

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

In the Matter of:)
First National Bank of the North)
Sandstone, Minnesota)

CONSENT ORDER

The Comptroller of the Currency of the United States of America (Comptroller), through his National Bank Examiner, has examined First National Bank of the North, Sandstone, Minnesota (Bank) through his customary supervisory processes.

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated April 6, 2001, that is accepted by the Comptroller. By this Stipulation and Consent, that is incorporated herein by reference, the Bank has consented to the issuance of this Consent Order (Order) by the Comptroller.

Pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

MONTHLY PROGRESS REPORTS

(1) Within thirty (30) days and monthly thereafter, the Board shall submit a written progress report to the Director for Special Supervision/Fraud setting forth in detail:

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

ARTICLE II

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall maintain the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Total Capital at least equal to ten percent (10%) of risk-weighted assets;
- (b) Tier 1 capital at least equal to six percent (6%) of risk-weighted assets;
- (c) Tier 1 capital at least equal to five percent (5%) of adjusted total assets using actual, rather than average, total assets.

(2) For as long as this Article remains in place, the Bank will not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6, pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program acceptable to the Office of the Comptroller of the Currency (OCC). The program shall include:

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1);
- (b) reasonable projections for growth and capital requirements based upon a detailed and documented analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) reasonable projections of the sources and timing of additional capital to meet the Bank's current and future needs;

- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior written approval of the Director for Special Supervision/Fraud.

(4) Upon completion, the Bank's capital program shall be submitted to the Director for Special Supervision/Fraud for approval. Upon approval by the Director for Special Supervision/Fraud, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program at least annually, but more frequently if necessary. Copies of the reviews and updates shall be submitted to the Director for Special Supervision/Fraud.

(5) 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 III

STRATEGIC PLAN

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance,

growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;
- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;

- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (l) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Director for Special Supervision/Fraud.

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

ARTICLE IV

BOARD TO ENSURE ADEQUATE STAFFING

(1) The Board shall ensure that the Bank has adequate staffing, but at a minimum the Board shall, within thirty (30) days, hire an additional loan officer with collections experience.

ARTICLE V

CRITICIZED ASSETS

(1) The Board shall take immediate action to protect its interest in any criticized assets. For the purposes of this Article, “criticized assets” shall include any assets described as criticized in the latest OCC Report of Examination, dated September 30, 2000 (ROE), (which examination included a safety and soundness review), in internal or external loan review, or in any list of criticized assets provided to Bank management by National Bank Examiners during any examination of the Bank or any predecessor bank merged into the Bank. Criticized assets includes assets described as “doubtful,” “substandard,” or “special mention,” as defined in Section 215 of the Comptroller’s Handbook for National Bank Examiners.

(2) Within sixty (60) days the Board shall adopt, implement, and thereafter ensure the Bank’s adherence to a written Action Plan for each criticized asset. The Action Plan shall be designed to cure or eliminate the basis for the criticism(s) of the asset and shall contain, at a minimum:

- (a) an identification of the expected source(s) of repayment;
- (b) consideration of the appraised value of any supporting collateral and the position of the Bank’s lien on such collateral, where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from the borrower’s operations;
- (d) a description of the proposed action to cure or eliminate the basis of the criticism and the time frame for accomplishment of the action; and
- (e) documentation of the above items, (a) through (d), in a form substantially similar to Appendix A attached hereto.

(3) The Board shall forward, upon completion, a copy of the initial Action Plan for each criticized asset equal to or exceeding fifty thousand dollars (\$50,000), developed pursuant to Paragraph (2), to the Director for Special Supervision/Fraud.

(4) The Board (or a designated committee thereof) shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset;
- (b) management's adherence to and the effectiveness of the Action Plan adopted pursuant to this Article; and
- (c) whether the Action Plan needs to be revised.

(5) On a quarterly basis, the Board shall forward to the Director of Special Supervision/Fraud copies of the review conducted pursuant to Paragraph (4) along with any revised Action Plans, for those criticized assets equal to or exceeding fifty thousand dollars (\$50,000).

(6) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose criticized assets at the Bank aggregate to an amount exceeding fifty thousand dollars (\$50,000) only if the Board (or designated committee thereof) determines that:

- (a) the extension of additional credit is necessary to promote the best interests of the Bank;
- (b) a majority of the full Board (or designated committee thereof) approves in advance the additional extension of credit, renewal, or extending or capitalization of accrued interest;

- (c) the Board documents, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (d) the Board finds that the extension, renewal, or capitalization of accrued interest will not compromise the Bank's Action Plan with respect to any of the borrower's criticized assets.

(7) The Bank shall maintain a copy of the approval, under paragraph (6), by the Board (or designated committee thereof) in the loan file of the affected borrower.

ARTICLE VI

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within thirty (30) 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 thirty (30) 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 approval by a majority of the full Board (or a delegated committee thereof), in writing, certifying 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

MANAGEMENT INFORMATION SYSTEMS FOR THE LOAN PORTFOLIO

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program establishing an effective management information system (MIS) which facilitates risk identification, establishes controls, and delivers accurate information for timely review. In so doing, the Board shall identify the Bank's specific information requirements, particularly regarding the retail lending portfolio, and establish effective reporting mechanisms to guide decisions. The program shall include procedures for:

- (a) expediting the timely delivery of current information;

- (b) establishing controls to ensure the accuracy and confidentiality of information;
- (c) ensuring that data are processed and compiled uniformly to facilitate meaningful trend analysis, and provide for future systems changes;
- (d) producing complete and relevant information in a summarized form, for Board and management reports, to permit effective decision making;
- (e) identifying, recording, and tracking missing, incomplete, or imperfect loan and collateral documentation;
- (f) generating periodic reports, on at least a monthly basis, which identify emerging problem loans, identified problem loans, and repossessed collateral; and
- (g) maintaining a system by which the Board, or a delegated committee of the Board, can identify at the time of extension of credit, the aggregate customer liability relationship of that customer with the Bank.

(2) 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.

(3) As a part of the Board's ongoing responsibility to ensure that the Bank has an effective MIS, the Board shall designate a senior officer to coordinate the execution of this program.

(4) The Board shall submit a copy of the program to the Director for Special Supervision/Fraud.

ARTICLE VIII

COLLECTION PROCEDURES

(1) Within thirty (30) days, the Bank shall develop, implement and thereafter adhere to a written program designed to improve and strengthen collection efforts. The program shall include specific plans to:

- (a) reduce delinquent loans; and
- (b) improve recovery of charged-off assets.

(2) Upon completion, a copy of the program shall be forwarded to the Director for Special Supervision/Fraud.

(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.

ARTICLE IX

LOAN REVIEW

(1) The Board shall within thirty (30) days employ or designate a sufficiently experienced and qualified person(s) or firm to perform a timely and independent identification of criticized loans and leases.

(2) Within sixty (60) days, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth Section 215 of the Comptroller's

Handbook for National Bank Examiners. Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of this Article;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require a quarterly report to the Board. At a minimum the program shall provide for an independent reviewer's assessment of the Bank's:

- (a) monitoring systems for early problem loan identification to assure the timely identification and rating of loans and leases based on lending officer submissions;

- (b) statistical records that serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, indirect dealer, and individual lending officer;
- (c) system for monitoring previously charged-off assets and their recovery potential;
- (d) system for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) system for monitoring the adequacy of credit and collateral documentation.

(4) A written description of the program called for in this Article shall be forwarded to the Director for Special Supervision/Fraud upon implementation.

(5) 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.

(6) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(7) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE X

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 loan review;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each significant credit;
- (d) an estimate of inherent loss exposure on each credit in excess of fifty thousand dollars (\$50,000);
- (e) loan loss experience;
- (f) trends of delinquent and nonaccrual loans;
- (g) concentrations of credit in the Bank; and
- (h) present and prospective economic conditions.

(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 Director for Special Supervision/Fraud.

(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 XI

AUDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent 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, which shall have the sole power to direct their activities. All reports prepared by the audit staff or firm 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 Board shall ensure that the audit staff or firm has access to any records necessary for the proper conduct of its activities, and that national bank examiners have access to all reports and work papers of the audit staff or firm and any other parties working on its behalf.

(8) Upon adoption, a copy of the audit program shall be promptly submitted to the Director for Special Supervision/Fraud.

ARTICLE XII

CLOSING

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or approval of the Director for Special Supervision/Fraud, 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 Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Order shall begin to run from the effective date of this Order. Such time limitations may be extended in writing by the Director for Special Supervision/Fraud for good cause upon written application by the Board.

(4) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

IT IS SO ORDERED, this 6th day of April, 2001.

-SIGNED-

Ronald G. Schneck
Director for Special Supervision/Fraud
Special Supervision/Fraud Division

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

In the Matter of:)
First National Bank of the North)
Sandstone, Minnesota)

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

WHEREAS the Comptroller of the Currency of the United States of America (Comptroller) is of the opinion that factual and legal grounds exist to initiate cease and desist proceedings against First National Bank of the North, Sandstone, Minnesota (Bank) pursuant to 12 U.S.C. § 1818(b).

WHEREAS the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated April 6, 2001 (Order);

In consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

Jurisdiction

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Office of the Comptroller of the Comptroller of the Currency is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

ARTICLE II

Agreement

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller. The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i).

ARTICLE III

Waivers

(1) The Bank, by signing this Stipulation and Consent, admits to the jurisdiction of the Comptroller with respect to the matters set forth in the Order pursuant to 12 U.S.C. § 1818(b).

- (2) The Bank, by signing this Stipulation and Consent, hereby waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
 - (b) any and all procedural rights available in connection with the issuance of the Order;
 - (c) all rights to seek any type of administrative or judicial review of the Order; and
 - (d) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

Other Action

(1) The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, he deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

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

-SIGNED-

Ronald G. Schneck
Director for Special Supervision/Fraud
Special Supervision/Fraud Division

April 6, 2001

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.

/s/ _____ Thomas Berg	3/30/01 _____ Date
/s/ _____ William Loew	3/30/01 _____ Date
/s/ _____ John D. O'Brien	3/30/01 _____ Date
/s/ _____ Roy Sebald	3/30/01 _____ Date
/s/ _____ John Thinesen	3/30/01 _____ Date
/s/ _____ Robert L. Waletzko	3/30/01 _____ Date

APPENDIX A

First National Bank of the North
Sandstone, Minnesota

CRITICIZED ASSET REPORT AS OF: _____

BORROWER(S): _____

ASSET BALANCE(S) AND OCC RATING (SM, SUBSTANDARD, DOUBTFUL OR LOSS):

\$ _____ CRITICISM _____

AMOUNT CHARGED OFF TO DATE _____

FUTURE POTENTIAL CHARGE-OFF _____

PRESENT STATUS (Fully explain any increase in outstanding balance; include past due status, nonperforming, significant progress or deterioration, etc.):

FINANCIAL AND/OR COLLATERAL SUPPORT (include brief summary of most current financial information, appraised value of collateral and/or estimated value and date thereof, bank's lien position and amount of available equity, if any, guarantor(s) info, etc.):

PROPOSED PLAN OF ACTION TO ELIMINATE ASSET CRITICISM(S) AND TIME FRAME FOR ITS ACCOMPLISHMENT:

IDENTIFIED SOURCE OF REPAYMENT AND DEFINED REPAYMENT PROGRAM (repayment program should coincide with source of repayment):

Use this form for reporting each criticized asset that exceeds fifty thousand dollars (\$50,000) and retain the original in the credit file for review by the examiners. Submit your reports quarterly until notified otherwise, in writing, by the Director for Special Supervision/Fraud.