

#2005-83

AGREEMENT BY AND BETWEEN
Peoples National Bank of Mora
Mora, Minnesota
and
The Office of the Comptroller of the Currency

Peoples National Bank of Mora, Mora, 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 for the examination that commenced on February 22, 2005 (“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 Agreement.

JURISDICTION

(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 which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

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

ARTICLE I

CRITICIZED ASSETS

(1) The Board shall take timely and continuing action to protect the bank’s interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) By July 31, 2005, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of any credit relationship exceeding \$150,000 (one hundred fifty thousand dollars) and criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

(a) the Board’s decision to implement an exit strategy or a strategy to continue to work to rehabilitate the credit;

- (b) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (c) an identification of the expected source(s) of repayment;
- (d) an analysis of current and satisfactory credit information; and
- (e) the appraised value of supporting collateral and the position of the Bank's lien on such collateral, where applicable.

(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, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds \$150,000 (one hundred fifty thousand dollars);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(5) A copy of each review shall be maintained in a central location available for review by the OCC upon request.

(6) Management, or the Board, may extend credit, directly or indirectly, including renewals, extensions, or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank

Examiners during any examination and whose aggregate loans or other extensions exceed \$150,000 (one hundred fifty thousand dollars) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending, or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
 - (b) the Board or designated committee has determined and recorded their decision that the written program adopted pursuant to this Article to collect or strengthen the criticized asset will not be compromised.
- (7) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower or in a centralized location.

ARTICLE II

LOAN RISK RATING SYSTEM

(1) Beginning July 31, 2005, and on an ongoing basis thereafter, the Board must ensure that the Bank's internal risk ratings of commercial, commercial real estate, and agricultural credit relationships in excess of \$150,000 ("covered relationships") are timely, accurate, and consistent with the regulatory credit classification criteria set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook. At a minimum, the Board must ensure that, with respect to the Bank's assessment of credit risk of any covered relationship:

- (a) the primary consideration is the strength of the borrower's primary source of repayment (i.e., the probability of default);

- (b) the strength of the borrower's primary source of repayment is determined through analysis of the borrower's historical and projected financial statements, past performance, and future prospects in light of conditions that may occur during the term of the loan;
- (c) collateral, non-government guarantees, and other similar credit risk mitigants that affect potential loss in the event of default (rather than the probability of default) are taken into consideration only if the primary source of repayment has weakened and the probability of default has increased;
- (d) credit risk ratings are reviewed and updated whenever relevant new information is received; and
- (e) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

(2) Beginning July 31, 2005, and on an ongoing basis thereafter, the Board must ensure that any covered relationship with a high probability of payment default or other well-defined weaknesses that has been risk rated internally is rated no better than Substandard, regardless of the existence of illiquid collateral, non-government guarantees, and other similar credit risk of loss mitigants.

(3) By July 31, 2005, the Board must establish a credit risk rating management information system that provides, at a minimum, the following information to the Board on a monthly basis:

- (a) individual detail regarding the identification, type, amount, and assigned rating of all problem loans in excess of \$50,000 (fifty thousand dollars);

- (b) individual, or summary, detail regarding this same information for all problem loans less than or equal to \$50,000 (fifty thousand dollars);
- (c) ratings equivalent to, or readily convertible to, the common regulatory risk rating definitions of pass, special mention, substandard, doubtful and loss set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook; and
- (d) summary loan portfolio data highlighting trends in, and condition of, the quality of loans rated pass.

ARTICLE III

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 maintain an adequate Allowance. This review shall follow the guidance found in OCC Bulletin 2001-37 entitled *Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions*.

(2) The Board shall review the Allowance 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.

ARTICLE IV

PROGRESS REPORTING - MONTHLY

(1) The Board shall submit monthly progress reports to Assistant Deputy Comptroller Thomas J. Tott, Minneapolis North Field Office, 920 2nd Avenue South, Suite 800, Minneapolis, Minnesota, 55402-3393. These reports shall set forth in detail:

- (a) actions taken since the prior progress report to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending July 31, 2005 and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the month end.

ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank determines that an exception to any provision of this Agreement is in the best interests of the Bank, or requires an extension of any timeframe within this Agreement, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief.

(2) Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with any

provision, that require the Assistant Deputy Comptroller to exempt the Bank from any provision, or that require an extension of any timeframe within this Agreement. All such requests shall be accompanied by relevant supporting documentation.

(3) The Assistant Deputy Comptroller's decision in granting the request is final and not subject to further review.

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior determination of no supervisory objection, 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) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (f) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (g) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (h) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (i) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory

