

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

IN THE MATTER OF:)
)
COMMUNITY NATIONAL BANK)
NORTH BRANCH, MINNESOTA)

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Community National Bank, North Branch, Minnesota (“Bank”) is an “undercapitalized” bank pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6.

WHEREAS, the Comptroller of the Currency (“Comptroller”) is authorized, pursuant to 12 U.S.C. § 1831o(e)(5), to take certain supervisory actions against undercapitalized banks; and

WHEREAS, the Comptroller finds it necessary in order to carry out the purpose of 12 U.S.C. § 1831o to issue this Prompt Corrective Action Directive (“Directive”) pursuant to 12 C.F.R. § 6.21(a)(2) requiring the Bank to immediately follow proscriptions and take actions;

NOW THEREFORE, pursuant to the authority in 12 U.S.C. § 1831o, the Comptroller hereby issues this Directive.

ARTICLE I

(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 Currency is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1831o.

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1831o.

(4) This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

(5) A violation of this Directive constitutes a violation of a final order under section 1831o and is subject to the assessment of civil money penalties under 12 U.S.C. § 1818(i)(2)(A).

ARTICLE II

(6) The Bank shall immediately dismiss William G. Sandison from the positions of Chief Executive Officer (“CEO”) of the Bank and Director of the Bank's board of directors (“Board”), pursuant to 12 U.S.C. § 1831o(f)(2) and 12 C.F.R. § 6.21(a)(2).

(7) The Bank shall immediately dismiss Ross Sandison from the positions of President of the Bank and Director of the Bank’s Board pursuant to 12 U.S.C. § 1831o(f)(2) and 12 C.F.R. § 6.21(a)(2).

(8) Following the Bank's dismissal of William and Ross Sandison (collectively “the Sandisons”), the Bank’s Board shall ensure that the Sandisons immediately relinquish all Bank-owned or Bank-issued property in their possession. The Board shall provide Ross Sandison with twenty-four (24) hours to relinquish any Bank-owned or issued property currently located at any distant location and the Board shall provide William Sandison with seven (7) days to relinquish any Bank-owned or issued property currently located at any distant location. Such Bank owned or issued property may include, but is not limited to: vehicles and keys; keys to all Bank premises; credit cards; computers and disc drives; printers; fax machines; photocopiers; cell phones; audiovisual equipment; other electronic devices; supplies; and documents which are originals and/or copies of Bank's books and records.

(9) Immediately following the Bank's dismissal of the Sandisons, the Board shall also take immediate action to eliminate any access by the Sandisons to Bank data systems, books and

records and to implement procedures to prevent unauthorized removal of Bank owned or issued property by the Sandisons. The Sandisons may, however, retain access to their personal Bank accounts to the same extent granted to other Bank customers.

(10) The Board shall also take action to ensure that it maintains in its possession accurate and complete information concerning the books and records of any Bank affiliates and that such information is sufficient and adequate for the Bank to carry out its activities and to monitor operations.

(11) The Board shall immediately terminate or cancel any benefits provided to the Sandisons by the Bank in their positions as CEO, President, and/or Director including but not limited to, the cancellation or termination of any club memberships or other benefits, paid by the Bank on behalf of the Sandisons.

(12) Within twenty-four (24) hours of the Bank's dismissal of the Sandisons, the Board shall identify and obtain the prior written supervisory non-objection from the Director for Special Supervision ("Director") for the appointment of an acting CEO/President, who shall serve as the Bank's CEO/President until a permanent successor is hired by the Bank, in accordance with paragraphs 13, 14 and 15 of this Article.

(13) Within sixty (60) days, the Bank shall employ a new and fully qualified senior executive officer to serve as the Bank's President/CEO.

(14) Prior to the appointment of any individual to a senior executive officer position or as a director of the Bank, the Board shall submit to the Director written notice as required by 12 C.F.R. § 5.51 and in accordance with the Comptroller's Licensing Manual. The Director shall have the power to disapprove the appointment of the proposed new senior executive officer or

director. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed senior executive officer or director.

(15) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1831o(f)(2)(F)(iii) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

ARTICLE III

(16) The Bank shall not make any payments of severance or remuneration to, or on behalf of, the Sandisons unless approved pursuant to 12 U.S.C. § 1828(k)(4) and 12 C.F.R. Part 359.

(17) The Bank shall make no indemnification payments to, or on behalf of, the Sandisons unless such payments fully comply with 12 U.S.C. § 1828(k)(5) and 12 C.F.R. Part 359. Pursuant to 1831o(f)(2)(J), the Bank shall not cause any indemnification payments to be made to, or on behalf of the Sandisons, without obtaining the prior written supervisory non-objection from the Director. Any request for the Director's supervisory non-objection shall include a legal opinion from independent counsel setting forth the basis under which such indemnification payments fully satisfy the requirements of 12 U.S.C. § 1828(k)(5) and 12 C.F.R. Part 359.

ARTICLE IV

(18) The Bank shall not employ, or enter into or renew contracts or engagements with the Sandisons, or any company affiliated with either William G. Sandison or Ross Sandison, to perform any services for, or on behalf of, the Bank without obtaining the prior written supervisory non-objection from the Director.

(19) Any request for the Director's supervisory non-objection shall include:

- (a) a description of the services to be performed, including a copy of the proposed contract or engagement;

- (b) a description of the Bank's due diligence process for selecting either of the Sandisons or any of their affiliated companies, as a contractor or service provider and the results of the due diligence review, including a description of why the Sandisons or any of their affiliates was selected;
- (c) a cost/benefit analysis for engaging either of the Sandisons or any of their affiliated companies, as a contractor or service provider;
- (d) a determination by the Board that the contract or engagement is being entered into at arm's length on terms and conditions fair and reasonable to the Bank, including the ability of the parties to perform under the contract or commitment; and
- (e) a determination by the Board that the contract is in the best interests of the Bank.

(20) Following any supervisory non-objection granted by the Director, the Board must routinely monitor the performance of the Sandisons or any of their affiliated companies to ensure that committed goods and services are received, and that they are in compliance with the written contract or engagement.

(21) The Board shall ensure that the Bank develops and thereafter maintains processes, personnel, and control systems sufficient to ensure implementation of and adherence to this Article.

ARTICLE VI

(22) This Directive is enforceable under 12 U.S.C. § 1818(i). Each provision of this Directive shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other persons participating in the affairs of the Bank.

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

(24) The provisions of this Directive are effective upon issuance of this Directive 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 Directive shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(25) 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, or any institution-affiliated party of the Bank, nothing in this Directive shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(26) The Bank may submit a written appeal of this Directive to the Comptroller. Such an appeal must be received by the Comptroller within fourteen (14) calendar days of the issuance of this Directive. If an appeal is filed in a timely manner, the Comptroller shall consider the appeal in accordance with the procedures under 12 C.F.R. § 6.21(a)2. During such period of review, this Directive shall remain in effect.

(27) Pursuant to the procedures under 12 C.F.R. Part 6, Subpart B and Part 19, Subpart N, Mr. William G. Sandison may file a written request for reinstatement to the Comptroller. *See* 12 C.F.R. §6.20, *et seq.*, and 12 C.F.R. § 19.230-19.231. Such a request must be received by the Comptroller no later than ten (10) calendar days of receipt of this Directive. The request for reinstatement may include a request for an informal OCC hearing. Failure to

