#2009-179

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

In the Matter of:	)	
Marshall Bank N.A.,	)	**AA-EC-09-77**
Hallock, MN	)	

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Marshall Bank N.A., Hallock, MN ("Bank") is a national bank subject to the provisions of 12 U.S.C § 1831o and 12 C.F.R. Part 6; and

WHEREAS, the Office of the Comptroller of the Currency ("OCC") is authorized, pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6, to issue directives to take prompt corrective action ("PCA") to resolve the problems of national banks at the least possible long-term cost to the deposit insurance fund, thereby effecting the purposes of 12 U.S.C. § 1831o; and

WHEREAS, the Bank filed its June 30, 2009 Consolidated Report of Condition and Income ("Call Report") on July 30, 2009, and it is "significantly undercapitalized" for PCA purposes. The Bank is deemed to be on notice of its capital category as of the date its Call Report was filed; and

WHEREAS, on August 20, 2009, the OCC issued a Notice of Intent to issue this Prompt Corrective Action Directive ("PCA Directive") pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6; and

WHEREAS, on September 3, 2009, the Bank responded to the OCC's Notice of Intent and did not dispute the grounds for its issuance; and

WHEREAS, the OCC has carefully considered the Bank's response to the Notice of Intent and its requests for modifications to the proposed PCA Directive; and

WHEREAS, the OCC has determined to issue this PCA Directive in order to resolve the Bank's problems at the least possible long-term cost to the Deposit Insurance Fund, thereby effecting the purposes of 12 U.S.C. § 1831o;

NOW THEREFORE, pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6, the OCC directs the Bank and its Board of Directors ("Board") to do the following:

ARTICLE I
IMPROVING AND MAINTAINING CAPITAL

(1) The Bank is under a continuing obligation to submit an acceptable Capital Restoration Plan ("CRP"), conforming to 12 U.S.C. § 1831o(e)(2) and 12 C.F.R. § 6.5 and the OCC letter dated August 10, 2009.

(2) Within ninety days (90) of the issuance of this Directive, the Bank shall achieve and maintain the following capital levels as defined in 12 C.F.R. § Part 3[1]:

(a) tier 1 leverage capital at least equal to nine percent (9%) of adjusted total assets[2]; and

(b) total risk based capital at least equal to twelve percent (12%) of risk weighted assets.

(3) Within thirty (30) days of issuance of this Directive, the Board of Directors of the Bank ("Board") shall forward to the Director of Special Supervision ("Director") for his review, and no supervisory objection, a written Capital Plan for the Bank, covering at least a three-year period. The Capital Plan shall include, among other things, specific and detailed plans to achieve

[1] The requirement in this Directive, to meet and maintain a specific capital level, means that the Bank may 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).

[2] Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets**.**

and thereafter maintain the capital ratios specified in paragraph (2) of this Article. The Capital Plan shall be consistent with the CRP required by paragraph (1) of this Article and the Strategic Plan required by Article II. Any plan to sell shares or obligations to accomplish a merger, acquisition or sale of all or substantially all of the Bank's assets and liabilities, to be acquired by a depositor institution holding company, or to combine with another depository institution must include the submission of a fully executed binding agreement to the Director within thirty (30) days of issuance of the PCA Directive. The Capital Plan shall include:

(a) specific plans for the achievement and maintenance of adequate capital, which may in no event be less than the requirements of paragraph (2) of this Article;

(b) projections for growth and capital requirements, based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;

(c) projections of the sources and timing of additional capital to meet the Bank's future needs, as set forth in the Strategic Plan;

(d) identification of the primary sources from which the Bank will maintain an appropriate capital structure to meet the Bank's future needs, as set forth in the Strategic Plan required under Article II of this Directive;

(e) specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Directive and with 12 U.S.C. § 1831o, including the restrictions against brokered deposits in 12 C.F.R. § 337.6;

(f) contingency plans that identify alternative methods to strengthen capital, should the primary source(s) under paragraph (d) of this Article not be available; and

(4) The Bank may pay a dividend or make a capital distribution only:

(a) when the Bank is in compliance with its approved Capital Plan and would remain in compliance with its approved Capital Plan immediately following the payment of any dividend;

(b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and

(c) following the prior written determination of no supervisory objection by the Director.

(5) Prior to adoption by the Board, a copy of the Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Director, the Board shall adopt and the Bank shall immediately implement and adhere to the Capital Plan. The Board shall review and update the Bank's Capital Plan at least annually and more frequently if necessary or if requested by the Director. Revisions to the Bank’s Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection

(6) The Board of Directors of the Bank shall at all times make diligent and good faith efforts to cause the Bank to comply with the Bank’s Capital Plan required by paragraph (3) of this Article. For the purposes of this Directive, diligent and good faith efforts shall include, but not be limited to, the following:

(a) authorize and direct appropriate Bank officers to take appropriate actions consistent with the Bank’s obligations under the Capital Plan, which include, but are not limited to, taking all reasonably practical steps to remove impediments to accomplishing the sale of shares or obligations or accomplishing a merger, acquisition or sale of all or substantially all of the Bank's assets and liabilities; and

(b) cause the Bank to hire such professionals as are necessary and appropriate to fulfill the Bank's obligations under the Capital Plan.

(7) The Bank and any subsidiary thereof shall not issue any securities or enter into any agreement, letter of intent or understanding to merge, consolidate, sell all or substantially all of its assets and liabilities, or otherwise be acquired, or enter into any agreement or understanding to reorganize unless it first receives the OCC's written non-objection of such action.

ARTICLE II
STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall forward to the Director for his review, pursuant to paragraph (4) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a three-year period. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to the Strategic Plan. 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. The Strategic Plan should specify how the

Bank intends to improve profitability and increase earnings and identify the major areas in and means by which the Board will seek to improve the Bank's operating performance and shall, at a minimum, include:

(a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

(b) a description of the Bank's targeted market(s) and an assessment of the current and projected risks and competitive factors in its identified target market(s);

(c) the strategic goals and objectives to be accomplished;

(d) specific actions to improve Bank earnings and accomplish the identified strategic goals and objectives;

(e) specific actions to reduce the Bank’s costs and overhead;

(f) identification of Bank personnel to be responsible and accountable for achieving each goal and objective of the Strategic Plan, including specific time frames;

(g) a financial forecast, to include projections for major balance sheet and income statement accounts, targeted financial ratios, and growth projections over the period covered by the Strategic Plan;

(h) a description of the assumptions used to determine financial projections and growth targets;

(i) a description of control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's markets;

(j) 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 established in the Strategic Plan;

(k) a management employment and succession program to promote the retention and continuity of capable management;

(l) assigned responsibilities and accountability for the strategic planning process, new products, growth goals, and proposed changes in the Bank's operating environment; and

(m) a description of systems to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) The Strategic Plan shall require that prior to the Bank's involvement in any new products or services the Board shall prepare a written analysis of said product or service. The analysis shall, at a minimum, include the following:

(a) an assessment of the risks and benefits of the product or service to the Bank;

(b) an explanation of how the product or service is consistent with the Bank’s strategic plan;

(c) an evaluation of the adequacy of the Bank’s organizational structure, staffing, MIS, internal controls and written policies and procedures to identify, measure, monitor, and control the risks associated with the product or service; and

(d) a profitability analysis, including growth projections and interest rate risk.

(3) At least monthly, the Board shall review financial reports and earnings analyses prepared by the Bank that evaluate the Bank's performance against the goals and objectives established in the Strategic Plan, as well as the Bank's written explanation of significant differences between actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. Within ten (10) days of the completion of its review, the Board shall submit a copy of the reports to the Director.

(4) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan, based on the Bank's monthly reports, analyses, and written explanations of any differences between actual performance and the Bank's strategic goals and objectives, and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within ten (10) days of completing its evaluation, the Board shall submit a copy to the Director.

(5) Prior to adoption by the Board, a copy of the Strategic Plan, and any subsequent amendments or revisions, shall be forwarded to the Director for review and prior written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Director, the Board shall adopt and the Bank shall immediately implement and adhere to the Strategic Plan.

(6) The Bank may not initiate any action that deviates significantly from the Board-approved Strategic Plan without a written determination of no supervisory objection from the Director. The Board must give the Director thirty (30) days advance, written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the

adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan.

(7) For the purposes of this Article, changes that constitute a significant deviation from the Strategic Plan include involvement in any new products or services, or major expansion of any existing products or services. Changes that may constitute a significant deviation from the Strategic Plan also include, but are not limited to, a change in the Bank's marketing strategies, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors that may have a material impact on the Bank's operations or financial performance. For purposes of this paragraph, "personnel" shall include the president, chief executive officer, chief operating officer, chief financial officer, chief credit officer, chief compliance officer, risk manager, auditor, member of the Bank's board of directors, or any other position subsequently identified in writing by the Director.

(8) 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 III
DIRECTOR COMPENSATION

(1) Effective immediately, the Bank shall obtain the written supervisory non-objection of the Director prior to the payment of any fees, expense reimbursements, bonuses,

commissions, or other types of compensation to a Bank director or their related interests, as defined in 12 C.F.R. Part 215 (“Bank Director”), other than salary payments to the Bank’s officers, previously approved by the Board, earned and accrued in any pay period.

(2) Any request for supervisory non-objection pursuant to this Article shall contain, at a minimum and in writing, the Board’s determination that such remuneration:

(a) is reasonable;

(b) has a direct relationship to, and is based solely upon, the fair value of goods and services received by the Bank; and

(c) compensates only for providing goods and services that meet the legitimate needs of the Bank.

ARTICLE IV
BOARD TO ENSURE COMPETENT MANAGEMENT

(1) The Board shall ensure that the Bank has competent management in place on a full-time basis in all executive officer positions in order to carry out the Board's policies; ensure compliance with this Directive; ensure compliance with applicable laws, rules, and regulations; and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within ninety (90) days, the Board shall prepare a written assessment of the capabilities of the Bank’s executive officers to perform present and anticipated duties, taking into account the findings contained in the Bank’s most recent Report of Examination (“ROE”), and factoring in the officer's past actual performance, experience, and qualifications, compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan and correct the concerns raised in the ROE. Such assessment should also include a compensation study to determine whether the compensation

paid to the executive officers is reasonable in consideration of the factors identified above and the Bank's condition. Upon completion, a copy of the written assessment shall be submitted to the Director.

(3) If the Board determines that an officer's performance, skills or abilities needs improvement, the Board will, within thirty (30) days following its determination, require the Bank to develop and implement a written program, with specific time frames, to improve the officer's performance, skills and abilities. Upon completion, a copy of the written program shall be submitted to the Director.

(4) If the Board determines that an officer will not continue in his/her position, the Board shall document the reasons for this decision in its assessment performed pursuant to paragraph (2) of this Article, and shall within sixty (60) days of such vacancy identify and provide notice to the Director, pursuant to paragraph (5) of this Article, of a qualified and capable candidate for the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Directive and the safe and sound operation of functions within the scope of that position's responsibility.

(5) Prior to the appointment of any individual to an executive officer position, 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 executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(6) The Board shall perform, at least annually, a written performance appraisal for each Bank executive officer that establishes objectives by which the officer's effectiveness will be measured, evaluates performance according to the position's description and responsibilities,

and assesses accountability for action plans to remedy issues raised in ROEs or audit reports. Upon completion, copies of the performance appraisals shall be submitted to the Director. The Board shall ensure that the Bank addresses any identified deficiencies in a manner consistent with paragraphs (3) and (4) of this Article.

ARTICLE V
LOAN PORTFOLIO MANAGEMENT

(1) Within sixty (60) days, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written credit program to improve the Bank's loan portfolio management deficiencies described in the ROEs. A copy of the written credit program shall be provided to the Director upon adoption by the Board.

(2) The credit program shall include (but not be limited to):

(a) a description of the types of credit information required prior to the Bank purchasing a loan from an affiliate or other lender;

(b) procedures to limit the Bank’s credit risk on all purchased loans;

(c) a description of the types of credit information required from borrowers and guarantors, including (but not limited to) annual audited statements, interim financial statements, personal financial statements, and tax returns with supporting schedules;

(d) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and validating current credit information about the borrower and any guarantor sufficient to fully assess and analyze the borrower’s and guarantor’s cash flow, debt service requirements, contingent liabilities, and global liquidity condition, and only after the credit officer prepares a documented credit analysis;

(e) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and documenting the current valuation of any supporting collateral, and that reasonable limits are established on credit advances against collateral, based on a consideration of (but not limited to) a realistic assessment of the value of collateral, the ratio of loan to value, and overall debt service requirements;

(f) procedures and controls to periodically verify the existence and lien position of collateral;

(g) a requirement that borrowers and/or guarantors maintain any collateral margins established in the credit approval process;

(h) procedures that prohibit the capitalization of accrued interest on any loan renewal or extension;

(i) procedures that prohibit, on any loan renewal, extension or modification, the establishment of an interest reserve using the proceeds of any Bank loan to the same borrower or guarantor;

(j) procedures to ensure that all exceptions to the credit policy shall be clearly documented on the loan offering sheet, problem loan report, and other MIS; and approved by the Board or a committee thereof before the loan is funded or renewed;

(k) credit risk rating definitions consistent with applicable regulatory guidance;

(l) procedures for early problem loan identification to ensure that credits are accurately risk rated at least monthly; and

(m) prudent lending and approval limits for lending officers that are commensurate with their experience and qualifications and that prohibit combining individual lending officers' lending authority to increase limits.

(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) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and

(e) obtaining and analyzing current and complete credit information, including cash flow analysis where loans are to be repaid from operations and global cash flow analysis where loan repayment is expected from other sources such as Guarantors;

(4) A determination not to obtain the information required by subparagraph (3)(d) of this Article shall require a majority of the full Board (or a designated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the required information in (3)(d) would be detrimental to the best interests of the Bank. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

(5) The Board shall ensure that Bank personnel performing credit analyses are adequately trained in cash flow analysis, particularly analysis using information from tax returns, and that processes are in place to ensure that additional training is provided as needed.

(6) Within ninety (90) days the Board shall establish a written performance appraisal and salary administration process for loan officers that adequately considers performance relative to job descriptions, policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters.

ARTICLE VI
CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days, the Bank shall obtain current and complete credit information on all loans lacking such information, including those listed in the most recent ROE, and shall ensure that all collateral documentation is maintained on all loans. The Bank shall maintain a list of any credit exceptions that have not been corrected within the sixty (60) day timeframe. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not yet been corrected, and a plan to correct the exception.

(2) The Bank shall ensure proper collateral documentation is maintained on all loans and within sixty (60) days of notification, shall correct each collateral exception listed in the most recent ROE, any subsequent ROE, any internal or external loan review, or any listings of loans lacking such information provided to the Bank by the National Bank Examiners. The Bank shall maintain a list of any collateral exceptions that have not been corrected within the sixty (60) day timeframe. This list shall include an explanation of the actions taken to correct the exception, the reasons why the exception has not yet been corrected, and a plan to correct the exception.

ARTICLE VII
LOAN REVIEW

(1) Within sixty (60) days, the Board shall establish an effective, independent, and on-going loan review program to review, at least quarterly, the Bank's loan and lease portfolios and to assure the timely identification and categorization of problem credits. The program shall provide for a written report to be filed with the Board promptly after each review and shall employ a loan and lease rating system consistent with the guidelines set forth in “Rating Credit Risk” and “Allowance for Loan and Lease Losses,” booklets A-RCR and A-ALLL, respectively, of the *Comptroller’s Handbook*. A copy of the written report shall be provided to the Director within thirty days of being submitted to the Board. Such reports shall include, at a minimum:

(a) conclusions regarding 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) loans meeting the criteria for nonaccrual status;

(f) the identity of the loan officer of each loan reported in accordance with subparagraphs (b) through (e);

(g) the identification and status of credit-related violations of law, rule, or regulation;

(h) concentrations of credit;

(i) loans and leases to the directors, executive officers, and principal shareholders of the Bank and to their related interests; and

(j) loans and leases in nonconformance with the Bank's lending and leasing policies, and exceptions to the Bank’s lending and leasing policies.

(2) The Board shall evaluate the loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, as appropriate, is taken upon all findings noted in the report(s), and documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits shall be preserved in the Bank.

ARTICLE VIII
ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The Board shall immediately require and the Bank shall implement and thereafter adhere to a program for the maintenance of an adequate Allowance for Loan and Lease Losses ("ALLL"). The program shall be consistent with the comments on maintaining a proper ALLL found in the Interagency Policy Statement on the ALLL contained in OCC Bulletin 2006-47 (December 13, 2006) and with "Allowance for Loan and Lease Losses," booklet A-ALLL of the *Comptroller's Handbook,* and shall incorporate the following:

(a) internal risk ratings of loans;

(b) results of the Bank's independent loan review;

(c) criteria for determining which loans will be reviewed under Financial Accounting Standard ("FAS") 114, how impairment will be determined, and procedures to ensure that the analysis of loans complies with FAS 114 requirements;

(d) criteria for determining FAS 5 loan pools and an analysis of those loan pools;

(e) recognition of non-accrual loans in conformance with generally accepted accounting principles ("GAAP") and regulatory guidance;

(f) loan loss experience;

(g) trends of delinquent and non-accrual loans;

(h) concentrations of credit in the Bank; and

(i) present and projected economic and market conditions.

(2) The program shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be remedied in the quarter it is discovered, prior to filing the Call Report, by additional provisions from earnings. Written documentation shall be maintained of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL and made available for review by National Bank Examiners.

(3) A copy of the Board's ALLL program, and any subsequent revisions to the program, shall be submitted to the Director.

ARTICLE IX
CRITICIZED ASSETS

(1) Within sixty (60) days, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written program designed to protect the Bank's interest in those assets criticized in the most recent ROE, in any subsequent ROE, 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.” The program shall include the development of Criticized Asset Reports (“CARs”) identifying all credit relationships and other assets totaling in aggregate two hundred and fifty thousand dollars ($250,000) or more, criticized as "doubtful," "substandard," or "special mention." The CARs must be updated and submitted to the Board and the Director monthly. Each CAR shall cover an entire credit relationship and include, at a minimum, analysis and documentation of the following:

(a) the origination date and any renewal or extension dates, amount, purpose of the loan, and the originating and current loan officer(s);

(b) the expected primary and secondary sources of repayment and an analysis of the adequacy of the repayment source;

(c) 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 current collateral valuation;

(d) an analysis of current and complete credit information, including cash flow analysis where loans are to be repaid from operations;

(e) results of any FAS 114 impairment analysis;

(f) significant developments, including a discussion of changes since the prior CAR, if any; and

(g) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including an appropriate exit strategy.

(2) The Bank may not extend credit, directly or indirectly, including renewals, extensions, or modifications, to a borrower whose loans or other extensions of credit are criticized in any ROE, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination, unless and until 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 modifying 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. A copy of the findings and approval of the Board or designated committee shall be maintained in the credit file of the affected borrower and made available for review by National Bank Examiners;

(b) the Bank performs a written credit and collateral analysis as required by paragraph (1)(d) of this Article and, if necessary, the proposed action referred to in paragraph (1)(g) of this Article is revised, as appropriate; and

(c) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of additional credit.

ARTICLE X
CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written loan concentration management program (including appropriate revisions to policies and procedures), designed to manage the risk in the Bank's loan portfolio. The program shall include (but not be limited to) the following:

(a) policy guidelines and an overall lending strategy, addressing the level and nature of concentration exposures acceptable to the institution and setting concentration limits, including limits on commitments to individual borrowers and appropriate sub-limits (for example, by property types);

(b) procedures and controls to monitor compliance with the Bank's lending policies and the Strategic Plan;

(c) procedures to identify and quantify the nature and level of risk presented by loan concentrations, including review of reports describing changes in conditions in the Bank's loan markets;

(d) procedures to periodically review and revise, as appropriate, risk exposure limits and sub-limits to conform to any changes in the institution's strategies and to respond to changes in market conditions;

(e) periodic portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

(f) appropriate strategies for managing concentration levels, including a contingency plan to reduce or mitigate concentrations in the event of adverse market conditions; and

(g) periodic reports to the Board, to include the following, as appropriate:

  (i) a summary of concentration levels, by type and subtype;

  (ii) a synopsis of the Bank's market analysis;

  (iii) a discussion of recommended strategy (for example, revise limits or change underwriting criteria) when concentrations approach or exceed Board-approved limits;

  (iv) a synopsis of changes in risk levels by concentration type and subtype, with discussion of recommended changes in credit administration procedures (for example, underwriting practices, risk rating, monitoring, and training).

(2) The Board shall forward a copy of the program required in paragraph (1) above, and any concentration reports, studies, or analyses to the Director.

ARTICLE XI
MATTERS REQUIRING ATTENTION

(1) Upon issuance of this PCA Directive, the Board shall immediately require the Bank to take all necessary steps to correct all outstanding matters cited in any ROE, particularly all outstanding matters cited in the Matters Requiring Attention portion of the ROE as of September 30, 2007 ("2007 ROE"), and the ROE as of September 30, 2008 ("2008 ROE"), as well as all subsequent ROEs. Necessary steps to correct Matters Requiring Attention in the 2008 ROE shall include:

(a) The Board shall at all times maintain a majority of independent directors. The term "independent director" means a person who is not a director, officer, or employee of an affiliate of the Bank. At any time the Board fails to have a majority of independent directors, the Board shall within sixty (60) days identify new independent directors, consistent with the Bank's by-laws and the requirements of 12 C.F.R. § 5.51 (notice forms and instructions are in the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the Comptroller's Licensing Manual).

(b) Prior to the payment, directly or indirectly, of any management and any other fees, money, or their equivalent to or for the benefit of, or extension of credit in any form, to or for the benefit of any affiliate of the Bank, or transfer of any assets between the Bank and any of its affiliates, or agreement to any transaction that obligates the Bank to do the same, the Board, or delegated committee of the Board, shall document and support, in writing, that such fees, credit extensions, transfers, or transactions:

(i) are reasonable;

(ii) have a direct relationship to, and are based solely upon, the fair value of goods and services received by the Bank;

(iii) compensate the affiliate only for providing goods and services which meet the legitimate needs of the Bank; and

(iv) are advantageous for the Bank and comply with all applicable laws, rules, regulations, and Comptroller's issuances, including, but not limited to 12 C.F.R. Part 223.

(5) Within ninety (90) days after a matter is cited in an ROE, the Bank shall provide to the Board a list of any matters that have not been corrected. This list shall include an explanation of the actions taken to address the matter, the reasons why the matter has not yet been corrected, and a plan to correct the matter by a specified time.

ARTICLE XII
BOOKS AND RECORDS

(1) Effective immediately upon issuance of this Directive, the Bank shall ensure that all documents, books, and records are accurately maintained and preserved on the premises of the Bank in their original state for a period of five (5) years.

(2) The Board shall ensure that the Bank's books, records and management information systems are maintained in a complete and accurate condition.

ARTICLE XIII
SERVICING CONTRACTS AND SENIOR EXECUTIVE CONTRACTS

(1) Within thirty (30) days of the issuance of the PCA Directive, the Board shall review all outstanding servicing contracts in excess of one hundred thousand dollars ($100,000) per annum and all contracts and agreements or understandings that involve payments of any kind to senior executive officers to determine that the contracts are in the best interest of the Bank. The Board or a committee there of, must make a formal determination and record the determination in the Board minutes.

(2) Within sixty (60) days, for each contract, agreement, or understanding which the Board determines to not be in the Bank's best interest, the Board shall either (a) amend or terminate the contract, or (b) submit to the Director a written plan to bring such contracts into conformance with the best interest of the Bank.

ARTICLE XIV
OTHER ACTION REQUIRED

(1) Immediately upon issuance of this PCA Directive, the Bank shall not do any of the following without the prior written approval of the Bank's Board of Directors and the prior written non-objection of the OCC:

(a) Enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, or other similar action;

(b) Engage in the sale or transfer of any Bank asset or pool of assets exceeding a fair market value of one hundred thousand dollars ($500,000). Any asset sale or transfer less than $500,000 should be reported to the OCC after the sale;

(c) Transfer any asset to the holding company or other affiliated party or person;

(d) Engage in any transaction for the transfer of funds, the extension of credit, acceptance or transference of risk and/or the conferring of another type of benefit, directly or indirectly, involving any Bank affiliates, as defined in 12 U.S.C. § 371c, or current or former Bank directors, shareholders, senior executive officers, or their respective family members;

(e) Amend the bank's charter or bylaws, except to the extent necessary to carry out any other requirement of law, regulation, or order;

(f) Make any change in accounting methods; or

(g) Increase compensation or other payments, including bonuses, to any employee, agent or independent contractor above the average rate of compensation paid to that employee, agent or independent contractor by the Bank during the 12 months preceding the month in which the bank became undercapitalized.

ARTICLE XV
<u>PROGRESS REPORTS</u>

(1) The Board shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Directive.

(2) Within thirty (30) days of the date of this Directive and every thirty (30) days thereafter, the Board shall meet to review the progress of the Bank and to create a written progress report setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this Directive;

(b) actions taken to comply with each Article of this Order; and

(c) the results and status of those actions.

(3) The Board shall forward a copy of the progress report, together with the minutes of the Board, to the Director within ten (10) days of creating/drafting such report.

(4) The Board shall ensure that the Bank has sufficient processes, personnel, and control systems to effectively implement and adhere to all provisions of this Order, and that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order.

ARTICLE XVI
GENERAL PROVISIONS

(1) Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by this PCA Directive to be made upon, given or furnished to, delivered to, or filed with the OCC shall be in writing and sent by reputable overnight courier or hand delivery via messenger to:

Director Special Supervision Division 250 E Street, S.W. Washington, D.C. 20219	Comptroller of the Currency Minneapolis, Eau Claire, Fargo Field Office 3211 Fiechtner Drive, S.W. Fargo, ND 58103

(2) If the Bank improves from a lower to a higher PCA capital category, it shall continue to comply with this Directive, unless modified, terminated, suspended or set aside by the OCC in writing.

(3) If any provision in this PCA Directive is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and

enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby unless the OCC, in its sole discretion, determines otherwise.

(4) This PCA Directive is in addition to and does not supersede any other requirement placed on the Bank, including the conditions and requirements contained in the Conditional Approval for conversion to a national bank, dated December 7, 2002.

(5) This PCA 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.

(6) 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 PCA Directive shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(7) If the Bank determines that: (i) it is unable to comply with any provision of this PCA Directive; (ii) compliance with any provision of this PCA Directive will cause undue hardship to the Bank; or (iii) the Bank requires an extension of any timeframe within this PCA Directive, the Bank shall submit a written request to the Director asking for relief. Any written request submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that supports the Bank's request. All such requests shall be accompanied by relevant supporting documentation, together with a copy of a Board Resolution authorizing the request. The Director's decision pertaining to the request is final.

(9) The provisions of this PCA Directive are effective upon issuance of this Directive by the Comptroller, through the Director whose hand appears below, and shall remain effective

and enforceable, except to the extent that, and until such time as, any provisions of this PCA Directive shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

IT IS SO ORDERED, this 30th day of September, 2009.

/s/

Ronald G. Schneck
Director for Special Supervision