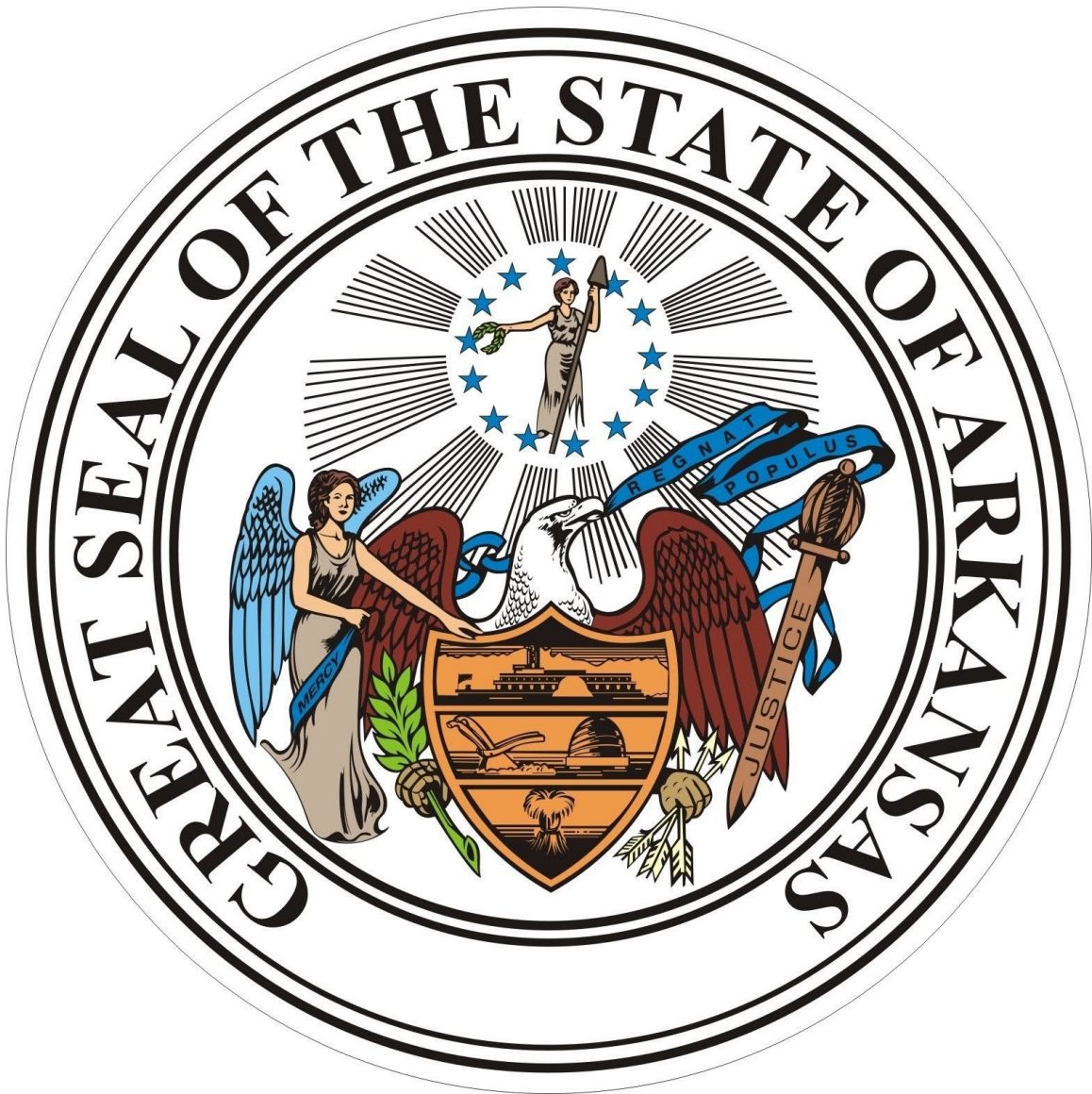


ARKANSAS STATE BANK DEPARTMENT



Policy Statements & Administrative Policies

Updated: September 23, 2025

LEGAL HOLIDAYS

The following are legal holidays for all purposes:

New Year's Day	January 1
Robert E. Lee's Birthday	Third Monday in January
Martin Luther King, Jr Birthday	Third Monday in January
George Washington's Birthday	Third Monday in February
Memorial Day	the last Monday in May
Independence Day	July 4
Labor Day	First Monday in September
Veteran's Day	November 11
Thanksgiving Day	Fourth Thursday in November
Christmas Eve	December 24
Christmas Day	December 25

Pursuant to A.C.A. § 1-5-101 it is provided that holidays falling on Saturday will be observed on the preceding Friday and holidays falling on a Sunday will be observed the succeeding Monday.

ARKANSAS STATE BANKING BOARD

Position Number	Classification Of Position	Entitled To Nominate	Incumbent	Term Expires
1	Bank Department Member	Bank Commissioner	Todd Smith	12/21/2029
2	Arkansas Bankers Association Member	Bankers Association	Randy Scott	12/31/2025
3	Arkansas Bankers Association Member	Bankers Association	Gary Head	12/31/2028
4	Public Member	Governor	Allen Kerr	12/31/2028
5	Public Member	Governor	Andy Davis	12/31/2026
6	Public Member	Governor	Rusty Lanier	12/31/2028

The Arkansas Code of 1987, as amended
(including the Arkansas Banking Code A.C.A. § 23-45-101 through A.C.A §23-50-110)
is accessed online at www.arkleg.state.ar.us

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ARKANSAS STATE BANK DEPARTMENT
www.banking.arkansas.gov

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POLICY STATEMENT

MAY 3, 2000

ORDER OF THE STATE BANK COMMISSION

SUBJECT: FINANCIAL SUBSIDIARIES

The Arkansas Bank Commissioner, pursuant to his authority under A.C.A. § 23-47-101(37)(c), hereby authorizes Arkansas state banks to conduct permitted activities through a “financial subsidiary” in the same manner and with the same requirements as those provided for national banks by the Office of the Comptroller of the Currency. State banks that wish to conduct any of the permitted activities through a financial subsidiary must submit an application and receive approval from the Bank Commissioner, as well as any other licensing requirements prior to entering into such activity.

Signed this 3rd day of May 2000.

SIGNED: FRANK WHITE
BANK COMMISSIONER

POLICY STATEMENT

APRIL 7, 2003

ORDER OF THE STATE BANK COMMISSIONER

SUBJECT: BANK PURCHASES OF LIFE INSURANCE

The Arkansas State Bank Commissioner, in accordance with his authority under A.C.A. § 23-47-101(c), hereby adopts the following policy:

Arkansas state chartered banks are authorized to purchase or take an interest in life insurance for a purpose incidental to the business of banking in accordance with the same guidelines used by the Comptroller of the Currency for national banks. For reference see OCC 2025-4.

Signed this 7th day of April 2003

SIGNED: FRANK WHITE
BANK COMMISSIONER

Revised September 25, 2025
Susannah T. Marshall
Bank Commissioner

POLICY STATEMENT

JULY 14, 2003

ORDER OF THE STATE BANK COMMISSIONER

**SUBJECT: DEBT CANCELLATION CONTRACTS
AND DEBT SUSPENSION AGREEMENTS**

Arkansas State Banks are authorized, pursuant to A.C.A. § 23-47-101(a)(33), to enter into agreements to provide for losses arising from the cancellation of outstanding loans upon the death of borrowers. In order to further authorize this activity, the Arkansas State Bank Commissioner, in accordance with his authority under A.C.A. § 23-47-101(c), hereby adopts the following policy:

Arkansas state-chartered banks are authorized to enter into debt cancellation contracts and debt suspension agreements and charge a fee therefore, in connection with extensions of credit that it makes in accordance with the same guidelines used by the Comptroller of the Currency for national banks. For reference see 12 C.F.R. Part 37, effective June 16, 2003.

Signed this 14th day of April 2003

**SIGNED: ROBERT H. ADCOCK, JR.
BANK COMMISSIONER**

*Revised September 25, 2025
Susannah T. Marshall
Bank Commissioner*

POLICY STATEMENT

DECEMBER 12, 2006

ORDER OF THE STATE BANK COMMISSIONER

**ACTIVITIES FOR STATE-CHARTERED BANK AUTHORIZED BY THE BANK
COMMISSIONER PURSUANT TO A.C.A. § 23-47-101(c)**

SUBJECT: MERGER OR CONSOLIDATION

The Arkansas Bank Commissioner, acting pursuant to the authority granted under A.C.A. § 23-47-101(c), hereby adopts the following Resolution:

Arkansas state chartered banks, by the approving vote of the holders of their capital stock as required by their Articles of Incorporation or other organizational documents, may merge or consolidate with a stock federal or state savings association, in the same manner in which a national bank is authorized, pursuant to Title V of the Federal Deposit Insurance Corporation Improvement Act of 1991 (12 U.S.C. 215c(a)). Merger and/or consolidation provisions of state and federal law will be applied in consideration of such transactions.

Signed this 12th day of December 2006.

**SIGNED: ROBERT H. ADCOCK, JR.
BANK COMMISSIONER**

POLICY STATEMENT

JULY 20, 2007

ORDER OF THE STATE BANK COMMISSIONER

**SUBJECT: BANK INVESTMENT IN LIMITED LIABILITY COMPANIES OR
LIMITED LIABILITY PARTNERSHIPS**

The Arkansas Bank Commissioner in accordance with his/her authority pursuant to A.C.A. § 23-47-101(c), hereby authorizes Arkansas state banks to engage in the activity to invest in a limited liability company, or limited liability partnership, in the same manner in which national banks are authorized to do so.

The Comptroller of the Currency generally authorizes national banks to make such investment so long as four standards are met. These are as follows:

1. The activities of the enterprise in which the investment is made must be limited to activities that are part of, or incidental to, the business of banking.
2. The bank must be able to prevent the enterprise from engaging in activities that do not meet the foregoing standard.
3. The bank's loss exposure must be limited, as a legal and accounting matter, and the bank must not have open-ended liability for the obligation of the enterprise.
4. The investment must be convenient or useful to the bank in carrying out its business and not a mere passive investment unrelated to that bank's banking business.

(See Office of the Comptroller of the Currency re: Investment in Limited Liability Companies or Limited Liability Partnerships)

Signed this 20th day of July 2007.

**SIGNED: CANDACE A. FRANKS
BANK COMMISSIONER**

ORDER OF THE STATE BANK COMMISSIONER

SUBJECT: LOAN PRODUCTION OFFICE – ACTIVITIES PERMITTED

Act 42 of 2007 authorizes Arkansas state banks to establish limited purpose offices. A limited purpose office may function as a loan production office.

Pursuant to the authority provided by A.C.A. § 23-48-702, Arkansas state banks may perform the same authorized activities at a loan production office as national banks are authorized to do so. These activities are:

Title 12: Banks and Banking
Part 7 – Bank Activities and Operations
Subpart A – Bank Powers

§ 7.1003 Money lent at banking offices or at other than banking offices.

(a) *General.* For purposes of what constitutes a branch within the meaning of 12 U.S.C. 36(j) and 12 CFR 5.30, “money” is deemed to be “lent” only at the place, if any, where the borrower in-person receives loan proceeds directly from bank funds:

(1) From the lending bank or its operating subsidiary; or

(2) At a facility that is established by the lending bank or its operating subsidiary.

(b) *Receipt of bank funds representing loan proceeds.* Loan proceeds directly from bank funds may be received by a borrower in person at a place that is not the bank’s main office and is not licensed as a branch without violating 12 U.S.C. 36, 12 U.S.C. 81 and 12 CFR 5.30, provided that a third party is used to deliver the funds and the place is not established by the lending bank or its operating subsidiary. A third party includes a person who satisfies the requirements of §7.1012(c)(2), or one who customarily delivers loan proceeds directly from bank funds under accepted industry practice, such as an attorney or escrow agent at a real estate closing.

§ 7.1004 Loans originating at other than banking offices.

(a) *General.* A national bank may use the services of, and compensate persons not employed by, the bank for originating loans.

(b) *Approval.* An employee or agent of a national bank or of its operating subsidiary may originate a loan at a site other than the main office or a branch office of the bank. This action does not violate 12 U.S.C. 36 and 12 U.S.C. 81 if the loan is approved and made at the main office or a branch office of the bank or at an office of the operating subsidiary located on the premises of, or contiguous to, the main office or branch office of the bank.

§ 7.1005 Credit decisions at other than banking offices.

A national bank and its operating subsidiary may make a credit decision regarding a loan application at a site other than the main office or a branch office of the bank without violating 12 U.S.C. 36 and 12 U.S.C. 81, provided that “ money” is not deemed to be “lent” at those other sites within the meaning of §7.1003.

Signed this 20th day of July 2007.

SIGNED: CANDACE A. FRANKS
BANK COMMISSIONER

POLICY STATEMENT

OCTOBER 16, 2023

ORDER OF THE STATE BANK COMMISSIONER

SUBJECT: INDEMNIFICATION TO OFFICERS, DIRECTORS

WHEREAS, pursuant to Ark. Code Ann. § 4-26-814, all business corporations incorporated pursuant to the Arkansas Business Corporation Act (“ABCA”) prior to January 1, 1988, have the power to indemnify officers, directors and other persons for: (i) all expenses of litigation and other legal proceedings when such persons are successful on the merits; (ii) expenses, judgments, fines, and amounts paid in settlement of such litigation and other legal proceedings (other than derivative actions) even if such persons are not successful on the merits if they acted in good faith and in a manner reasonably believed to be in or not opposed to the best interests of the corporation; and (iii) expenses incurred in a derivative action, if such persons acted in good faith and in a manner reasonably believed in or not opposed to the best interests of the corporation, provided that the court in which such action or suit is brought shall determine, upon application, that despite such adjudication of liability, such persons are fairly and reasonably entitled to indemnity for such expenses; and

WHEREAS, the Arkansas General Assembly enacted the Arkansas Business Corporations Act of 1987, codified at Ark. Code Ann. § 4-26-101 through Ark. Code Ann. § 4-26-308, which governs all Arkansas business corporations established on or after January 1, 1988, and for existing Arkansas business corporations whose stockholders elect to be governed by the Arkansas Business Corporations Act of 1987 on or after January 1, 1988, and the Arkansas Business Corporations Act of 1987 contains similar provisions of indemnification as the code which it replaces; and

WHEREAS, pursuant to such actions of the Arkansas General Assembly, it is the public policy of the State of Arkansas to allow Arkansas business corporations to indemnify officers, directors, and such other persons as set forth above; and

WHEREAS, national banking associations organized pursuant to the laws of the United States of America are granted the power to indemnify officers, directors and other persons pursuant to an Office of the Comptroller of the Currency Interpretive Ruling promulgated at 12 C.F.R. 7.5217 and, under such Interpretive Ruling, the Office of the Comptroller of the Currency will recognize a national banking association's indemnification provisions in its Articles of Association if such substantially reflect general standards of law as evidenced by the law of the state in which a national banking association is headquartered, the law of the state in which the national banking association's holding company is incorporated, or the relevant provisions of the Model Business Corporation Act; and

WHEREAS, liability insurance for officers, directors, and other persons has become increasingly cost prohibitive, uneconomical, and extremely difficult to obtain for corporations, including state and nationally chartered banking associations, and even if obtained, such insurance typically contains broad exclusions from its coverage thereby severely reducing the transfer of risk to the insurance carrier; and

WHEREAS, Ark. Code Ann. § 23-47-101 does not specifically grant Arkansas state-chartered banks the power to indemnify officers, directors, and other persons of an Arkansas state-chartered bank; and

WHEREAS, it is necessary for Arkansas state-chartered banks to be able to offer officers, directors, and other persons protection against liability for actions taken by them on behalf of such institutions and in order for such institutions to be able to attract capable and talented individuals to serve as officers, directors, and employees; and

WHEREAS, pursuant to Ark. Code Ann. § 23-47-101(c) the Bank Commissioner, may authorize Arkansas state-chartered banks the power to engage in any banking activities in which an Arkansas state-chartered bank could engage were they acting as a national bank;

NOW, THEREFORE, BE IT RESOLVED, under the authority granted by Ark. Code Ann. § 23-47-101(c), the Bank Commissioner authorizes Arkansas state-chartered banks to indemnify officers, directors, and other persons to the maximum extent as such is permitted by the ABCA and the Arkansas Business Corporation Act of 1987, in the same manner as a national bank can in accordance with 12 C.F.R. 7.2014; provided, however, that such power shall not be construed to allow the indemnification of officers, directors, and other persons of an Arkansas state-chartered bank against expenses, penalties, or other payments incurred in an administrative proceeding or action instituted by an appropriate bank regulatory agency which proceeding or action results in a final order assessing civil money penalties or requiring affirmative action by an individual or individuals in the form of payments to an Arkansas state-chartered bank; and

BE IT FURTHER RESOLVED, that the authority of an Arkansas state-chartered bank to provide indemnification to officers, directors, and other persons may be specified, in accordance with the terms hereof, under any article of incorporation or bylaw provision, legal agreement or contract, vote of shareholders or disinterested directors, or other lawful means including the right of Arkansas state-chartered banks to purchase and maintain insurance on behalf of officers, directors and other persons; provided, however, that such insurance shall explicitly exclude coverage for a formal order assessing civil money penalties against a bank officer, director, or employee.

Signed this 20th day of July 2007.

**SIGNED: CANDACE A. FRANKS
BANK COMMISSIONER**

*Revised October 16, 2023
Susannah T. Marshall
Bank Commissioner*

POLICY STATEMENT

JULY 20, 2007

ORDER OF THE STATE BANK COMMISSIONER

**SUBJECT: DEFINITION OF CAPITAL, SURPLUS, AND UNDIVIDED PROFITS
(LEGAL LENDING LIMIT)**

The Arkansas State Bank Commissioner, in accordance with her authority under Arkansas Code Annotated (A.C.A.) § 23-47-101(c), hereby adopts the following policy:

A.C.A. § 23-47-501(a) limits the total indebtedness to any state bank of any person to twenty percent (20%) of the capital base of the bank. Capital base means “the sum of capital, surplus, and undivided profits, plus any additions and less any subtractions which the Bank Commissioner may by Rule prescribe,” as provided by A.C.A. § 23-45-102(a)(10).

For the purpose of lending limits, capital and surplus is defined under 12 CFR 32.2(c) as meaning:

- (1) For qualifying state community banks that have elected to use the community bank leverage ratio framework:
 - a. The sum of a qualifying community bank’s Tier 1 capital, per the state bank’s most recent call report; plus
 - b. The qualifying community bank’s allowance for loan and lease losses or adjusted allowances for credit losses, as applicable, per the state bank’s most recent call report.
- (2) For all other state banks:
 - a. A state bank’s Tier 1 and Tier 2 capital calculated under the risk-based capital standards applicable to the bank, per the state bank’s most recent call report; plus
 - b. The balance of a state bank’s allowance for loan and lease losses or adjusted allowances for credit losses, as applicable, not included in the calculation of the bank’s Tier 2 capital per the state bank’s most recent call report.

Signed this 20th day of July 2007.

**SIGNED: CANDACE A. FRANKS
BANK COMMISSIONER**

*Revised May 26, 2020
Candace A. Franks
Bank Commissioner*

POLICY STATEMENT

OCTOBER 17, 2019

ORDER OF THE STATE BANK COMMISSIONER

**ACTIVITIES FOR STATE-CHARTERED BANK AUTHORIZED BY THE BANK
COMMISSIONER PURSUANT TO A.C.A. § 23-47-101(c)**

SUBJECT: SECURITY FOR DEPOSITS

The Arkansas Bank Commissioner, acting pursuant to the authority granted under A.C.A. § 23-47-101(c), hereby adopts the following resolution:

National banks are authorized to give security for deposits made by the federal government, any state, or any federally recognized Indian tribe under 12 U.S.C. § 90. This grant of power is significantly broader than those granted to Arkansas state banks and gives national banks a competitive advantage over Arkansas state banks.

Therefore, Arkansas state banks may have and exercise the same authority to give security for deposits that national banks currently enjoy under 12 U.S.C. § 90. This grant of authority to give security for deposits extends to deposits made by: (1) any state (other than Arkansas) or political subdivision thereof or any agency or other governmental instrumentality of one or more States or political subdivisions thereof, including any officer, employee, or agent thereof in his official capacity; or (2) any federally recognized Indian tribe, or any officer, employee, or agent thereof in his or her official capacity.

Signed this 17th day of October 2019.

**SIGNED: CANDACE A. FRANKS
BANK COMMISSIONER**

POLICY STATEMENT

DECEMBER 17, 2021

ORDER OF THE STATE BANK COMMISSIONER

SUBJECT: COMPUTER-SECURITY INCIDENT NOTIFICATION

Computer security incidents can result from malicious cyberattacks as well as from non-malicious failure of hardware, software, personnel issues, and other causes. Cyberattacks targeting the financial services industry have increased in frequency and severity in recent years, and these cyberattacks can adversely affect institutions' networks, data, and their ability to carry out normal banking operations. In response to these threats, federal regulators have issued a joint rule requiring the reporting of any qualifying computer security incident to the appropriate regulatory agency.

The Office of Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation recently published the November 18, 2021 announcement of a final rule to establish computer-security incident notification requirements for banking organizations and their service providers.

The Arkansas State Bank Commissioner, in accordance with her authority under Arkansas Code Annotated (A.C.A.) § 23-47-101(c), hereby adopts the following policy:

The final rule requires a banking organization to notify its primary federal regulator, the OCC for national banks and the Federal Reserve or Federal Deposit Insurance Corporation for state banks, as soon as possible, and no later than 36 hours after determining that a computer-security incident rising to the level of a notification incident has occurred. An Arkansas State Chartered bank must also notify the Arkansas State Bank Department for any computer-security incident as required by the bank's federal regulator under this final rule.

The inclusion of the Arkansas State Bank Department on any and all notifications with the bank's federal regulator will be sufficient to meet the requirements of this policy. Notification to the Arkansas State Bank Department may be made via email, telephone, or similar methods.

For the purpose of this reporting requirement, a "notification incident" means:

A computer security incident that has materially disrupted or degraded, or is reasonably likely to materially disrupt or degrade, a banking organization's:

1. Ability to carry out banking operations, activities, or processes, or deliver banking products and services to a material portion of its customer base, in the ordinary course of business;
2. Business lines, including associated operations, services, functions, and support that upon failure would result in a material loss of revenue, profit, or franchise value; or
3. Operations, including associated services, functions and support as applicable, the failure or discontinuance of which would pose a threat to the financial stability of the United States.

Signed this 17th of December 2021.

**SIGNED: SUSANNAH T. MARSHALL
BANK COMMISSIONER**

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ADMINISTRATIVE POLICY #001

BILL J. FORD, BANK COMMISSIONER

NOVEMBER 16, 1987

SUBJECT: ELIGIBLE BANK INVESTMENTS

RETAIN FOR

FUTURE

REFERENCE

Administrative Policy #001 is being issued to all State chartered banks in regard to the legality of investing in certain instruments such as CMO's (Collateralized Mortgage Obligations), CMO residuals, REMICs and SMBS's (Stripped Mortgage-Backed Securities). The purpose of the directive is to state the position and requirements of the Bank Department with respect to these investment vehicles.

Before consideration can be given to investment into any of these non-traditional instruments it will be necessary for the Board of Directors to approve amendments to the bank's investment policy.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO'S)

A state chartered bank may only invest in CMO's in which the collateral consists of securities in which repayment of both principal and interest is 100% guaranteed by an agency of the United States government. CMO's which meet this criteria may be purchased without legal lending limitations so long as the CMO meets the definition of "Mortgage related securities" as defined in section 101 of the Secondary Mortgage Market Enhancement Act of 1984 which has been codified at 15 U.S.C. S 78 c(a) (41). The definition includes any security which satisfied all of the following requirements:

- The security must be rated in one of the two highest rating categories by at least one nationally recognized statistical rating organization.
- The security must be secured by one or more promissory notes or certificates of interest or participations in such notes.
- The security must provide for payments of principal in relation to payments or reasonable projections of payments on the underlying notes or certificates.
- The notes or certificates underlying the CMO's must be directly secured by a first lien on a single parcel of real estate, stock allocated to a dwelling unit in a residential cooperative housing corporation, upon which is located a dwelling or mixed residential and commercial structure, or on a residential manufactured home.
- The underlying notes or certificates must have been originated by a savings and loan association, savings bank, commercial bank, credit union, insurance company, or similar institution which is supervised and examined by a Federal or State authority or by a mortgagee approved by the Secretary of Housing and Urban Development.

Banks making such investments are required to maintain the following information in the files of the bank:

- (1) The CMO bond instrument or a descriptive safekeeping receipt identifying the specific instrument certifying that the described instrument is being held for subject bank;
- (2) A prospectus describing the trust indenture. A bank may wish to obtain monthly documentation reflecting the unpaid balances and performance of the collateral held by the trust.

Although the CMO's described may be obtained without limitation, management and the board of directors are reminded of the sound tenet of banking of diversification of risk. Consideration should also be given to the liquidity needs of the bank prior to making such investment.

Investments in CMO's which are backed by any other collateral are subject to legal lending limitations.

CMO AND REMIC RESIDUALS

Residual and stripped coupon securities represent packages of various combinations of selected cash flows from a pool of mortgage receivables (either mortgage loans or mortgage-backed securities) and are typically issued under a Real Estate Mortgage Investment Conduit (REMIC) or collateralized mortgage obligation (CMO) structure.

CMO and REMIC Residual instruments reflect an ownership interest in the trust and do not indicate an investment in principal or a stated interest rate. The investor is purchasing an interest in the trustee's ability to earn money sometime in the future. It is the opinion of the State Bank Department that such investments represent an equity interest in the trust, are speculative in nature, and, as such, **are not considered eligible** investments for state chartered banks.

STRIPPED MORTGAGE-BACKED SECURITIES (SMBS)

Principal-only strips (P/O) represents an undivided percentage ownership interest in the principal portion of the pass through certificate. Banks may invest in principal-only strips provided that payment of the principal portion of the underlying security is 100% guaranteed by an agency of the U. S. Government. Banks that invest in these investments must maintain the same documentation as required for CMO's.

Since a P/O is essentially a "zero coupon" security, its market value may be extremely volatile in a changing interest rate environment. A bank must have sufficient liquidity to be able to hold the instrument to term despite wide swings in its market value or must have the expertise to react quickly to interest rate changes.

Interest-only strips (I/O) have many of the same characteristics as CMO Residuals. Such investment in future interest, which may or may not be realized, is considered speculative. These instruments **are not considered eligible** investments for state chartered banks, **unless** utilized for interest rate hedging purposes.

Any hedging activity must be supported by a board approved hedging policy that sets forth parameters under which the activity will take place. The board of directors must establish limitations applicable to the hedging activity and the board of directors, a duly authorized committee of the board, or the bank internal auditors must review periodically (at least monthly) the hedging position to ascertain performance with the limitations set forth in the policy.

If a bank holds these securities as a hedge, the current accounting guidance on hedging is primarily contained in FASB Statement No. 80, Accounting for Futures Contracts, which includes two criteria that must be met for a futures contract to qualify as a hedge:

- (1) The item to be hedged exposes the bank to interest rate risk.
- (2) The futures contract reduces that exposure and is designated as a hedge.

Investment in Interest-only strips in any manner other than provided above will be considered an unsafe and unsound banking practice.

Interest-only strips (I/O) investments **are subject to the bank's legal lending limit.**

ACCOUNTING

Information will be forthcoming from the appropriate federal supervisory agency regarding the recommended accounting for Call Report purposes of the various instruments discussed.

ADMINISTRATIVE POLICY #002

REVISED – 06/30/04
Robert H. Adcock, Jr.,
Bank Commissioner

BILL J. FORD, BANK COMMISSIONER

MAY 31, 1997

SUBJECT: BANK HOLDING COMPANY SUPERVISION

RETAIN FOR

FUTURE

REFERENCE

The Bank Commissioner requires that all bank holding companies owning Arkansas state-chartered banks to submit certain Federal Reserve System reports. Copies of reports submitted to the Federal Reserve Bank, which are executed according to individual report instructions, will comply with this Order. These forms and their instructions may be obtained via Internet at the following address:

<http://www.federalreserve.gov/boarddocs/reportforms/CategoryIndex.cfm?WhichCategory=1>

The following is a list of the bank holding company reports that your institution may be required to file. Retain the list for periodic review as the status of your institution may change.

Note: All **FR Y-9** and **FR Y-11** reports are now submitted to the Federal Reserve through Internet Electronic Submission (IESUB); therefore, paper copies of these reporting forms are no longer required for submission to Arkansas State Bank Department. In the course of examining holding companies, Arkansas State Bank Department reserves the right to request paper copies of these forms as needed to effectively analyze and complete the examination process.

Paper copies of the following reports are required to be submitted to the Arkansas State Bank Department as follows:

Report: **FR Y-6 – Annual Report of Bank Holding Companies.**

Frequency: Annually, within 90 days following calendar year end.

Reporting Criteria: All top-tier bank holding companies.

Report: **FR Y-8 -- Report of Bank Holding Company Report of Insured Depository Institutions' Section 23A Transactions with Affiliates.**

Frequency: Quarterly, submitted to the Arkansas State Bank Department if reportable activity has occurred.

Reporting Criteria: All top-tier bank holding companies, including financial holding companies. A separate FR Y-8 report form should be filed for each depository institution.

Report: **FR Y-10 – Report of Changes in Organizational Structure.**

Frequency:	As needed, submitted within thirty calendar days of a reportable transaction or event.
Reporting Criteria:	All top-tier bank holding companies and state member banks that are not controlled by a bank holding company.

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ADMINISTRATIVE POLICY #003

Revised – 09/30/2001

Frank White, Bank Commissioner

Revised – 01/31/2006

Robert H. Adcock, Jr., Bank Commissioner

Revised – 01/08/2024

Susannah T. Marshall, Bank Commissioner

BILL J. FORD, BANK COMMISSIONER

ISSUED: MARCH 30, 1988

RISK RATING/RESERVE ALLOCATION

RETAIN FOR

FUTURE

REFERENCE

OVERVIEW

This guidance is intended to update Administrative Policy #003, originally issued on March 30, 1988, and last updated on January 8, 2024.

The Financial Accounting Standards Board (FASB) issued a new expected credit loss accounting standard in June 2016. This new guidance was outlined in Accounting Standards Update (ASU) 2016-13 Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, commonly referred to as Current Expected Credit Losses (CECL). This guidance replaced the previous “Incurred Loss Methodology (ILM).” The standard became effective for most SEC filers in fiscal years and interim periods beginning after December 15, 2019, and for all others it took effect in fiscal years beginning after December 15, 2022.

The Policy Statement clarifies the expectations regarding methodologies and documentation support for the Allowances for Credit Losses (ACL). While many aspects of previous accounting statements concerning credit loss reserves remain applicable, including grouping similar asset classes and incorporating historical losses, considerations such as the current credit environment and expectations for the future must also be considered. CECL extends beyond the current timeframe to measure these aforementioned factors over the life of the asset.

CECL requires covered entities to recognize lifetime expected credit losses for a wide range of financial assets and to incorporate reasonable and supportable forecasts in developing their estimates of expected credit losses, while also maintaining the existing accounting requirements to consider past events and current information. Although the method used to measure expected credit losses may vary for different types of financial assets, the method used for a particular financial asset should be consistently applied to similar financial assets.

The key differences between CECL and the ILM include:

- Financial institutions must recognize lifetime expected credit losses for financial assets, not just credit losses that have been incurred as of the reporting date;
- CECL covers a broader range of financial assets within the ACL under the other-than-temporarily impaired concept, including held-to-maturity debt securities;
- Available-for-sale (AFS) debt securities will continue to be assessed for impairment under ASC 320; and
- A financial institution must recognize credit losses on individual AFS debt securities through credit loss allowances, rather than through direct write-downs.

Both the CECL and ILM method require adjustments to historical credit loss information to reflect current conditions and reasonable and supportable forecasts that are different from conditions existing in the historical period.

CECL does not change the cumulative number of losses ultimately charged off from an asset relative to ILM; it changes the timing of when those losses are recognized for accounting purposes. While CECL generally results in earlier accounting recognition of potential credit losses and expenses associated with financial assets, GAAP does not necessarily provide earlier accounting recognition of all revenues associated with those assets. Many external economic factors continue to put pressure on various asset sectors of many of our financial institutions. Constant monitoring and adjusting forecasts to internal and external pressures is necessary.

The FDIC, Federal Reserve System, and the OCC as well as accounting specialists have online resources to assist financial institutions with implementation and updates to a bank's CECL methodology. The ASBD also is available to assist our stakeholders with any information needed. Furthermore, each institution's auditors should be able to provide further specific guidance.

Resources:

- Deloitte: Perspectives- Current expect credit losses: On the Radar: Insights on implementing the CECL model
- U.S. Department of the Treasury: The Current Expected Credit Loss Accounting Standard and Financial Institution Regulatory Capital – September 15, 2020
- AICPA – Financial Reporting Center – Credit Losses: Guide to reasonable and supportable forecasts – October 30, 2018

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ADMINISTRATIVE POLICY #004

BILL J. FORD, BANK COMMISSIONER
ISSUED: AUGUST 22, 1988
SUBJECT: NONACCRUAL OF INTEREST

RETAIN FOR
FUTURE
REFERENCE

NONACCRUAL OF INTEREST

Banks shall not accrue interest or discount on:

- 1) any asset which is maintained on a cash basis because of deterioration in the financial position of the borrower;
- 2) any asset for which payment in full of principal and interest is not expected; or
- 3) any asset upon which principal or interest has been in default for a period of 90 days or more unless it is **both** well secured **and** in the process of collection. A nonaccrual asset may be restored to an accrual status when none of its principal and interest is past due.

If the principal or interest on an asset becomes due and unpaid for 90 days or more, the asset should be placed in nonaccrual status as of the date it becomes 90 days past due. Interest accrued to date on a loan placed in nonaccrual status must be reversed from current year earnings. The loan must remain in nonaccrual status until it meets the criteria for restoration to accrual status described above.

DEFINITIONS

- 1) A debt is **well secured** if it is secured:
 - a. by collateral in the form of liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt (including accrued interest) in full; or
 - b. by the guaranty of a financially responsible party.
- 2) A debt is **in the process of collection** if collection of the debt is proceeding in due course either through legal action, including judgement enforcement procedures; or, **in appropriate circumstances**, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status within 105 calendar days of its due date.

No loan past due 105 days or more will be considered in process of collection.

ADMINISTRATIVE POLICY #005

BILL J. FORD, BANK COMMISSIONER

ISSUED: FEBRUARY 15, 1989

SUBJECT: STRATEGIC PLANNING

RETAIN FOR

FUTURE

REFERENCE

Recent legislative action which provides for the expansion of banking through expanded branching powers and regional acquisitions and efforts to repeal antiquated bank laws and thus expand powers for banks make it even more apparent that bankers must address the issues that effect the future of their institution. In this era of deregulation and change, the successful community bank will be the one that is prepared for and able to effectively adjust to change.

An effective means of coping with "change" is the development of a "**strategic plan**". Though it may seem difficult to realize where the time will be found to organize and formalize a "plan", it should be noted that a properly utilized and well thought out plan will improve decision making and make time commitments more easily prioritized and allocated. The banker who doesn't have time for planning is the banker who will seldom have time to act rather than react.

THE STRATEGIC PLAN: A strategic plan sets forth the bank's goals and addresses how to achieve them. To be effective, the plan must project beyond the current fiscal year. Given the rapidly changing banking environment, a one year and three year time frame are considered reasonable. The plan must use the best available data to evaluate economic and market conditions and then determine a realistic set of goals.

Profitability is important. However, it may be counterproductive to maximize short-term profits at the expense of achieving long-term goals. A balance must be found between a comfortable profit margin and the resources needed to meet strategic objectives.

Before writing a strategic plan, the following points must be acknowledged and accepted: you and your staff are qualified to write your plan; a strategic plan is basically defining your goals and objectives into written form; and the first attempt will not be perfect, but will be the basis for building an improved plan.

THE PLANNING PROCESS: A plan should address two distinct criteria: one that identifies **what** the organization is and **what** it desires to be, often referred to as the "**mission statement**", and one that defines **how** to achieve the mission of the organization, i.e., goals and objectives.

MISSION STATEMENT: The **mission statement** identifies the organization and should include an identification of products offered and markets served, as well as a description of the primary factor for determining why you do what you do.

The mission statement can be reduced to a few concise statements addressing basic issues such as: What business are we in? What business should we be in? Who are our customers? Who should our customers be? and, How do we want our customers to know us or view us?

OBJECTIVES: After having determined what the mission is, strategy must be developed giving guidances as to how the mission will be achieved. The objectives defined in the "how to achieve" strategy should never conflict with the bank's stated mission, but should be in harmony with the mission statement. When necessary, an outline of programs needed to accomplish the objectives should be included. Objectives reflect what it is that is to be accomplished and should be measurable; realistic; understandable; and they must have a defined time frame.

If nothing more is accomplished than defining the "**mission statement**" and outlining the highest priority objectives for the upcoming year, including the financial expectations, the probability of accomplishing those objectives will be dramatically increased. While such an exercise is not the ultimate goal, it should suffice as a temporary plan.

COMMUNICATION AND INVOLVEMENT: It is strongly suggested that the strategic plan be in written form and reviewed by the board of directors. Further, in order for the planning process to achieve maximum effectiveness, it is imperative that the entire plan be presented to all bank personnel. **Communication is vital to the success of the plan.** Top management must communicate to all employees that it is committed to its long-range plans and that every manager is expected to use it.

Following a presentation of the plan, it is appropriate to conduct meetings between each level of supervision and their subordinates. The primary purpose of such meetings is to respond to subordinates questions and concerns, solicit their ideas and establish their commitment to support the strategic plan.

The **secondary purpose** is to encourage a sense of employee participation. This idea is based on two management concepts: **1)** good ideas for improvement often exist in the minds of people who actually perform the work and **2)** people will more readily commit to accomplishing objectives that they have had a personal role in establishing.

REVIEW AND MONITORING: Managers at the highest level will need to consult the plan periodically and even reexamine the plan itself from time to time. To help achieve the goals established, progress must be monitored. Management must meet at regular intervals to evaluate how each department is accomplishing its specific tasks.

The plan must be flexible. Goals that are no longer realistic should be changed or eliminated. However, caution is advised against changing the plan too frequently. Once that happens, employees come to believe that management only uses the plan when it is convenient.

EXAMINER EVALUATION: The personnel of the State Bank Department firmly believe that a well-managed bank is one that conscientiously plans for change rather than merely reacts to change. With this in mind, one objective of the examining process will be to perform a review of management's planning process. The examiner is not to evaluate bank planning based on the preconception that every bank will have a model planning process. In fact, just the opposite will be

emphasized - the planning process should be structured to reflect the unique characteristics of the bank in order for the process to be most effective. The examiner's criticism of planned actions will only be appropriate if the action contemplated will seriously harm the bank to a degree that requires regulatory concern or action.

In the event bank management has not developed a formal plan or reduced the plan to writing, the examiner shall obtain from senior management and/or the board of directors information supporting plans for such matters as growth, expansion, capital, dividend payouts, changes and mix of assets, changes in sources of funding, and changes in management and personnel.

The examiner shall review senior management's and the board of directors' commitment to the planning concept. The examiner will detail in the Report of Examination the bank's corporate planning process and determine if the following areas are addressed: adequate involvement of the bank's board; major departments are involved in the planning process; plans are effectively communicated throughout the organization; a monitoring and review process facilitates updates and revisions as warranted; and that future management and personnel needs are addressed and training and advancement policies will keep the organization viable and dynamic.

The examiner will have greater confidence in the management and future viability of the bank when it is determined that management has the ability and has taken the initiative to plan for change and is able to communicate the plan throughout the organization. Such confidence will be communicated to the Bank Commissioner and the bank's board of directors through the Report of Examination.

Strategic planning is not an end, but a means to managing change and focus on emerging opportunities.

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ADMINISTRATIVE POLICY #006

BILL J. FORD, BANK COMMISSIONER
DECEMBER 10, 1990
SUBJECT: ENVIRONMENTAL RISK IN LENDING

RETAIN FOR
FUTURE
REFERENCE

Environmental issues and the magnitude of costs associated with remedial action regarding hazardous waste has begun to impact financial institutions. Lending transactions involving real estate as collateral are particularly at risk. Two types of environmental risk exist. In addition to the normal risk of loss of bankable assets that can be attributed to hazardous waste, there exists the potentially enormous liability of rectifying hazards existing in violation of state and federal law that far exceed an asset's value. This includes liability to third parties endangered by hazardous waste. Protection from this monetary liability, which can literally eliminate an institution's capital must be the goal of the bank's directorate, management, and legal counsel.

STATUTORY OVERVIEW

State and federal laws enacted to enforce and assess remediation of hazardous waste have been enforced to the detriment of financial institutions. The Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), commonly known as the Superfund, was created to authorize the Environmental Protection Agency to undertake remedial action or to direct others to do so. Under this law, any person or entity determined to be the owner or operator of an entity producing, causing, transporting, or storing hazardous waste can be assessed clean-up costs. This is the most important and severe law from a lender's point of view.

To be liable under CERCLA, a bank must be determined to be the owner or operator of a hazardous entity. Three defenses are recognized by CERCLA - an act of God, an act of war, or an act or omission by a third party commonly known as the **INNOCENT LANDOWNER DEFENSE**. To qualify as an innocent landowner, it must be demonstrated that due care has been exercised with respect to hazardous substances once discovered, and that precautions are taken against foreseeable acts or omissions of others. State law is often subjugated to this federal statute. Liability cannot be determined in Arkansas courts.

PRECAUTIONARY MEASURES

Education of personnel to the extent that identification of existing and potential environmental hazards can be recognized, and that appropriate actions follow, is primary in ensuring the success of all precautionary measures. Several important procedures have been identified. These include environmental assessment; loan agreement provisions; loan documentation, review, and monitoring foreclosure or workout procedures; and trust asset assessment. Incorporation of these procedures into current loan underwriting policies will help insulate financial institutions from environmental liability. A loan policy should contain provisions that allow for the identification of potentially risky transactions and include steps to follow through all stages of lending. Also included should be a system of internal checks and balances to provide for complete review, approval, and knowledge within the institution. Protective measures listed above and discussed below must begin at the earliest

stage possible. Opening discussions with prospective borrowers whether written or verbal should refer to effects of any current or potential environmental hazards.

ENVIRONMENTAL ASSESSMENT

Assessment of the environmental hazards of a particular transaction is the first step that should be taken and can determine if a loan should ever be approved. The process is very site specific. The most recognized form of evaluation is an environmental audit performed in a phased approach. There is no governing body that regulates the performance of these audits, but industry standards exist. **It is recommended that only qualified professionals be used to conduct such audits.** Various private engineering and environmental service companies employ environmental engineers to perform these audits. The Federal National Mortgage Association Environmental Assessment Guidelines, Federal Home Loan Bank Thrift Bulletin 16, and Federal Home Loan Mortgage Corporation draft guidelines provide more detailed information on this topic and should be consulted to become familiar with this process. The three phases of environmental audits are highlighted briefly below.

PHASE I

- Historical review of the site
- Review of zoning, building, and regulatory codes
- Review of regulatory agency records
- Inspection of the site
- Written summary report

PHASE II

- To be performed if Phase I reveals apparent hazards
- Testing of underground storage tanks
- Soil, soil gas, bulk soil, groundwater, and surface water testing and sampling
- Comprehensive inspection, sampling, and analyzing of building materials
- Written summary report

PHASE III

- Contains all aspects of Phase I and II with the addition of much more involved testing and sampling procedures.

ENVIRONMENTAL QUESTIONNAIRE

A less informative type of assessment is an environmental questionnaire. This may be applied to all credit transactions to determine which steps to pursue thereafter, similar to a screening process. While an environmental questionnaire should not replace an environmental audit, it is a valuable tool and can be utilized for smaller credits when audits may be cost prohibitive.

THE LOAN AGREEMENT

A loan agreement cannot eliminate lender liability under CERCLA if the lender is otherwise liable, but it can make another party liable to the lender. The following covenants provide a starting point for protection from environmental liability in written credit instruments.

LOAN COVENANTS

- Require compliance with all laws, rules, regulations, and supervisory authorities, and notification of release of hazardous substances
- Require borrower to covenant that it will remedy any contamination that occurs
- Require borrower to indemnify lender for any losses or expenses incurred as a result of environmental problems
- Require indemnification or guaranty from a solvent parent company or individual
- Make lender beneficiary of environmental assessments by requiring audits to be addressed to borrower and lender, require access to all relevant documents
- Have borrower establish bond or trust to guarantee remediation of contamination
- Require borrower to obtain environmental impairment liability insurance if available and cost effective
- Insert due on sale clause
- Insert default or acceleration clause subject to use, storage, or disposal of hazardous materials on site
- Require default or acceleration if other breach of contract occurs
- Require additional security in event of contamination
- Require notification of violation of environmental laws
- Require borrower to allow lender access to records regarding environmental compliance and regulatory agencies

DOCUMENTATION, REVIEW, AND MONITORING

In addition to the normal documentation there are numerous items to which banks must devote special attention. These items remain almost entirely within an institution's power to control, and this power should be exercised to the institution's benefit.

- Review prior ownership and use of property
- Monitor manufacturing and operational process
- Monitor resource use and disposal
- Review litigation history
- Maintain current insurance coverage - property, liability, and environmental liability
- Maintain necessary current licenses, permits and inspections - local, state, and federal
- Monitor regulatory compliance for violations - historical and present
- Perform periodic inspection of site and underground storage tanks

FORECLOSURE OR WORKOUT SITUATIONS

As a loan enters a situation where foreclosure action is contemplated or a workout situation is apparent, special caution must be exercised regarding environmental risk. It is prudent to follow the same precautionary procedures used when a credit is originated. Prior to foreclosure, a new environmental audit should be performed to determine if there is sufficient risk of liability to a title holder that would negate any funds realized through foreclosure. Additionally, extreme care should be taken not to exert undue influence in the operation of an entity in a workout situation. A lender can be liable under CERCLA as an operator of an entity. Litigation, although case specific, does indicate that most lenders are not determined operators if their influence is limited to the financial aspects of the entity. However, the recent decision in United States v. Fleet Factors Corporation, 901 F.2d 1550 (11th Cir. 1990) is indicative of the dynamic nature of environmental liability litigation. This decision states that a secured creditor may be determined liable under CERCLA without being an operator if its influence in the financial management of the entity is of a degree that can enable it to impact hazardous waste management or environmental matters if it so chooses. Although not clearly defined by legal precedent, sufficient care must also be exercised and legal counsel consulted to preclude the conclusion that a creditor can control hazardous waste management through loan covenants or written agreements.

ENVIRONMENTAL RISK OF TRUST DEPARTMENT ASSETS

Legislation has been introduced in Congress designed to limit the liability of a fiduciary for hazardous waste contamination of property for which it holds legal title as part of an estate or trust. **Trust department assets at this stage of legislative action are essentially subject to the same environmental risk as those of the loan portfolio.** Prior to the acceptance of any real property into trust, steps similar to those delineated above should be initiated. They should include but not be--- limited to environmental assessments or audits where appropriate. The most important aspect, as in any transaction affected by environmental hazards is proof of exercising due diligence. Special attention and caution must be exercised regarding decedent estates and dispersion or expenditure of funds relating to preemptive action or remediation of environmental hazards. Education of trust department personnel is paramount.

EXAMINATION CONSIDERATIONS

Examiners, when evaluating the risk inherent in the loan portfolio, will include an assessment of environmental risk. This assessment will primarily be measured against the implementation and enforcement of this policy. Foremost in the examination process is the determination that the financial institution has utilized this policy in exercising all prudent avenues available to protect their interests against the risk of environmental liability. The presence of environmental risk or noncompliance with this policy will adversely affect the determination of the soundness and viability of an institution.

REFERENCE OF APPLICABLE LAWS

There is no well defined procedure that lenders can follow that will guarantee protection from liability for environmental hazards. Nothing can entirely eliminate the risk of liability. Partially responsible for this situation is the nebulous framework of existing state and federal statutes characterized by the volatility of environmental issues and proposed legislation. Lenders may wish to consult the Environmental Protection Agency and request their Draft Rule on Lender Liability under CERCLA which should be finalized in the future. This guidance is informative and contains suggestions similar to those found within this policy. Listed in part below are state and federal laws that impact this policy. It must be recognized that while this policy is designed to protect lenders from environmental liability, noncompliance with the numerous related state and federal statutes can compromise a secured creditor's position in other ways such as monetary penalties and weakened collateral margins.

FEDERAL STATUTES

- Resource Conservation and Recovery Act (RCRA)
 - Hazardous and Solid Waste Amendments (HSWA)
 - Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), "Superfund Act"
 - Superfund Amendments and Reauthorization Act (SARA)
 - Clean Water Act
 - Clean Air Act
 - Toxic Substances Control Act
- ### **FEDERAL AGENCIES**
- Environmental Protection Agency (EPA) Enforcement and administration of federal statutes
 - Department of Justice
 - Justice Department Land and Natural Resource Division litigates RSRA and CERCLA claims for the EPA.

STATE STATUTES

- Arkansas Hazardous Waste Management Act
- Arkansas Remedial Action Trust Fund Act (RATFA)
- Arkansas Emergency Response Fund Act (ERFA)
- Arkansas Water and Air Pollution Control Act
- Recent legislation:
- Act 172 of 1989, Codified at Secs. 8-7-801-812, A.C.A. Of 1987 (1989 Supp) Regulates underground storage tanks
- Act 173 of 1989, Codified at Secs. 8-7-901-908, A.C.A of 1987 (1989 Supp.) Cost and damage recovery for storage tank hazards: **Compliance with underground storage tank regulations can substantially reduce potential liability and provide availability of fund for remediation.**
- Act 260 of 1989, Codified at Secs. 18-49-103, 8-6-205, 8-7-409, 8-7-508, 8-7-403, and 8-7-307, Arkansas Code of 1987 Annotated (1989 Supp.) Innocent landowner's remedies and defenses

STATE AGENCIES

- Arkansas Department of Pollution Control and Ecology Enforcement and administration of state statutes

SUMMARY AND CONCLUSION

There is a general proclivity to address solutions after problems occur in the financial world. This policy is designed to combat that situation by requiring preventive measures. Pollution and hazardous waste problems are having an increasingly large monetary impact on financial institutions. Governments in some instances have the right to assign liability to persons or entities no longer holding title to contaminated property. A lender seeking to enforce a mortgage by foreclosure may be exposed to a risk of liability as the owner or operator of a hazardous waste site that far exceeds the property value or revenue generated by the site. These facts have caused traditional loan underwriting procedures to be inadequate. This policy will aid financial institutions in establishing precautionary procedures that will help them evaluate not only the normal business risk associated with hazardous waste, but the threatening liability that may arise.

BILL J. FORD, BANK COMMISSIONER

DATE: JANUARY 31, 1995

SUBJECT: CONTINGENCY PLANNING

RETAIN FOR

FUTURE

REFERENCE

The community bank plays a vital role in rebuilding a community in the event of a catastrophic disaster as well as a localized disaster. In order for the community bank to respond quickly and efficiently to the needs of the community and its own needs, the bank must be prepared to implement a comprehensive and effective contingency plan.

A. General Concept

The contingency plan should set forth the bank's plan of action in dealing with various emergency situations. To be effective, the plan should contain as much detail as possible and incorporate each of the bank's departments. The purpose of contingency planning is to minimize disruptions of service, minimize financial loss, and ensure timely resumption of operations.

Contingency planning is an ongoing process. After the plan is written, it should be approved by the Board of Directors and reviewed annually. In order for the plan to be successfully implemented, it must be presented and discussed with all bank personnel. Employees should be appropriately trained to handle certain emergency situations. The areas addressed in this policy apply to in-house systems, remote job entry sites and data processing servicers. Banks and data processing servicers which have not adopted a contingency plan will be cited for contravention of this policy.

B. Contingency procedures.

Written contingency procedures should, at a minimum address:

1. Conditions or situations that necessitate implementing the plan and using the backup site.
2. Responsibility for making a decision and guidelines as to when it should be made.
3. Notification of employees.
4. Backup site notification.
5. Procedures to be followed at the backup site.
6. Files, input work, special forms, etc., to be taken to the backup site and means of transportation.
7. Facility shutdown.
8. Executive succession.
9. Hardware/Software backup.
10. Data files/off-site storage.
11. Training.

12. Telecommunications backup.
13. Evacuation and shelter.
14. Emergency services and information.
15. Microcomputer processing.
16. Priority of applications to be processed.

C. Contingency plan testing and review.

The contingency plan should be tested at least every twelve months. For example, if the last test date was March 31, 1994, the bank must test the plan on or before March 31, 1995. If the contingency plan is not tested within the required time frame, the bank will be cited for contravention of this policy. It is also recommended the plan be tested whenever there are major changes in personnel, policies and procedures or hardware and software products.

Backup files should be used when testing is performed at the backup site. After testing, a summary report of the test should be presented to the Board of Directors for review.

D. Out-of-State Servicers.

If a bank has an out-of-state servicer that performs EDP contingency processing, a representative from the bank generally will not be required to attend the process testing. However, the Commissioner may require such attendance if he should determine it to be necessary for a particular institution. Such determination will be done on a case-by-case basis. If a bank representative is required to attend, the representative should ensure that:

1. The bank's data is processed in a timely manner.
2. Communication between the backup site and the bank is established and maintained.
3. Assist servicer in the processing of software applications.

Further guidance for contingency planning and procedures can be found in the Information Systems Handbook prepared by the Federal Financial Institutions Examination Council (FFIEC). Additional materials regarding contingency/disaster recovery planning may be obtained from trade associations, accounting firms, and the disaster recovery industry.

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ADMINISTRATIVE POLICY #008

FRANK WHITE, BANK COMMISSIONER
SEPTEMBER 30, 2002
SUBJECT: BANK BOARD OF DIRECTORS

RETAIN FOR
FUTURE
REFERENCE

Business Policies of state banks are formulated by the bank's Board of Directors. These Boards should be composed of persons knowledgeable about economic conditions of their community and their region, competent business persons, and skilled in financial management. The Board of Directors must be attentive to their duties, familiar with banking laws, and aware of their fiduciary responsibilities. The bank's Board of Directors has the ultimate responsibility and fiduciary liability to ensure the safe and sound operation of their financial institution for the benefit of the shareholders and general public.

In order to assist Directors in their industry education and awareness of responsibilities, all members of a state bank's Board of Directors must attend Director training approved by the Bank Commissioner. Directors first elected to the Board on or after October 15, 2002, must attend one training seminar within the first year of service. Directors first elected prior to October 15, 2002, must attend one training seminar prior to October 15, 2004.

Evidence of Director attendance at a training seminar must be maintained in the Board Minutes of the bank.