clearing House activities (ACH Policy). The ACH Policy shall address the requirements set forth in FFIEC IT Examination Handbook-Retail Payment System, (March 2004), and include but not be limited to the following:

1. Type of ACH activity the Bank will conduct and identification of risks;
2. Separation of duties for origination, data entry, reconciliation, and preparation of general ledger entities and investigations into customer complaints;
3. Board oversight and management's supervision and monitoring of ACH activities;
4. Adequacy of logs maintained for ACH payments received from and delivered to each customer and procedures for monitoring customer balances for credit payment;
5. Procedures for handling uncollectible funds and customer credit limits;
6. Reconciliation/settlements process;
7. ACH insurance requirements;
8. System of internal controls, and annual independent audits;
9. Review of outsourcing arrangements for compliance with guidelines in Thrift Bulletin 82;

10. Annual training with testing for comprehension of ACH rules;
11. Adequacy of contingency and business continuity planning;
12. Review of contracts authorizing ACH action, on behalf of customers to address all of National Automated Clearing House Association requirement; and
13. Retention of all records for six (6) years after date of transmittal.

BOARD OF DIRECTORS

20. Director and Board Responsibility

- A. Notwithstanding the requirements of this Order that the Board submit various matters to the Regional Director and the Commissioner for the purpose of receiving approval, notice of non-objection, or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Bank at all times, including compliance with the determinations of the Regional Director and the Commissioner as required by this Order.
- B. The Board further shall oversee the safe and sound operation of the Bank at all times and shall take all reasonable and prudent actions necessary to satisfy this responsibility.

21. Compliance with Order

- A. The Board and officers of the Bank shall take immediate action to cause the Bank and any active subsidiary and division to comply with the terms of this Order and shall take all actions necessary or appropriate thereafter to cause the Bank and its subsidiaries to continue to carry out the provisions of this Order.
- B. The Board, on a quarterly basis, beginning with the third calendar quarter of calendar year 2004, shall adopt a board resolution (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 quarter, the Bank has complied with each provision of this Order currently in effect, except as otherwise stated. The Compliance Resolution shall specify in detail how, if at all, full compliance was found not to exist; and identify all notices of exemption or non-objection issued by the Regional Director and the Commissioner 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 director's reasoning for opposing or abstaining.

- D. The Bank shall provide to the Regional Director and the Commissioner a certified true copy of each Compliance Resolution as adopted by the Board within ten calendar days of the Board meeting at which the Compliance Resolution was adopted. The Board, by virtue of the Bank's submission of a certified true copy of each such Compliance Resolution to the Regional Director and the Commissioner, 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 Bank.
- E. The Board shall promptly respond to any request from the Regional Director and the Commissioner for documents that demonstrate compliance with this Order.

MISCELLANEOUS

22. Definitions

- A. All technical words or terms used in this Order and Stipulation 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, Home Owners' Loan Act (HOLA), Federal Deposit Insurance Act (FDIA) or OTS Publications. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.
- B. As used in this Order, the term "Senior Executive Officer" has the definition it is given at 12 C.F.R. § 563.555.
- C. The term "qualified entity" is defined to include an individual, a group of individuals, a partnership, a corporation, or any other form of business organization that may, under applicable statutes and regulations, merge with or acquire the Bank or purchase all or substantially all assets and liabilities of the Bank.
- D. The terms "depository institution" and "depository institution holding company" are defined in 12 U.S.C. §§ 1813(c)(1) and (w)(1), respectively.
- E. For purposes of this Order, nothing shall be deemed "acceptable" to the Regional Director or the Commissioner unless the Regional Director or the Commissioner has stated in writing that it is acceptable or has stated in writing that there is no objection to it.

23. **Successor Statutes, Regulations, Guidance, Amendments**

Reference in this Order to provisions of statutes, regulations, and OTS Bulletins 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.

24. **Effective Date**

This Order is and shall become effective on the Effective Date, as shown in the caption hereof.

25. **Notices**

- A. Except as otherwise provided herein, any request, demand, authorization, directive, notice, consent, waiver or other document provided or permitted by the Order to be made upon, given or furnished to, delivered to, or filed with:
1. The OTS, by the Bank, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 225 East John Carpenter Freeway, Suite 500, Irving, Texas 75062-2327 or telecopied to (972) 277-9501 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
 2. The Bank, by OTS and the Mississippi Department of Banking and Consumer Finance, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Bank at 409 Summit Street, Winona, Mississippi 38967-0349, or telecopied to (662) 283-4606.
 3. The Mississippi Department of Banking and Consumer Finance by the Bank shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered in each case addressed to Commissioner, Department of Banking and Consumer Finance, 501 North West Street, 901 Woolfolk Building, Suite A, Jackson, Mississippi 39225-3729 or telecopied to (601) 359-3557.
- B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Order, then, in the event such notice was sent by United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

26. **Time Limits**

Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted. The Regional Director, Regional Deputy Director or Assistant Director, after consultation with the Commissioner or his designee, may extend any time limits set forth in this Order by specifically granting that extension in writing.

27. **No Violations Authorized; OTS Not Restricted**

Nothing in this Order or the Stipulation shall be construed as: (a) allowing the Bank 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), including without limitation any actions that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

28. **Effect of Headings**

The Section Headings herein are for convenience only and shall not affect the construction hereof.

29. **Incorporation**

The Stipulation is made a part hereof and is incorporated herein by this reference.

30. **Part 570 Notice and Compliance Plan**

Upon the Effective Date of this Order, the Notice of Deficiency issued by OTS, with the concurrence of the Commissioner and the subsequent Compliance Plan, is hereby terminated.

31. **Review of Action Required**

The Regional Director, Regional Deputy Director, or Assistant Director and the Commissioner or his designee may provide a written notice of non-objection or objection, or request additional information with respect to any submission of OTS required by this Order.

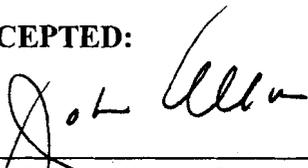
32. **Duration, Termination or Suspension of Order**

The Stipulation and the Order shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director, Deputy Director, Regional Director or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By: 
Frederick R. Casteel
Regional Director
Midwest Region

ACCEPTED:

By: 
John S. Allison, Commissioner
Mississippi Department of Banking
and Consumer Finance