

AGREEMENT BY AND BETWEEN  
The Citizens National Bank of Park Rapids  
Park Rapids, MN  
and  
The Comptroller of the Currency

The Citizens National Bank of Park Rapids, Park Rapids, MN (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe and unsound banking practices relating to credit administration and credit risk management.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

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

Assistant Deputy Comptroller  
Minneapolis Field Office  
222 South Ninth Street, Suite 800  
Minneapolis, MN 55402-3371

## ARTICLE II

### LOAN RISK RATING SYSTEM

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank’s internal risk ratings of commercial credit relationships in excess of \$150,000 (covered relationship), as assigned by responsible loan officers and by internal loan review, are timely, accurate, and consistent with the regulatory credit classification criteria set forth in the Rating Credit Risk Booklet, A-RCR, of the Comptroller’s Handbook. At a minimum, the Board must ensure, on an ongoing basis, that with respect to the assessment of credit risk of any covered relationship:

- (a) the primary consideration is the strength of the borrower’s primary source of repayment (i.e., the probability of default rather than the risk of loss);
- (b) if the primary source of repayment is cash flow from the borrower’s operations, the strength of the borrower’s cash flow is determined through analysis of the borrower’s historical and projected financial statements,

past performance, and future prospects in light of conditions that have occurred;

- (c) collateral, non-government guarantees, and other similar credit risk mitigants that affect potential loss in the event of default (rather than the probability of default) are taken into consideration only if the primary source of repayment has weakened and the probability of default has increased;
- (d) collateral values reflect a current assessment of value based on actual market conditions and project status;
- (e) credit risk ratings are reviewed and updated whenever relevant new information is received, but no less frequently than annually; and
- (f) the credit risk rating analysis is documented and available for review by the Board and the OCC upon request.

(2) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that any covered relationship with a high probability of payment default or other well-defined weakness is rated no better than Substandard, unless the debt is adequately secured by marketable securities or cash. Consistent with the guidance in the Rating Credit Risk Booklet, A-RCR, of the Comptroller's Handbook, the presence of illiquid collateral or existence of a plan for improvement does not, and a non-government guarantee generally will not, mitigate the probability of default or a well-defined weakness.

(3) Within ninety (90) days, the Board must establish a credit risk rating management information system that provides, at a minimum, the following information to the Board on a monthly basis:

- (a) individual detail regarding the identification, type, amount, and assigned rating of all problem loans in excess of \$150,000 (one hundred fifty thousand dollars); and
  - (b) ratings equivalent to, or readily convertible to, the common regulatory risk rating definitions of pass, special mention, substandard, doubtful and loss set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook.
- (4) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

### ARTICLE III

#### CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized<sup>1</sup> in the Report of Examination dated August 3, 2009 ("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) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to individual written workout plans designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination. Each workout plan shall include, at a minimum:

- (a) an identification of the expected sources of repayment;

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<sup>1</sup> The term "criticized" as used in this Article is meant to refer to assets rated the equivalent of "doubtful," "substandard," or "special mention" as defined in the "Rating Credit Risk" booklet of the Comptroller's Handbook.

- (b) the current value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action(s) to eliminate the basis of criticism and the time frames within which those actions will be taken.

(3) A copy of all workout plans adopted pursuant to this Article shall be maintained in the file of the affected borrower. Upon adoption, a copy of the workout plan for all criticized assets equal to or exceeding two hundred fifty thousand dollars (\$250,000) shall be forwarded to the Assistant Deputy Comptroller.

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

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

(5) A copy of each review conducted pursuant to Paragraph (4) of this Article shall be forwarded to the Assistant Deputy Comptroller on quarterly basis (in a format similar to Appendix A, attached hereto).

(6) Effective immediately, the Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or

other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed one hundred fifty thousand dollars (\$150,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written plans adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(7) A copy of the approval of the Board or of the designated committee obtained pursuant to Paragraph (6) of this Article shall be maintained in the file of the affected borrower.

#### ARTICLE IV

##### CREDIT UNDERWRITING AND ADMINISTRATION

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's credit underwriting and administration process. The program shall include, at a minimum:

- (a) guidelines for evaluating and monitoring a borrower's capacity to meet a realistic repayment program from liquidity and cash flow;

- (b) standards for minimally acceptable financial information on borrowers and guarantors;
- (c) guidelines for the identification of and accounting treatment for nonaccrual loans that are consistent with the accounting requirements contained in the Call Report Instructions; and
- (d) prohibition of the extension of amortization periods to improve a borrower's debt service coverage ratios or to match competition, unless supported by prudent underwriting.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

## ARTICLE V

### CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within sixty (60) days the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) If the Board and management are unable to obtain the credit information or collateral documentation required by paragraphs (1) and (2) of this article with sixty (60) days, the Board and management shall document their efforts to obtain such information or documentation, and maintain documentation of their efforts in the loan file.

(4) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
  - (i) Failure to obtain the information in (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.
  - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank
- (e) for loans or other extensions of credit exceeding \$250,000, completing a global analysis of the borrower's current financial position, cash flow and repayment ability; and



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

## ARTICLE VI

### CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with safe and sound banking practices and the risk diversification guidelines set forth in the Loan Portfolio Management and Concentration of Credits booklets of the Comptroller's Handbook. The program shall include, but not necessarily be limited to, the following:

- (a) a review of the balance sheet, and off balance sheet obligations, to identify any related concentrations of credit;
- (b) a written analysis of any concentrations of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit, including limits on concentrations and policies requiring notification to the Board when concentrations of credit exceed policy limits;
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis; and
- (e) tracking reports to monitor the aggregate number of exceptions to bank underwriting policies for loans that contribute to concentrations of residential real estate related credit.

(2) For purposes of this Article, a concentration of credit is as defined in the "Concentration of Credits" booklet of the Comptroller's Handbook.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (b) of this Article and if that analysis demonstrates that the concentration subjects the Bank to undue risk, the Board shall take appropriate steps to mitigate such risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Assistant Deputy Comptroller within thirty (30) days following the review.

## ARTICLE VII

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are

amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) ensure that the Bank has appropriate processes, personnel, and control systems in place, and authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (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 of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. 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(b)(1), 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. The Bank also expressly

acknowledges that no officer or employee of the Office of the Comptroller of the Currency 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. The terms of this Agreement, 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, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/  
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Thomas J. Tott  
Assistant Deputy Comptroller  
Minneapolis Field Office

November 24, 2009  
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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.

<u>        /s/        </u> Marlyn Avenson	<u>        December 24, 2009        </u> Date
<u>        /s/        </u> Bob Gack	<u>        November 24, 2009        </u> Date
<u>        /s/        </u> Kathy Henry	<u>        November 24, 2009        </u> Date
<u>        /s/        </u> Steve Johnson	<u>        November 24, 2009        </u> Date
<u>        /s/        </u> Ron Steele	<u>        November 24, 2009        </u> Date
<u>        /s/        </u> James Wallace	<u>        November 24, 2009        </u> Date