

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

ARKANSAS STATE BANK DEPARTMENT
LITTLE ROCK, ARKANSAS

_____)
Written Agreement by and among)
)
BANK OF LITTLE ROCK)
Little Rock, Arkansas) Docket No. 01-17-WA/RB-SM
)
FEDERAL RESERVE BANK)
OF ST. LOUIS)
St. Louis, Missouri)
)
and)
)
ARKANSAS STATE BANK)
DEPARTMENT)
Little Rock, Arkansas)
_____)

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of the Bank of Little Rock, Little Rock, Arkansas (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of St. Louis (the "Reserve Bank"), and the Arkansas State Bank Department (the "ASBD") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on November 27, 2001 the board of directors of the Bank, at a duly constituted meeting adopted a resolution authorizing and directing, EUGENE L. MARIS to enter into this Agreement on behalf of the Bank, and consented to compliance by the Bank and its institution-affiliated parties, as defined by section 3(u) of the Federal Deposit Insurance Act,

as amended (12 U.S.C. 1813(u)) (the "FDI Act"), with each and every provision of this Agreement.

NOW, THEREFORE, the Bank, the Reserve Bank, and the ASBD agree as follows:

1. The Bank, including its mortgage subsidiary, the Bank of Little Rock Mortgage Corporation, shall not purchase or otherwise acquire residential construction loans until the board of directors has adopted written policies and procedures regarding the purchase or acquisition of residential construction loans that are acceptable to the Reserve Bank and the ASBD. Such policies and procedures, which shall be submitted to the Reserve Bank and the ASBD as expeditiously as possible, shall, at a minimum, address, consider, and include:

- (a) The Bank's independent review of the creditworthiness of the borrower;
- (b) the loan's conformance with the Bank's revised loan policies and underwriting standards required by paragraph 4 hereof;
- (c) review of the appraisal to determine that the assumptions are reasonable and that the appraisal has been performed by a qualified appraiser;
- (d) adequate controls on the disbursement of loan proceeds;
- (e) presentation of documentation adequate to support requests for loan advances;
- (f) monitoring of construction progress; and
- (g) adequate oversight of loan administration functions performed for the Bank by agents or third parties.

2. (a) Within 90 days of this Agreement, the Bank shall take such steps as are necessary to employ a chief lending officer with demonstrated experience in commercial lending, who shall report directly to the board of directors' loan committee. The chief lending officer's responsibilities shall include, at a minimum: oversight of the lending function and supervising the establishment and implementation of workout plans for problem credits described in paragraph 9 hereof. In employing the chief lending officer, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors.

(b) Within 30 days of the appointment of a chief lending officer, the Bank shall take such steps as are necessary to employ a qualified loan administration officer, whose responsibilities shall include: ensuring loans are appropriately analyzed and consistent with the Bank's lending guidelines; ensuring the Bank has obtained appropriate loan documentation; and tracking and reporting policy exceptions and concentrations of credit to the board of directors.

(c) Within 60 days of the hiring of a chief lending officer, the Bank shall implement procedures, including any training, to ensure that all loan officers appropriately assess the financial condition and repayment capacity of borrowers at the time that the loan is made and for the term of the loan, and that the analyses are adequately documented in the loan files.

3. (a) Within 30 days of this Agreement, the board of directors shall establish a loan committee (the "Loan Committee"), the majority of which shall at all times be comprised of outside directors. The prior approval of the Loan Committee, which after appointment, will include the chief lending officer described in paragraph 2(a) hereof, shall be required for any extension of credit made, renewed, or acquired by the Bank that when aggregated with existing

extensions of credit will exceed \$50,000 to any one borrower, including related interest(s) of such borrower, but excluding conforming and amortizing consumer loans and chattel paper loans less than \$50,000, and conforming first mortgage residential home loans to be sold in the secondary market. The Loan Committee shall have the responsibility for monitoring compliance with the Bank's written loan policies and procedures and shall review, on a monthly basis, all loans made by the Bank and the activities of all personnel of the Bank involved in its lending functions. At each Loan Committee meeting, the committee shall also review the current status of ~~all~~ loans that are in default as to principal or interest for 30 days or more as of the date of the committee meeting, or that are adversely classified or listed for special mention by state or federal examiners in the Bank's latest report of examination.

(b) All requests regarding new loans or loan renewals in excess of \$50,000 shall be accompanied by adequate supporting documentation, including, but not limited to:

- (i) A detailed description of the loan purpose and terms;
- (ii) a detailed description of loan collateral, collateral values, and documents necessary to perfect liens on collateral;
- (iii) an evaluation of the primary and secondary sources of repayment and support for the adequacy of the stated sources of repayment;
- (iv) a detailed financial analysis of the borrower, co-signors and guarantors, if any, and documentation to support the analysis, such as current and three-year historical financial and income statements;
- (v) a detailed analysis of the borrower's cash flow and debt service capacity;

(vi) a statement of the current and proposed aggregate credit exposure of the borrower; and

(vii) a certification that the proposed loan conforms to the Bank's loan policies.

(c) Subsequent to Loan Committee approval or denial, the Bank shall submit to the Reserve Bank and the ASBD, on a monthly basis, copies of the full loan approval packages that were presented to the Loan Committee during that month.

(d) The Loan Committee shall maintain accurate written minutes of its loan discussions and meetings, which shall be available for subsequent supervisory review.

(e) For the purpose of this Agreement, the term: (i) "outside director" is defined as an individual who is not otherwise an employee, officer or agent of the Bank or any affiliate of the Bank or a direct or indirect owner of 10 percent or more of any class of the outstanding shares of the Bank or its holding company; (ii) "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. 215.2(n)); and (iii) "extension of credit" is defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3).

4. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the ASBD acceptable written revisions to the loan policy and procedures that address the deficiencies noted in the report of the examination of the Bank conducted by the Reserve Bank and the ASBD in June 2001 (the "Report of Examination"). At a minimum, the revised loan policy and procedures shall address, consider, and include:

(a) Loan origination and approval procedures;

- (b) underwriting standards for each type of credit extended by the Bank, including an analysis of the borrower's repayment capacity and creditworthiness, loan to value ratios, and an evaluation of secondary repayment sources and guarantees;
- (c) review and approval procedures for exceptions to the loan policy; and
- (d) loan administration procedures, including adequate documentation, loan proceeds disbursement, collateral inspection, and collection.

5. Within 60 days of the appointment of a chief lending officer, the Bank shall submit to the Reserve Bank and the ASBD acceptable written loan review procedures. These procedures shall be designed to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio, and shall, at a minimum, address, consider, and include:

- (a) the periodic review of existing real estate loans for compliance with internal and supervisory loan-to-value limits;
- (b) a description of the risk grades to be assigned to each loan;
- (c) the designation of the individuals who will be responsible for determining loan grades;
- (d) the frequency of loan grading;
- (e) a description of which loans will be graded;
- (f) the requirements outlined in Attachment I to the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 22, 1993, regarding loan review systems and credit grading systems;

- (g) procedures to confirm the accuracy of all risk grades assigned by the Bank's loan officers;
- (h) for each loan identified as a watch list loan, a written statement, maintained in the credit file, of the reasons why such loan merits special attention;
- (i) the development of an adequate internal loan review grading report; and
- (j) periodic reporting to the board of directors of the status of the loan reviews and the action(s) taken by management to improve the Bank's position on each loan adversely graded.

6. Within 90 days of the appointment of a chief lending officer, the Bank shall conduct a review of all unsecured loans in excess of \$50,000 to determine if the underwriting is consistent with the standards outlined in the Bank's revised loan policy, and to ensure each loan is properly risk rated. Upon completion of the review, the Bank shall take all actions necessary to protect its position regarding each loan. A copy of the results of the review shall be submitted to the Reserve Bank and the ASBD.

7. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the ASBD an acceptable written policy and procedures to monitor and control concentrations of credit. The policy and procedures shall, at a minimum, address, consider and include:

- (i) Methods used to identify assets or groups of assets or contingent claims with common risk elements that, in the aggregate, represent 25 percent or more of the Bank's tier 1 capital;
- (ii) the establishment of acceptable limits on concentrations of credit;
- (iii) monitoring procedures to control concentrations of credit; and
- (iv) written monthly reporting of concentration levels to the board of directors, copies of which shall be retained for subsequent supervisory review.

(b) Within 90 days of this Agreement, Bank management shall submit to the board of directors a written action plan to reduce the concentrations of credit in unsecured lending identified in the Report of Examination. Copies of the action plan shall also be submitted to the Reserve Bank and the ASBD.

8. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged-off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge-off all assets classified "loss", unless otherwise approved in writing by the Reserve Bank and the ASBD.

(b) Within 30 days of this Agreement, the Bank shall achieve and, thereafter, maintain, through charges to current operating income, an adequate valuation reserve for loan losses. The adequacy of the reserve shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience,

evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified and mortgage loans acquired from third parties, and the imprecision of loss estimates, and the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 22, 1993 and July 2, 2001. A written record shall be maintained indicating the methodology used in determining the amount of reserve needed to cover total loans and documentation shall be maintained to support the methodology. The reserve methodology shall be submitted to the Reserve Bank and the ASBD within 60 days of this Agreement. Thereafter, at a minimum on calendar quarterly basis, the Bank shall conduct an assessment of its loan loss reserve and its non-performing loans and shall submit documentation of each quarterly assessment to the Reserve Bank and the ASBD within 30 days of the end of each calendar quarter.

9. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the ASBD an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral or other means on each loan or other asset in excess of \$100,000, including other real estate, that was past due as to principal or interest in excess of 90 days as of the date of this Agreement, included on the Bank's problem loan watch list, or was adversely classified or listed as special mention in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank, the Bank shall submit to the Reserve

Bank and the ASBD an acceptable written plan to improve the Bank's position on such loan or other asset.

(c) The plan for each loan or other asset shall be formally approved by the Loan Committee and shall, at a minimum, include:

- (i) A description of the current status of the loan or other asset, including book and nonbook carrying value, and the nature and value of supporting collateral;
- (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and the projected balance owing and value of anticipated collateral; and
- (iii) where appropriate, the borrower's acknowledgement of and response to the plan.

(d) Within 30 days of the end of each calendar quarter following the date of this Agreement (December 31, March 31, June 30, and September 30), the Bank shall submit a written progress report to the Reserve Bank and the ASBD on the loans or other assets described in this paragraph, which shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list.

10. (a) The Bank shall implement procedures to eliminate the documentation and credit information deficiencies in the Bank's loan files listed in the Report of Examination, and to ensure that adequate documentation is obtained for future loans prior to funding and during the term of the loan.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement (December 31, March 31, June 30, and September 30), the Bank shall submit to the Reserve Bank and the ASBD a report detailing the Bank's progress in correcting the technical exceptions listed in the Report of Examination. In all cases where the Bank is unable to obtain needed documentation or credit information, the Bank shall document the actions taken to secure the information and the reasons the information could not be obtained. The Bank shall maintain this documentation in the related credit file for supervisory review.

11. Within 90 days of the appointment of a chief lending officer, the Bank shall submit to the Reserve Bank and the ASBD an acceptable formal appraisal review program, which shall, at a minimum, address the recommendations in the Report of Examination regarding appraisals.

12. The Bank shall adhere to its established overdraft policies and procedures and shall not (i) convert overdrafts to loans without performing a credit underwriting analysis or (ii) allow overdrafts to fund loan payments.

13. The Bank shall immediately take all necessary steps, consistent with sound banking practices, to eliminate or correct all violations of laws and regulations set forth in the Report of Examination and shall not engage, directly or indirectly, in any future violations of law. The Bank's board of directors shall take all necessary steps to ensure the Bank's future compliance with applicable laws and regulations.

14. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the ASBD. All requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, current and projected information on the Bank's earnings, cash flow, capital levels, asset quality, and allowance for loan and lease losses.

15. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the ASBD an acceptable plan for the use of real estate held by the Bank's subsidiary, Hallmark National Mortgage.

16. (a) Within 15 days of this Agreement, the board of directors shall appoint a committee (the "Compliance Committee") comprised of 3 or more directors, the majority of whom shall be outside directors, to monitor and coordinate the Bank's compliance with the provisions of this Agreement.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement (December 31, March 31, June 30, and September 30), the Compliance Committee shall submit a written progress report to the board of directors detailing the actions taken to comply with each provision of this Agreement and the results of those actions.

(c) Within 15 days after its receipt from the Compliance Committee, the board of directors shall forward a copy of the quarterly progress report described in this paragraph, with any additional comments made by the board of directors, to the Reserve Bank and the ASBD and shall certify in writing that each director has reviewed the report. Such

reports may be discontinued when the Reserve Bank and the ASBD, in writing, release the Bank from making further reports.

17. The Bank shall submit plans, policies, and procedures required by paragraphs 1, 4, 5, 7(a), 9(a) and (b), 11, and 15 hereof that are acceptable to the Reserve Bank and the ASBD within the time periods set forth in this Agreement. The Bank shall adopt all plans, policies, and procedures that are approved by the Reserve Bank and the ASBD within 10 days of approval and then shall fully comply with them. During the term of this Agreement, the Bank shall not amend or rescind the approved plans, policies, and procedures without the prior written approval of the Reserve Bank and the ASBD.

18. All communications regarding this Agreement shall be sent to:

- (a) Timothy A. Bosch
Vice President
Federal Reserve Bank of St. Louis
Post Office Box 442
St. Louis, Missouri 63166
- (b) Frank White
Commissioner
Arkansas State Bank Department
400 Hardin Road, Suite 100
Little Rock, Arkansas 72211-3502
- (c) George G. Worthen
President
Bank of Little Rock
200 N. State Street
P.O. Box 34090
Little Rock, Arkansas 72203

19. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and the ASBD may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding upon the Bank and all of its institution-affiliated parties, in their capacities as such, and their successors and assigns.

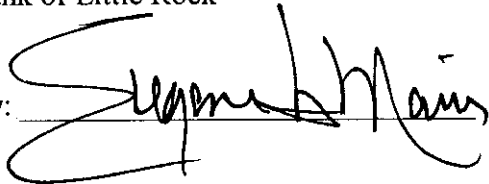
21. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank and the ASBD.

22. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors or the ASBD or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

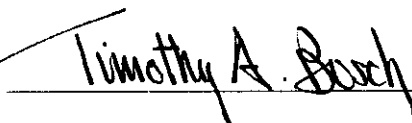
23. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 27 day of November, 2001.

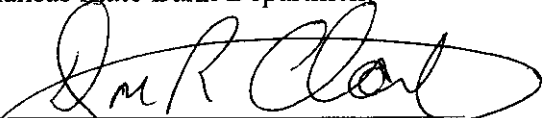
Bank of Little Rock

By: 

Federal Reserve Bank of St. Louis

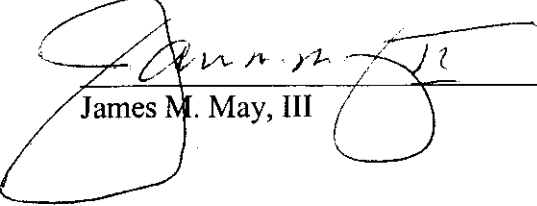
By: 

Arkansas State Bank Department

By: 

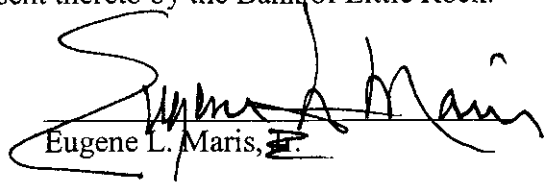
The undersigned directors of the Bank of Little Rock individually acknowledge reading the foregoing Agreement and approve of the consent thereto by the Bank of Little Rock.

Harry Leggett, Jr.

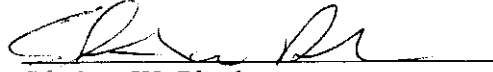


James M. May, III


Steven C. Russell



Eugene L. Maris, Jr.



Stephen W. Plunkett



George G. Worthen