

#2000-97

AMENDMENT TO THE FEBRUARY 2, 2000
AGREEMENT BY AND BETWEEN
THE FIRST NATIONAL BANK OF CASS LAKE
CASS LAKE, MINNESOTA
AND
THE OFFICE OF THE COMPTROLLER OF THE CURRENCY

The First National Bank of Cass Lake, Cass Lake, Minnesota (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination dated June 5, 2000 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Amendment to the February 2, 2000 Agreement.

All provisions of the February 2, 2000 Agreement shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waiver, or terminated in writing by the Comptroller.

Article I

OPENING

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). *See* 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans that the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Assistant Deputy Comptroller
Minneapolis North Field Office
920 Second Avenue South, Suite 800
Minneapolis, Minnesota 55402

Article II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least two (2) directors, of which none may be employees of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. Upon appointment of the director(s) referenced in Article XI that director(s) shall be appointed to the Compliance Committee. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

Article III

APPOINTMENT OF NEW DIRECTOR

(1) The Board shall immediately take action to add, at a minimum, one new independent director. The term "independent director" means a person who is not an officer or employee of the Bank, and who is not a director, officer or employee of its affiliates, and who is not a relative of James W. Bianco, Nola Bianco, or Michael V. Bianco.

(2) Prior to appointing any new director, the Bank must provide the Assistant Deputy Comptroller with written notice as required by 12 C.F.R. § 5.51 (notice forms and instructions are in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual).

(3) The Assistant Deputy Comptroller shall have the power of veto over the appointment of the proposed new director. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed director.

(4) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(5) If the Board is unable to identify any qualified director candidates within ninety (90) days, the Board shall document its efforts to locate such candidates, and notify the Assistant Deputy Comptroller in writing. Thereafter, the Board shall provide quarterly reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

Article IV

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within ninety (90) days, the Board shall develop a written management succession plan to ensure that the Bank has, and will continue to have, competent management in place on a full-time basis in its President position to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner. This article acknowledges that President James W. Bianco announced that he plans retire on or before December 31, 2000. The management succession plan shall be submitted to the Assistant Deputy Comptroller.

(2) Prior to December 31, 2000, or within five (5) days of the vacancy if President Bianco retires before this date, the Board shall ensure that the Bank has, and will continue to have, competent management in place on a full-time basis in its President position to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(3) Within thirty (90) days, the Board shall employ an independent, outside management consultant. Prior to employment of the consultant, the name and the qualifications of the consultant considered for employment shall be submitted to the Assistant Deputy Comptroller, who shall have the power of veto over the employment of the proposed consultant. However, failure to exercise such veto power shall not constitute approval or endorsement of the consultant.

(4) Within sixty (120) days, the Consultant shall complete a study of current management and Board supervision presently being provided to the Bank, the Bank's management structure, and its staffing requirements in light of the Bank's present condition. The findings and recommendations of the Consultant shall be set forth in a written report to the Board. At a minimum, the report shall contain:

- (a) the identification of present and future management and staffing requirements of each area of the Bank, with particular emphasis given to the position of President;
- (b) detailed written job descriptions for all executive officers;
- (c) an evaluation of each officer's qualifications and abilities to determine whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of his/her officer position;
 - (i) an evaluation of Executive Vice President Michael V. Bianco's responsibility for the Bank's credit administration and asset quality deficiencies discussed in the ROE and an assessment as to whether he possesses the experience and qualifications required to perform

his present duties of Executive Vice President and oversee the day-to-day operations of the bank; and

- (d) recommendations as to whether management or staffing changes should be made, including the need for additions to or deletions from the current management team;
 - (e) objectives by which management's effectiveness will be measured;
 - (f) a training program to address identified weaknesses in the skills and abilities of the Bank's staff and management team;
 - (g) recommendations to expand the scope, frequency and sufficiency of information provided to the Board by management;
 - (h) an evaluation of the extent of responsibility of current management and/or the Board for present weaknesses in the Bank's condition; and
 - (i) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of the Bank.
- (5) Within thirty (30) days of completion of this study, the Board shall develop, implement, and thereafter ensure Bank adherence to a written plan, with specific time frames, that will correct any deficiencies that are noted in the study.

(6) Copies of the Board's plan and the Consultant's study shall be forwarded to the Assistant Deputy Comptroller. The Assistant Deputy Comptroller shall retain the right to determine the adequacy of the report and its compliance with the terms of this Agreement. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the Assistant Deputy Comptroller, in writing, of specific reasons for deviating from the plan.

(7) Prior to the appointment of any individual to an executive officer position, or change in the responsibilities of any senior executive officer such that the person would assume a different executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the “Changes in Directors and Senior Executive Officers” booklet of the Comptroller’s Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(8) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(9) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

Article V

LOAN PORTFOLIO MANAGEMENT

(1) The Board shall, within sixty (60) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;
- (c) procedures to establish an effective, independent and on-going loan review system to review the Bank's loan portfolio to assure the timely identification and categorization of problem credits. The system shall use a loan and lease grading system consistent with the guidelines set forth in Section 215 of the Comptroller's Handbook for National Bank Examiners;
- (d) procedures to ensure conformance with loan approval requirements;
- (e) a system to track and analyze exceptions;
- (f) procedures to ensure conformance with Call Report instructions;
- (g) procedures to ensure the accuracy of internal management information systems;
- (h) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately consider their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters; and
- (i) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;
- (b) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, collateral, and individual lending officer;
- (c) previously charged-off assets and their recovery potential;
- (d) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) adequacy of credit and collateral documentation.

(4) Beginning within sixty (60) days, on at least a quarterly basis, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (a) through (d) of this Article and Paragraph;

- (f) the identification and amount of loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (g) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program and systems developed pursuant to this Article.

Article VI

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within sixty (60) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.
 - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

Article VII

LENDING POLICY

(1) Within sixty (60) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the "Loan Portfolio Management" booklet, A-LPM, of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;

- (b) a provision that current and satisfactory credit information will be obtained on each borrower;
- (c) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (d) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (e) guidelines for loans to insiders, including any loan where the proceeds, or assets purchased with the proceeds, are transferred to an insider or an insider's related interest, other than in a bona fide arm's length transaction where the proceeds are used to acquire property, goods, or services;
 - (i) at a minimum, guidelines for loans to insiders shall incorporate, but not necessarily be limited to: a statement that such loans shall not be granted on terms more favorable than those offered to similar outside borrowers and procedures for documenting comparable transactions; an insider loan pricing policy; and, procedures for insider loans that require Board approval;
- (f) measures to correct the deficiencies in the Bank's lending procedures noted in the ROE or any subsequent Report of Examination;
- (g) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk. At a minimum, the policy shall:

- (i) establish dollar limits on extensions of credit to any one borrower, above which the prior approval of the Board, or a committee thereof, would be required;
 - (ii) establish dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower, regardless of amount, would require the prior approval of the Board, or a committee thereof; and
 - (iii) require that all credits which deviate from the Bank's normal course of business receive the prior approval of the Board, or a committee thereof.
- (h) guidelines consistent with OCC Bulletin 2000-20, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum, the policy shall ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies;
- (i) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery; and
- (j) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(2) Upon adoption, the policy shall be implemented. The Board shall thereafter ensure Bank adherence to the policy, and a copy of the policy shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

Article VIII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the "Allowance for Loan and Lease Losses" booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's internal or external review;
- (b) an estimate of inherent loss exposure on each significant credit;
- (c) loan loss experience;
- (d) trends of delinquent and nonaccrual loans;
- (e) concentrations of credit in the Bank;
- (f) present and prospective economic conditions; and
- (g) the timely charge-off of retail loans according to the Uniform Retail Credit Classification and Account Management Policy communicated in OCC Bulletin 2000-20.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the

factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and approval.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Article IX

VIOLATIONS OF LAW - INSIDER LENDING LIMITS

(1) The Bank shall not lend money or otherwise extend credit to any borrower in violation of the limits of 12 U.S.C. §§ 375a and 375b.

(2) Within thirty (30) days, the Board shall establish, implement, and thereafter ensure Bank adherence to written procedures to prevent future violations of 12 U.S.C. §§ 375b. The Board shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within thirty (30) days, the Board shall ensure that the Bank is reimbursed for the foregone fee on the overdraft granted to Director Neises in violation of 12 C.F.R. Part 215, as more fully described in the Violations of Laws and Regulations section of the ROE.

(4) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

Article X

DIVIDENDS

- (1) The Board shall declare or pay dividends only:
 - (a) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60;
 - (b) when the Bank is in compliance with its approved capital plan referenced in Article IV (2); and
 - (c) with prior written approval of the Assistant Deputy Comptroller.

Article XI

INTERNAL AND EXTERNAL AUDIT

- (1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent, internal or external audit program sufficient to:
 - (a) detect irregularities in the Bank's operations;
 - (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
 - (c) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
 - (d) ensure adequate audit coverage in all areas; and
 - (e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the audit program described above shall report directly to the Board. The Board shall have the sole power to direct their activities. All audit reports shall be filed directly with the Board and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(7) The auditors shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Assistant Deputy Comptroller.

Article XII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) All provisions of the February 2, 2000 Agreement shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waiver, or terminated in writing by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/

Thomas J. Tott
Assistant Deputy Comptroller
Minneapolis North Field Office

10/5/2000

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

<u>/s/</u> James W. Bianco	<u>10/5/2000</u> Date
<u>/s/</u> Michael V. Bianco	<u>10/5/2000</u> Date
<u>/s/</u> Nola Bianco	<u>10/5/2000</u> Date
<u>/s/</u> Richard J. Neises	<u>10/5/2000</u> Date
<u>/s/</u> Lawrence V. Oakes	<u>10/5/2000</u> Date