

MINUTES OF THE REGULAR MEETING  
OF THE STATE BANKING BOARD

DECEMBER 15, 2004

As first item in order of business on the agenda, Chairman Thompson called the Banking Board meeting to order at 10:00 a.m., pursuant to the Agenda that was posted for public display prior to 10:00 a.m. on December 14, 2004. The meeting was held in the Conference Room of the State Banking Department, Oklahoma City, Oklahoma.

Second item on the agenda was roll call; the following members were present:

Mick Thompson, Chairman  
Cheri Cartwright  
Chris Conn  
John Goad  
Gordon Greer  
Gary Huckabay  
Bob Newcomb

Also present: Charles R. Griffith, Deputy Commissioner; Dudley Gilbert, Legal Counsel; Sherbie Kiffin, Assistant Deputy Commissioner; Randy Brooks, Director of Examinations; Tony Reel, Assistant Deputy Commissioner; Doyle Jones, Senior Examiner; Carter Mathews, Supervisory Examiner; and Angela Morris, Secretary.

The Chairman noted for the record that a quorum was present.

Third item on the agenda, Chairman Thompson called for approval or discussion of the Minutes of the Regular Meeting of the State Banking Board held November 17, 2004. Member Newcomb made the motion for approval. Motion was seconded and approved as follows:

Cheri Cartwright – (arrived late – did not vote)  
Chris Conn – voted yes  
Gary Huckabay – voted yes  
John Goad – voted yes  
Gordon Greer – voted yes  
Bob Newcomb – voted yes

Fourth item on the agenda, Commissioner's Monthly Reports:

A. Department Status Update

Chairman Thompson said there is consideration to interview a Trainee to begin working the first quarter of the year.

B. Examination Report .

Chairman Thompson gave the monthly examination report showing that during the month of November one fed member bank, five nonmember banks, three credit unions, one trust department and four cemeteries were examined. Examinations in process at the end of November were ten banks, three credit unions, one cemetery, and one trust department.

Two (2) examiners attended the CSBS Bank Financial Analysis School in San Diego, California. Regional Examiner Bagby instructed at the CSBS Credit Evaluation School in San Diego, California.

#### C. Legislative Update

He gave Board members a "Draft" copy of the Commissioner's Bill for 2005. He said the bill is mainly cleanup language and deletion of items that are no longer needed. If you have any changes you want made, please let Dudley or Stacey know within the next couple of weeks. He said Chairman Piatt will be handling the Bill.

#### D. Pending Applications

Fifth item on the agenda, Consideration of Request for Approval of Merger and Application for Certificate to Maintain and Operate a Branch by Acquisition:

- A. Application for Merger of American State Bank, Broken Bow, Oklahoma, with and into First State Bank of Idabel, Idabel, Oklahoma, pursuant to Title 6 O.S. § 1103.
- B. Branch Application of First State Bank of Idabel, Idabel, Oklahoma, pursuant to Title 6 O.S. § 501.2 and O.A.C. 85:10-9-2.  
Branch by Acquisition – proposed bank to be acquired and converted to a branch:  
American State Bank, Broken Bow, Oklahoma.  
Proposed Name: First State Bank of Idabel

Marion Bauman, Attorney, and Wendell Proctor, President, were present to answer questions.

Mr. Bauman said both banks are commonly owned by the holding company.

Member Greer said this is a good application and a good bank, but was curious if the bank will remain the First State Bank of Idabel or change the sign?

Mr. Proctor said the sign will say First Sate Bank of Broken Bow.

Member Greer made the motion for approval of the merger. Motion was seconded and approved as follows:

- Cheri Cartwright – (arrived late – did not vote)
- Chris Conn – voted yes
- Gary Huckabay – voted yes
- John Goad – voted yes
- Gordon Greer – voted yes
- Bob Newcomb – voted yes

Member Greer made the motion for approval of the branch. Motion was seconded and approved as follows:

Cheri Cartwright – voted yes  
Chris Conn – voted yes  
Gary Huckabay – voted yes  
John Goad – voted yes  
Gordon Greer – voted yes  
Bob Newcomb – voted yes

Sixth item on the agenda, Request by McClain Bank, National Association, Purcell, Oklahoma, for Conversion from a National Charter to a State Chartered Institution pursuant to Title 6 Okla. Stat. §1101 and O.A.C. 85:10-3-17; Proposed Name: "McClain Bank".

Paul Foster, Attorney, was present to answer questions. He said the bank plans to retain the same capital and retain the same branches. He introduced Don Sherman, Chairman of the Board. Mr. Sherman introduced the following Board of Directors: Ellen Sherman; Hal Stout; Donald Sherman; Tom Sherman, Mary Sherman, Karla Brakefield; Frank Conway, Donita Reed; Charles Sherman, Steve Sherman, Perry Nemecek; and Carolyn Annis.

Member Goad asked if this bank will be a member or nonmember bank?

Mr. Don Sherman said it will be a nonmember bank.

Member Goad asked if the mortgage business had created some problems with locking in rates.

Mr. Don Sherman said that was correct.

Member Huckabay made the motion for approval of the conversion. Motion was seconded and approved as follows:

Cheri Cartwright – voted yes  
Chris Conn – voted yes  
Gary Huckabay – voted yes  
John Goad – voted yes  
Gordon Greer – voted yes  
Bob Newcomb – voted yes

Seventh item on the agenda, Request by Oklahoma National Bank and Trust Company, Tulsa, Oklahoma, for Conversion from a National Charter to a State Chartered Institution pursuant to Title 6 Okla. Stat. §1101 and O.A.C. 85:10-3-17; Proposed Name: "ONB Bank and Trust Company".

Tom Bennett, Jr., President; Brad Boone, President of a residential insulator; Steve Murphy, President of Murphy Resources; Dr. Riley Rhoades; Ken Tate; Mike Bezanson, Vice Chairman/President; Gary Groom, EVP & COO; and Tom Bennett III were present to answer questions.

Mr. Bennett, Jr. said they first met in 1999 to plan opening a bank and recruited a large number of bankers in the process. He said the bank has had a lot of growth in five years. He said he realizes the bank is only five years old, but have done well the first five years. He thanked Carter Mathews on the state examination process and said it was the best examination the bank had ever experienced. He said if the conversion application is approved today, they will be one of the nine largest banks in the Tulsa market.

Chairman Thompson said Carter Mathews is present to answer any questions. He gave some history on how the bank decided to convert and said he met with Mr. Bennett, Jr. a year or so ago about converting to a state charter and they discussed the advantages of becoming a state charter. Mr. Bennett, Jr. told them why they wanted to convert to a state charter and it was discussed since the bank was so new and growing so quickly, the Department would want to do a thorough examination before considering an application to convert. He said the examiners spent several days doing an examination and checking out anything and everything that could be a problem and decided the bank could file the conversion application.

Member Newcomb said since the bank has had such rapid growth, it appears the bank has had to put capital into the bank more than once? Do those funds come about by selling more stock or from individuals?

Mr. Bennett, Jr. said the financial holding company put money into the bank. A trust preferred stock offering was done for current stockholders for \$250,000, then went back to current stockholders again for an additional \$3 million in June 2003. Then, dissipated another accrual of trust preferred stock which totals \$14 million from stockholders.

Member Newcomb asked if there any funds available from the holding company?

Mr. Bennett, Jr. said there is money in the holding company and the plan is to do an additional common stock offering for \$2 million.

Member Newcomb said the growth pattern as it is now, you will need to continue to add capital to the bank?

Mr. Bennett, Jr. said yes, but the stockholders are very supportive.

Gary Groom said capital is an ongoing concern and the position has been taken that the bank will always be well capitalized. If the bank needs to slow down in growth, then this idea will be entertained.

Member Greer said to maintain asset quality, the bank will have no dividends for seven years. Since the bank is coming up on five years in service, twenty four months will go by quickly. He asked if the bank will modify their earlier commitment or require more capital?

Mr. Bennett, Jr. said the bank will maintain their capital before anything else.

Member Greer said he noticed a real estate corporation entity in the application and asked if this could be described or discussed.

Mr. Bennett, Jr. said it is headquarters located at 91<sup>st</sup> and Yale.

Mr. Greer asked if there is a debt service associated with this?

Mr. Groom said it is free and clear and wholly owned by the bank.

Member Conn asked what steps have been taken in regard to the OCC examination in January to comply with their requests, especially improvement of asset quality?

Mr. Bezanson said he is a former OCC Examiner and understands the regulatory oversight of banking. He said the OCC's criticisms regarding the lending function had twenty-six items listed in the examination. He said the bank has focused on all twenty-six of these items and given great attention to each item. He said the credit administration function of the bank improved its processes and are doing a better job at credit evaluation. He said they are constantly looking at ways to improve the credit process. He said the bank has grown quickly and they weren't in front on the credit side and have had to play catch up in this area and believe they are in very good shape now.

Member Conn said the consensus of the bank's Board is that asset quality is more important than growth?

The members in attendance agreed.

Mr. Bennett, Jr. said the Executive Board meets weekly. The Executive Board has expanded to two outside directors and two inside directors and legal counsel which meet every Wednesday.

Steve Murphy said that when the outside directors were approached by the inside directors in becoming a state charter bank it was impressed upon them that a lot of progress had been made in credit function and asset value and were spurred on by the OCC to do that. He said they were not opposed to being a state bank, but didn't want the bank to change its direction.

Member Huckabay asked if the weekly meetings held with the Executive Board, are for current loans or loans that are going to be made?

Mr. Bennett, Jr. said loans that are going to be made.

Member Huckabay asked what the motivation was to change to a state charter?

Mr. Bennett, Jr. said the Senior Officers had always been related to national banks, but were impressed with the state charter. They began last summer discussing the market and the competition within their market were all state charters. He said state charters have an advantage over the OCC. He said they wondered why so many banks were converting and began speaking to those banks. He said 100% of the banks he spoke with were well pleased with converting to a state charter. He said Chairman Thompson had given them many good reasons. It was not an easy decision for the bank

to convert. He said this will be a better deal for them. He said the fees are lower and are able to contact the Department or Commissioner directly if anything is needed.

Mr. Bezanson said everyone in the bank has 100% national bank backgrounds.

Member Huckabay asked what other advantages does the bank foresee?

Mr. Bennett, Jr. said money savings, bank powers are better than national banks and the easy access to examination and department staff.

Member Huckabay asked about the internal lending limit?

Mr. Bezanson said the internal threshold is below the OCC. He said there is an advantage of an increased lending limit. He said they have no interest in being at a 30% lending limit.

Member Huckabay asked what their lending limit is now?

Mr. Groom said \$5,000,000 or 15%.

Mr. Bennett, Jr. said this will change on a quarterly basis.

Member Huckabay asked if large lines of credit are a problem? He said they were criticized by the OCC for this.

Mr. Bezanson said that is true. The OCC has a different view of risk in larger credits than the bank does. He said they do not have the same views as the OCC and don't believe there is any merit in this area now.

Mr. Bennett, Jr. said the bank has successfully reduced classifieds this year.

Member Conn asked if this is not as important today as it was in the past?

Mr. Bezanson said not necessarily, they just don't agree with the OCC's risk assessment.

Member Conn asked if an example could be given?

Mr. Bezanson said the OCC believes it should be tighter, where the bank doesn't view it that way and don't agree with the OCC's processes. He said most risks are going to be with larger credits which are what are generally looked at.

Member Huckabay said since the loan limit has been doubled, he's concerned that motivation to convert is because of loan limit doubling.

Mr. Bezanson said there were problems with credits, but those aren't the ones that are helping to increase business. A majority of the problem credits, those lenders are no longer with the bank. Their focus and direction are very much emphasized on asset quality.

Member Huckaby asked Carter Mathews if he feels all safeguards are in place for additional loan limit?

Mr. Mathews said yes. He said they may go higher at times, but is comfortable with the processes that are in place. He said he feels the bank can be structurally strengthened.

Chairman Thompson asked Mr. Mathews to talk about their overall loan administration.

Mr. Mathews said the credit processes were laid several years ago on the type of loans being made since the OCC had brought the subject up so much. He said they set up the process with a loan committee structure and like everyone else they have their own individual loan lending limits. He said their loan limit at this time is a little high, but they will work on it.

Member Conn asked Mr. Murphy his perspective as a director.

Mr. Murphy said he was ready for the change because the OCC didn't want them to grow. That doesn't make a good banking atmosphere.

Member Greer said the bank doesn't want to be too entrepreneured in loans. He said bad loans cause neglect to good loans and customers. He said to not reach too far.

Mr. Murphy agreed growing too quickly isn't good.

Member Goad asked if additional capital will be added.

Mr. Bennett, Jr. said yes. He said non-stockholders will be offered a stock offering.

Member Huckabay said the attitude of the OCC is different than the state. He said the Department has excellent staff and examiners.

Member Huckabay made the motion for approval of the conversion. Motion was seconded and approved as follows:

Cheri Cartwright – voted yes  
Chris Conn – voted yes  
Gary Huckabay – voted yes  
John Goad – voted yes  
Gordon Greer – voted yes  
Bob Newcomb – voted yes

Chairman Thompson notified the Board that there is a small bank the Department is concerned about and is diligently working to help them.

Member Conn made the motion to adjourn at 11:10 a.m. Motion was seconded and unanimously approved as follows:

Cheri Cartwright – voted yes  
Chris Conn – voted yes  
Gary Huckabay – voted yes  
John Goad – voted yes  
Gordon Greer – voted yes  
Bob Newcomb – voted yes

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Mick Thompson, Chairman

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Gary Huckabay

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Gordon Greer

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John Goad

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Bob Newcomb

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Chris Conn

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Cheri Cartwright