

**#2009-034**

*Also Terminates #2008-069*

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

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**In the Matter of:**

The First National Bank of Logan  
Logan, Iowa

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AA-WE-09-06

**AMENDED CONSENT ORDER**

The Comptroller of the Currency of the United States of America (“Comptroller”), through his National Bank Examiner, has supervisory authority over The First National Bank of Logan, Logan, Iowa (“Bank”).

On or about July 2, 2008, the Comptroller and the Bank, by and through its duly elected and acting Board of Directors (“Board”), entered into a Consent Order designed to address certain unsafe or unsound practices relating to Board and management oversight (the “July 2, 2008 Consent Order”).

During an examination that began on or about September 15, 2008, the Comptroller’s National Bank Examiner discovered additional unsafe or unsound practices.

Now, the Bank, by and through its Board, executed a “Stipulation and Consent to the Issuance of an Amended Consent Order,” dated March 25, 2009, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Amended Consent Order by the Comptroller.

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

Article I

REPLACEMENT OF JULY 2, 2008 CONSENT ORDER

(1) The articles of the July 2, 2008 Consent Order are replaced and superseded in their entirety by this Amended Consent Order (hereafter referred to as the “Order”).

Article II

COMPLIANCE COMMITTEE

(1) The Board shall ensure that the Bank maintains an active Compliance Committee consisting of at least three (3) directors of which a majority shall not consist of employees or controlling shareholders of the Bank or any of its affiliates, or family members of any such person. In the event of a change in the membership, the name of any new member, shall be submitted in writing to the Deputy Comptroller.

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Order and shall meet at least monthly.

(3) Within ten (10) business days following each calendar month end, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

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

(4) The Board shall provide a summary report of the progress reached in attaining compliance with each Article of this Order to the Assistant Deputy Comptroller within ten (10) days of each calendar quarter end.

(5) All documents which the Bank or Board is obligated to submit to the Assistant Deputy Comptroller or the OCC pursuant to this Order shall be forwarded via overnight mail to:

Assistant Deputy Comptroller  
Omaha Field Office  
13710 FNB Parkway, Suite 110  
Omaha, Nebraska 68154

(6) The Board shall ensure that the Bank has the processes, personnel, and control systems to ensure implementation of and adherence to the provisions of this Order.

### Article III

#### CAPITAL MAINTENANCE

(1) Effective immediately, the Bank shall at all times maintain the following minimum capital ratios:

- (a) Tier 1 capital at least equal to ten (10%) of adjusted total assets; and
- (b) total risk-based capital at least equal to eleven percent (11%) of risk-weighted assets.

(2) For purposes of this Article, “Tier 1 capital,” “total risk-based capital,” “adjusted total assets,” and “risk-weighted assets” are as defined in 12 C.F.R. Part 3.

(3) The requirement in this Order to meet and maintain a specific capital level means that the Bank is not to 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).

- (4) Effective immediately, the Bank shall only declare dividends:
- (a) when the Bank is in compliance with its approved capital program;
  - (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and

- (c) with the prior written approval from the Assistant Deputy Comptroller, which shall be granted or denied within thirty (30) days of the receipt of a dividend request from the Bank.

#### Article IV

#### TRANSACTIONS INVOLVING PROFIT SHARING PLAN

(1) Within thirty (30) days of this Order, the Board shall employ a qualified lawyer, consultant, accountant, or other firm or individual, to perform a review of all of the Bank's transactions involving the Bank's Profit Sharing Plan (the "PSP"), including but not limited to, the sale of any loan participations to the PSP, direct loans made to Bank customers by the PSP, loans made directly by the PSP to Bank officers, directors, or family members of any such person. Prior to entering into any contract with any such firm or individual, the Board shall submit the name and qualifications of the proposed firm or individual and the proposed scope and terms of employment to the Assistant Deputy Comptroller for prior written determinations of no supervisory objection. After the OCC has advised the Bank that it does not take supervisory objection to the firm or individual or the scope of the review, the Board shall immediately engage the firm or individual pursuant to the proposed terms of the engagement.

(2) The proposed scope of the review required by Paragraph (1) of this Article shall provide for a written report to be filed with the Board within thirty (30) days of the engagement that shall, at a minimum, include comments and conclusions regarding:

- (a) the identification and description of any and all transactions within the last five years between the Bank and the Bank's PSP, including but not limited to, the sale of any loan participations to the PSP, loans made directly to

Bank customers by the PSP, loans made directly by the PSP to Bank officers, directors, or family members of any such person;

- (b) a determination of whether each transaction described in Subparagraph (a) of this Article is prohibited or otherwise contrary to applicable laws, rules and regulations;
- (c) the responsibility for any and all transaction(s) identified in Subparagraph (b) of this Article by any officer, director or employee of the Bank;
- (d) recommendations for curing and preventing any future transactions involving the Bank's PSP and the Bank that are prohibited or otherwise contrary to applicable laws, rules and regulations;

(3) Within thirty (30) days of the completion of the review required by this Article, the Board shall take the necessary steps to cure any transactions identified in Paragraph (2)(b) of this Article.

## Article V

### MANAGEMENT STUDY

(1) Effective immediately, the Board shall employ an independent outside management consultant ("Consultant").

(2) 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 (the "Management Study") to the Board. At a minimum, the Management Study shall provide comments and conclusions regarding the knowledge, skills, and abilities of all Bank officers, including but not

limited to, the president, lending, and cashier positions, and shall make any necessary adjustments, including the need for additions to or deletions from current management, to ensure the Bank has the technical expertise, leadership skills, and available time to perform present and anticipated duties, and return the Bank to a safe and sound condition and manage its affairs thereafter in a safe and sound manner.

(3) Copies of the Management Study shall be forwarded to the Assistant Deputy Comptroller within five (5) days of completion. The Assistant Deputy Comptroller shall retain the right to determine whether the Management Study complies with the terms of this Order.

## Article VI

### MANAGEMENT PLAN

(1) Effective immediately, the Board shall ensure that the Bank has competent management and staff in place on a full-time basis to carry out the Board's policies, ensure compliance with this Order, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) If an officer position is vacant now or in the future, including if the Board realigns an existing officer's responsibilities or if an officer position becomes vacant, the Board shall within thirty (30) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient authority to ensure the Bank's compliance with this Order and the safe and sound operation of functions within the scope of that position's responsibility.

(3) Prior to the appointment or employment of any new executive officer, or entering into any contract with any person for any such position, the Board shall submit the name and qualifications of the individual(s) and the proposed terms of employment to the Assistant Deputy Comptroller.

(4) The Deputy Comptroller shall have the power to disapprove the appointment of any proposed new executive officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement.

(5) The requirement to submit information and the prior disapproval 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.

(6) Within forty-five (45) days of this Order, the Board shall prepare and submit to the OCC for a prior written determination of no supervisory objection, a Management Plan designed to correct the deficiencies noted in the Management Study.

(7) Within five (5) days of receipt of the OCC's no objection to the Management Plan, the Board shall adopt, implement and thereafter adhere to the Management Plan.

## Article VII

### BOARD OVERSIGHT

(1) Within thirty (30) days of this Order, the Board shall develop and submit for a prior written determination of no supervisory objection from the Assistant Deputy Comptroller, a written program designed to ensure the Bank complies with the law and safe and sound practices.

The program shall contain, at a minimum, the following provisions:

- (a) a revised system of internal controls, management information, and corporate governance practices, that are designed to ensure that the Bank does not engage in any unauthorized, illegal, or unsafe or unsound transaction, and that includes at a minimum:

- (i) the recommendations contained in the forensic report required by the July 2, 2008 Consent Order; and
- (ii) policies and procedures to ensure that the Board, or a designated committee thereof, reviews and approves *in advance*:
  - (A) all extensions of credit to any Insider (as defined below) or related interest of any Insider; and
  - (B) all other extensions of credit greater than \$25,000;
- (b) a comprehensive conflict of interest policy applicable to the Bank's directors, principal shareholders, executive officers, affiliates, and employees ("Insiders") and related interests of such Insiders. The policy, in addition to defining a conflict of interest, shall address:
  - (i) avoidance of conflicts of interest and breaches of fiduciary duty, and the appearance of conflicts of interest;
  - (ii) involvement in the loan approval process of Insiders who may benefit directly or indirectly from the decision to grant credit;
  - (iii) disclosure of actual and potential conflicts of interest to the Board, and periodic disclosure of "related interests" as defined by 12 C.F.R. Part 215;
  - (iv) requirements for arms-length dealing in any transactions by Insiders, or their related organizations, involving the Bank's sale, purchase, or rental of property and services;
  - (v) disclosure of any Insider's material interest in the business of a borrower, an applicant, or other customer of the Bank; and



- (vi) restrictions on and disclosure of receipt of anything of value by Insiders, directly or indirectly, from borrowers, loan applicants, other customers, or suppliers of the Bank;
- (c) a written policy concerning the extension of overdrafts that shall include, at a minimum:
  - (i) conditions and circumstances under which overdrafts will be allowed, taking into consideration the requirements of 12 U.S.C. § 375b;
  - (ii) charges that will be levied against depositors using overdrafts;
  - (iii) conditions and circumstances under which overdrafts will be permitted to Insiders and related interests of Insiders (as such terms are defined in 12 C.F.R. Part 215);
  - (iv) conditions and circumstances under which overdrafts will be charged off; and
  - (v) periodic review of all overdrafts by Board and/or management to ensure compliance with applicable laws and regulations and this policy;
- (d) policies and procedures to ensure that the Bank does not engage in any transactions involving the Bank's PSP that are prohibited or otherwise contrary to applicable laws, rules and regulations;
- (e) procedures to ensure that reports submitted to the Board are complete and accurate;

- (f) procedures to ensure that the Bank's Consolidated Reports of Condition and Income ("Call Report") are filed in a complete and accurate manner;
- (g) procedures to ensure that Bank management is actively engaged in the operation and affairs of the Bank; and
- (h) accountability for the policies and procedures required by this program.

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the Board Oversight program required by this Article.

### Article VIII

#### LOAN PORTFOLIO MANAGEMENT STAFFING

(1) Within thirty (30) days of this Order, the Board shall take the necessary steps to appoint a Senior Credit Officer with the knowledge, skills, and abilities necessary to correct the Bank's deficiencies in loan portfolio risk management, and reach and maintain compliance with Article IX.

(2) The individual appointed to the Senior Credit Officer position shall be vested with sufficient executive authority to develop and implement appropriate credit risk management policies, procedures, and systems necessary to correct the Bank's deficiencies in loan portfolio risk management and reach and maintain compliance with Article IX.

(3) Prior to the appointment or employment of the Senior Credit Officer, or entering into any contract with any person for this position, the Board shall submit the names and qualifications of the individual and the proposed terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(4) The Deputy Comptroller shall have the power to disapprove the appointment of the proposed officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement.

(5) If the Senior Credit Officer position described in this Article becomes vacant in the future, the Board shall, within ninety (90) days of such vacancy, employ, appoint, or designate a capable person to the vacant position who shall be vested with the authority and responsibilities outlined in Paragraph (3) of this Article.

(6) If the Board is unable to appoint a qualified candidate within the timeframe set forth above, the Board shall provide documentation of its efforts to locate such a candidate to the Assistant Deputy Comptroller. Thereafter, the Board shall provide quarterly reports to the Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

## Article IX

### LOAN PORTFOLIO RISK MANAGEMENT

(1) Within sixty (60) days of this Order, the Board shall prepare and submit, to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, revisions to the Bank's loan policy, as well as any necessary procedures, to address weaknesses in the Bank's loan portfolio risk management, that, at a minimum, include:

- (a) the establishment of loan concentration management practices that comply with the *Comptroller's Handbook* on "Loan Portfolio Management," pp. 28-30, to include at a minimum:
  - (i) concentration limits stratified by type, locality and other meaningful measures;

- (ii) monthly monitoring of concentration reports that stratify the loan portfolio by product type, locality and other meaningful measures; and
  - (iii) strategies and procedures to manage concentrations to conform with established limits set in Subparagraph (a) of this Article;
- (b) the establishment of underwriting standards by loan type (for real estate and agriculture, in particular) that include specific requirements relating to:
  - (i) maximum loan amount and maturity by type of property;
  - (ii) approval authorizations consistent with present staffing and committee designations with provisions for periodic review and adjustment;
  - (iii) minimum file documentation and analysis;
  - (iv) minimum standards for borrower net worth, property cash flow/debt service, collateral coverage, and guarantor support; and
  - (v) procedures for loan closing and disbursement processes;
- (c) procedures for the maintenance of proper collateral margins in loans secured by livestock and/or crops;
- (d) standards for when loan policy exceptions are appropriate, what factors should exist to mitigate exceptions, and how the level and trend of exceptions should be tracked and reported to the Board;
- (e) requirements to ensure participations purchased are consistent with sound banking practices and OCC guidelines;

- (f) standards for appraisal ordering and review processes in accordance with Article XII;
- (g) standards to ensure loans are appropriately risk rated in accordance with Article XIII; and
- (h) standards to ensure the Bank maintains a sufficient Allowance for Loan and Lease Losses in accordance with Article XV.

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program, policies and procedures required by this Article.

#### Article X

#### CREDIT UNDERWRITING AND ADMINISTRATION

(1) Effective as of the date of this Order, the Board shall ensure that all lending officers comply with all laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) Effective as of the date of this Order, the Bank may not grant, extend, renew, alter or restructure any loan or other extension of credit above \$50,000 without:

- (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 current and satisfactory credit information, including performing and documenting analysis of credit information and a detailed cash flow analysis of all expected repayment sources;

- (e) determining and documenting whether the loan complies with the Bank's Loan Policy and if it does not comply, providing identification of the exception and ample justification to support waiving the policy exception;
- (f) making and documenting the determinations made regarding the customer's ability to repay the credit on the proposed repayment terms;
- (g) providing an accurate risk assessment grade as further described in Article XIII; and
- (h) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

(3) Within sixty (60) days of this Order, the Board shall take the necessary steps to obtain current and satisfactory credit information on all loans above \$50,000 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.

(4) Within sixty (60) days of this Order, the Board shall ensure proper collateral documentation is maintained on all loans above \$50,000 and correct each collateral exception for any loan above \$50,000 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.

## Article XI

### PROBLEM ASSET MANAGEMENT

(1) Effective as of the date of this Order, the Board shall take immediate and continuing action to protect its 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) The Board's compliance with Paragraph (1) of this Article shall include the monthly submission and review of problem asset reports for all criticized credit relationships totaling \$50,000 or above, that require, at a minimum, analysis and documentation of the following:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable as well as other necessary documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment; and
- (e) trigger dates for positive borrower actions or for loan officers to reassess the strategy and enact collection plans.

(3) The Board's compliance with Paragraph (1) of this Article shall include the monthly submission and review of action plans for each parcel of Other Real Estate Owned ("OREO") to ensure that these assets are managed in accordance with 12 U.S.C. § 29 and 12 C.F.R. Part 34, Subpart E. At a minimum, the plans shall:

- (a) identify the Bank officer(s) responsible for managing and authorizing transactions relating to the OREO properties;

- (b) contain an analysis of each OREO property which compares the cost to carry against the financial benefits of near term sale;
- (c) detail the marketing strategies for each parcel;
- (d) identify targeted time frames for disposing each parcel of OREO;
- (e) establish procedures to require periodic market valuations of each property, and the methodology to be used; and
- (f) provide for reports to the Board on the status of OREO properties on at least a quarterly basis.

(4) Effective as of the date of this Order, the Bank may not 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 \$50,000, unless each of the following conditions is met:

- (a) the Board or a designated committee thereof 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 Board or a designated committee thereof approves the credit extension and documents in writing, the reasons that such extension is necessary to promote the best interests of the Bank; and
- (b) the Board's formal plan to collect or strengthen the criticized asset will not be compromised.



## Article XII

### APPRAISAL AND EVALUATION PROCESS

(1) Within sixty (60) days of this Order, the Board shall revise, adopt, implement and thereafter ensure Bank adherence to a written program of policies and procedures designed to ensure the Bank obtains appraisals and evaluations in compliance with USPAP, 12 C.F.R. Part 34, Advisory Letter 2003-9, and OCC Bulletin 2005-6, to include at a minimum:

- (a) the ordering of appraisals, independent of the loan officer;
- (b) the use of Board approved appraisers only;
- (c) expectations for evaluations regarding evaluator independence, selection of comparable sales, when income or cost analysis should be used for income producing properties, and the use of other documentation from county records and realtors; and
- (d) the establishment and implementation of a policy requiring a meaningful review, independent of the lender, of all appraisals/evaluations to include analysis commensurate with the type, size and complexity of the property being appraised.

## Article XIII

### CREDIT RISK RATINGS AND NONACCRUAL RECOGNITION

(1) Within thirty (30) days of this Order, the Board shall develop appropriate policies to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, provisions requiring that:

- (a) the Bank's loans and other assets are appropriately and timely risk rated and charged-off by the lending officers using a loan grading system that is

based upon current facts, existing repayment terms and that is consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*;

- (b) the Bank's loans and other assets are timely placed on nonaccrual by the lending officers in accordance with the guidelines set forth in the Call Report instructions;
- (c) loan officers are accountable for failing to appropriately and timely risk rate and/or place loans on nonaccrual; and
- (d) consideration of loan officer failure to properly risk rate and/or place loans on nonaccrual in periodic performance reviews and compensation.

#### Article XIV

##### EXTERNAL LOAN REVIEW

(1) Within ninety (90) days of this Order, the Board shall employ a qualified consultant to perform independent reviews of the Bank's loan portfolio at least annually to assure the timely identification and categorization of problem credits. Prior to the appointment or employment of any individual or firm to perform such reviews or entering into any contract with any such firm or individual, the Board shall submit the name and qualifications of the proposed firm or individual and the proposed scope and terms of employment to the Assistant Deputy Comptroller for prior written determinations of no supervisory objection. After the OCC has advised the Bank that it does not take supervisory objection to the firm or individual or the scope of the review, the Board shall immediately engage the firm or individual pursuant to the proposed terms of the engagement.

(2) The scope of the engagement with the loan review consultant 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 in Rating Credit Risk, A-RCR, of the Comptroller's Handbook. Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent and nonaccrual loans;
- (c) the identification/status of credit related violations of law or regulation;
- (d) loans not in conformance with the Bank's lending policies;
- (e) credit underwriting and documentation exceptions;
- (f) credit analysis and documentation of such;
- (g) accuracy of internal risk ratings;
- (h) overall credit administration practices; and
- (i) completeness and effectiveness of problem loan workout plans.

(3) The Board or a designated committee shall review the independent loan review reports and ensure that, if appropriate, immediate, adequate, and continuing remedial action, is taken upon the findings noted in the reports.

(4) The Bank shall not terminate the consultant's asset quality review services without a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

## Article XV

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of this Order, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“Allowance”) in accordance with Generally Accepted Accounting Principles. The Allowance policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006 (OCC Bulletin 2006-47), and the “Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions” dated July 20, 2001 (OCC Bulletin 2001-37), and shall, at a minimum, include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan;
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (c) procedures for validating the Allowance methodology; and
- (d) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:

- (i) trends in the Bank’s internal risk ratings, delinquent and nonaccrual loans;
- (ii) results of the Bank’s external loan review;
- (iii) concentrations of credit in the Bank, present and prospective economic conditions; and
- (iv) applicable experience of the Bank’s lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board’s review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (“Call Reports”) for the Allowance. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Call Report, 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 XVI

### INTERNAL AUDIT

(1) Within ten (10) days of this Order, the Board shall adopt, implement, and thereafter ensure Bank adherence to an independent and comprehensive internal audit program that:

- (a) identifies an officer responsible for coordinating the Bank’s outsourced internal audit program;
- (b) establishes a line of communication for audit reporting issues between the internal auditor, audit committee, and board of directors;

- (c) ensures audit work papers and documentation of conclusions provide a meaningful audit trail and validation for findings and recommendations;
- (d) ensures timely management responses and corrective actions on identified weaknesses;
- (e) establishes an annual audit plan using a risk-based approach sufficient to achieve these objectives; and
- (f) a formal Board tickler system that tracks the status of all reported deficiencies until corrected.

(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 within thirty (30) days of receipt.

(3) The Board shall ensure that the audit program is independent and that the OCC has access to all audit work papers. The person responsible for implementing the internal audit program described above shall report directly to the Board, who shall have the sole power to direct his/her activities. All reports prepared by the audit staff or audit firm shall be filed directly with the Board and/or Board Audit Committee (comprised of at least two (2) external directors) and not through any intervening party.

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

## ARTICLE XVII

### DISPOSITION PLAN

(1) If the OCC determines, in its sole discretion, that the Bank has failed to comply with any provision of this Order and that the Bank should sell, merge, or liquidate, the Board

shall, within thirty (30) days of receiving written notice from the Assistant Deputy Comptroller of such a determination, submit a written Disposition Plan to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. The Disposition Plan shall detail the Board's proposal to sell or merge the Bank, or liquidate the Bank under 12 U.S.C. § 181.

(2) If the Disposition Plan proposes a sale or merger of the Bank, the Disposition Plan, at a minimum, shall address the steps that will be taken and the associated timeline to ensure that a definitive agreement for the sale or merger is executed not later than ninety (90) days after receipt of the Assistant Deputy Comptroller's written determination of no supervisory objection to the Disposition Plan. If the Disposition Plan proposes a liquidation of the Bank, the Disposition Plan shall detail the appropriate actions to accomplish the liquidation in conformance with 12 U.S.C. §§ 181-82, and the dates by which each step of the liquidation shall be completed, including the date by which the Bank will terminate its national bank charter. In the event of a proposed liquidation, the Bank shall hold a shareholder vote pursuant to 12 U.S.C. § 181, and commence liquidation, within thirty (30) days of receiving the Deputy Comptroller's written determination of no supervisory objection to the Disposition Plan.

(3) Upon the Assistant Deputy Comptroller's notifying the Bank in writing of no supervisory objection to the Disposition Plan, the Board shall immediately implement, and thereafter ensure Bank adherence to, the terms of the Disposition Plan.

## ARTICLE XVIII

### ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) This Order becomes effective upon execution by the Assistant Deputy Comptroller. Unless otherwise specified, any time limitations set by this Order shall begin to run on the effective date of the Order.

(2) If the Bank contends that compliance with any provision of this Order would cause undue hardship to the Bank, or requires an extension of any timeframe within this Order, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief. 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 a provision, that require the Assistant Deputy Comptroller to exempt the Bank from a provision, or that require an extension of a timeframe within this Order.

(3) All such requests shall be accompanied by any supporting documentation, and, to the extent requested by the Assistant Deputy Comptroller, a sworn declaration or declarations setting forth any other facts upon which the Bank relies.

(4) The Assistant Deputy Comptroller's decision concerning a request made pursuant to this Article is subject to Article XIX, Paragraph (3) of this Order, and is final and not subject to further review.

#### Article XIX

#### CLOSING

(1) Although the Bank is required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(2) If, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States 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) The provisions of this Order 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.

(4) In each instance in this Order in which the Bank or the Board is required to ensure implementation of or adherence to, or to undertake to perform, an obligation of the Bank, the Board shall:

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

(5) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding the Comptroller or the United States.

(6) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

**IN TESTIMONY WHEREOF**, the undersigned has set his hand this 25th day of

March 2009.

/s/

3/25/2009

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Troy L. Thornton  
Assistant Deputy Comptroller  
Omaha Field Office

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Date

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

<b>In the Matter of:</b>	)	
The First National Bank of Logan	)	AA-WE-09-06
Logan, Iowa	)	

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

The Comptroller of the Currency of the United States of America (“Comptroller”) may initiate cease and desist proceedings against The First National Bank of Logan, Logan, Iowa (“Bank”), pursuant to 12 U.S.C. § 1818(b), for unsafe or unsound practices relating to credit risk management and Board and management oversight of the Bank.

The Bank, in the interest of compliance and cooperation, consents to the issuance of an Amended Consent Order, dated March 25, 2009 (the “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 Comptroller 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).

(4) This Order shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

## 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.

(2) 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). Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(3) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities.

### ARTICLE III

#### Waivers

- (1) 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 a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i), 12 C.F.R. Part 19
  - (d) all rights to seek any type of administrative or judicial review of the Order; and
  - (e) 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, it 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.

/s/  
\_\_\_\_\_  
Troy L. Thornton  
Assistant Deputy Comptroller  
Omaha Field Office

3/25/09  
\_\_\_\_\_  
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/  
\_\_\_\_\_  
Marvin Vannier

3/25/09  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Gary J. Altwegg

3/25/09  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Alan J Anderson

3/25/09  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Chris R. Hartwig

3/25/09  
\_\_\_\_\_  
Date

/s/  
\_\_\_\_\_  
Tim J. Lapke

3/25/09  
\_\_\_\_\_  
Date