**#2009-233**

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

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| **In the Matter of:** | ) | |
| | ) | AA-WE-09-88 |
| **Farmers National Bank of Buhl** | ) | |
| **Buhl, Idaho** | ) | |

# CONSENT ORDER

The Comptroller of the Currency of the United States of America ("Comptroller"), through his National Bank Examiner, has supervisory authority over Farmers National Bank of Buhl, Buhl, Idaho ("Bank").

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation and Consent to the Issuance of a Consent Order," dated December 8, 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 Consent Order ("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

## COMPLIANCE COMMITTEE

(1) Within thirty (30) days of this Order, the Board shall appoint a Compliance Committee of at least three (3) directors of which at least two (2) must not be an employee of the Bank or any of its affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the address listed below in Paragraph (5).

(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) By no later than January 31, 2010, and by the end of every calendar month thereafter, 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 forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

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

Assistant Deputy Comptroller
Salt Lake City Field Office
2795 East Cottonwood Parkway, Suite 390
Salt Lake City, Utah 84121

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

## ARTICLE II

## MANAGEMENT AND BOARD SUPERVISION

(1) Within forty-five (45) days of this Order, the Board shall take the necessary steps to appoint a Chief Financial Officer and a Senior Loan Officer, with the knowledge, skills, and abilities, including but not limited to, the technical expertise and the leadership skills necessary

to return the Bank to a safe and sound condition and manage its affairs thereafter in a safe and sound manner.

(2) Prior to the appointment or employment of the Chief Financial Officer and Senior Loan Officer or entering into any contract with any person for these positions, the Board shall submit the name and qualifications of this individual and the proposed terms of their employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed new executive officer. However, the lack of disapproval of such individuals shall not constitute an approval or endorsement of them.

(3) Within ninety (90) days of this Order, the Board shall ensure that it maintains qualified, competent management and staff to ensure the Bank operate in a safe and sound manner. In the event that the Senior Lending Officer position of the Bank becomes vacant, the Board shall take the necessary steps to fill the vacancy within sixty (60) days of receiving notice of such vacancy.

## ARTICLE III

## CAPITAL AND STRATEGIC PLAN

(1) By no later than December 31, 2009, the Bank shall achieve and thereafter maintain at all times, the following minimum capital ratios:

(a) tier 1 capital at least equal to nine (9%) of adjusted total assets; and

(b) total risk-based capital at least equal to twelve (12%) 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 the Bank's Three-Year Plan described in Paragraph (5) of this Article;

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

(c) when the Bank receives a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(5) Effective as of the date of this Order, the Bank shall not increase its commercial real estate loans, including but not limited to, construction and development loans, held as of December 31, 2009 as reported in the Bank's Consolidated Report of Condition ("Call Report"), until the Bank corrects the deficiencies in Asset Quality described in the Report of Examination conducted as of December 31, 2008 and updated through June 30, 2009 (the "ROE"), returns the Bank to a satisfactory condition, and the Bank receives a prior written determination of no supervisory objection from the Assistant Deputy Comptroller. For purposes of this paragraph, the compliance determination shall be made daily.

(6) Within sixty (60) days of this Order, the Board shall develop, implement, and thereafter ensure Bank adherence to a written capital and strategic plan for the Bank covering at least the next three years (hereafter the "Bank's Three-Year Plan"), complete with specific time frames that incorporate the capital, strategic and other requirements of this Article. Copies of the Bank's Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(7) The Bank's Three-Year Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, product line development and market segments that the Bank intends to promote or develop. The Bank's Three-Year Plan shall also include a written profit plan and a detailed budget that describes the Bank's contemplated strategies and major capital expenditures required to achieve those objectives, that are specific, measurable, verifiable and, at a minimum, address or include:

(a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of Paragraph (1) of this Article;

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

(c) projections of the sources(s) and timing of additional capital to meet the Bank's current and future needs;

(d) primary source(s) from which the Bank will strengthen its capital structure to meet capital needs;

(e) contingency sources of capital that identify alternative methods should primary source(s) not be available;

(f) specific plans to improve corporate governance practices to ensure:

(i) sound operating policies and procedures;

(ii) sound internal controls to monitor policy adherence that include the development of a comprehensive, formal annual budget; and

(iii) accountability for these processes; and

(g) establish a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the last period covered by the strategic plan.

(8) Upon completion, the Bank's capital and strategic plan shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital and strategic plan. The Board shall review and update the Bank's capital and strategic plan on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(9) If the Bank fails to submit an acceptable Three-Year Plan as required by Paragraphs (6) and (7) of this Article, fails to implement or adhere to a Three-Year Plan to which the Assistant Deputy Comptroller has taken no supervisory objection pursuant to Paragraph (8) of this Article, or fails to achieve and maintain the minimum capital ratios as required by Paragraph (1) of this Article, then, in the sole discretion of the Assistant Deputy Comptroller and within thirty (30) days of receiving written notice from the OCC of such fact, the Bank shall develop and submit to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection, a Disposition Plan to either: (i) sell or merge the Bank, or (ii) liquidate the Bank in conformance with 12 U.S.C. § 181.

## ARTICLE IV

## PROBLEM LOAN 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) Within ninety (90) days of this Order, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a written program designed to reduce the Bank's criticized assets (the "Problem Assets Program"). The Problem Assets Program shall include or address the following matters:

(a) aggregate reporting of criticized asset levels by type to the Board or a designated committee thereof every month;

(b) specific plans for the reduction of criticized assets by asset type with target reductions by month; and

(c) procedures for the monthly review and preparation of written determinations by the Board or a designated committee thereof regarding the effectiveness of the responsible officer's efforts to eliminate the weaknesses in each criticized credit relationship or Other Real Estate ("ORE") totaling one hundred thousand dollars ($100,000) or above.

(3) The Board's compliance with Paragraph (2) of this Article shall include the development of procedures for the monthly submission and review of problem asset reports for all criticized credit relationships and ORE totaling one hundred thousand dollars ($100,000) or above, that require, at a minimum, analysis and documentation of the following:

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

(b) the current 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;

(e) trigger dates for borrower actions or for loan officers to reassess the strategy and enact collection plans;

(f) specific action plans and trigger dates for risk rating changes and documentation of the analysis and reasoning to support the current risk rating;

(g) for criticized relationships of one hundred thousand dollars ($100,000) or above that were made for the purpose of constructing or developing commercial real estate, the reports shall also include:

   (i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;

   (ii) project development status;

   (iii) a comparison of development costs to the budgeted amount;

   (iv) a comparison of sales activity to the original sales projections;

   (v) current market conditions and activity;

   (vi) amount and source of initial interest reserve and the amount and source of any subsequent additions to the reserve;

   (vii) an assessment of the borrower’s global cash flow;

   (viii) an assessment of the guarantor’s ability to support the project;

   (ix) any other significant information relating to the project; and

(h) a determination of whether the loan is impaired and the amount of the impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan.

(4) 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 required by this Article.

(5) A copy of each problem asset report relating to criticized credit relationships and ORE totaling one hundred thousand dollars ($100,000) or above prepared during the last month of each quarter end (e.g., March, June, September, December) along with any Board comments regarding the effectiveness of the effort to eliminate the weaknesses in each credit or to dispose of the ORE, shall be submitted to the Assistant Deputy Comptroller within thirty (30) days of each calendar quarter end, with the first set of reports due by no later than January 15, 2010.

(6) 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 equal or exceed one hundred thousand dollars ($100,000), 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 V

COMMERCIAL REAL ESTATE 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, a written program (including appropriate revisions to policies and procedures) designed to manage the risk in the Bank's commercial real estate ("CRE") loan portfolio in accordance with the guidelines in OCC Bulletin 2006-46, Concentration in Commercial Real Estate Lending and the Commercial Real Estate and Construction Lending, A-CRE, of the *Comptroller's Handbook*. The written CRE program should, at a minimum, include:

(a) the establishment of an overall CRE reduction strategy that includes CRE concentration limits stratified by type, locality and other meaningful measures supported by written analysis;

(b) monthly monitoring of concentration reports that stratify the CRE portfolio by product type, locality and other meaningful measures;

(c) strategies and procedures to manage and reduce CRE concentrations to conform with established limits set in Subparagraph (a) of this Article;

(d) portfolio-level multi-factor stress testing and/or sensitivity analysis on homogeneous pools of loans (e.g., HELOC, undeveloped land, office space) to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

(e) significant individual loan stress testing and/or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

(f) the review and revision of Loan Policy CRE underwriting standards by CRE type that includes specific requirements relating to:

  (i) maximum loan amount and maturity by type of property;

  (ii) approval authorizations;

  (iii) minimum file documentation and analysis;

  (iv) minimum requirements for initial investment and maintenance of hard equity;

  (v) minimum standards for borrower net worth, property cash flow/debt service, collateral coverage, and guarantor support;

  (vi) the performance of global cash flow analysis to evaluate the repayment ability of borrowers with multiple projects;

  (vii) standards for ensuring a complete and accurate assessment of guarantor support;

  (viii) standards for ensuring that CRE loans have appropriate minimum loan covenants;

  (ix) minimum standards for the acceptability for using, and defined limits for soft cost and/or interest reserve financing;

  (x) maximum amortization periods and minimum principal curtailment for CRE and construction projects that are not meeting original projections; and

(xi) procedures for loan closing and disbursement processes, including the supervised disbursement of construction loan proceeds;

(g) procedures to ensure the maintenance of proper collateral margins in loans made for the purpose of constructing or developing real estate, including but not limited to, procedures for ensuring that:

(i) periodic, meaningful, well-documented, inspections are performed on all construction projects;

(ii) draw requests are advanced in accordance with construction progress and budget;

(iii) documentation is maintained of project completion versus amount advanced;

(iv) lien waivers are obtained from contractors and sub-contractors; and

(v) borrower's hard equity is tracked by project;

(h) procedures to ensure that updated appraisals or evaluations, as appropriate, are timely obtained; and

(i) standards for when CRE loan policy exceptions are appropriate, what factors should exist to mitigate exceptions, and how the level and trend of exceptions should be documented, tracked and reported to the Board and considered in loan officer performance reviews.

(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 VI

## CREDIT RISK RATINGS AND NONACCRUAL RECOGNITION

(1) Within sixty (60) days of this Order, the Board shall develop, and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a program to ensure that: 1) the risk associated with the Bank's loans and other assets is properly reflected and accounted for on the Bank's books and records and that 2) the Bank does not improperly recognize income, to include, at a minimum, provisions requiring that:

(a) the Board adopts a loan grading system that is consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook* and is based upon definitive objective and subjective criterion;

(b) the Bank's loans and other assets are graded based upon current facts and existing/ reasonable (considering the loan purpose) repayment terms with a focus upon whether the primary repayment source is threatened by a well-defined weakness and whether the credit relies heavily upon secondary repayment sources, especially illiquid collateral or an unsubstantiated guarantor;

(c) 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;

(d) lending officers conduct periodic, formal reviews for determining the appropriate risk rate and accrual determination;

(e) appropriate analysis and documentation are maintained in the credit files to support the current and previous risk rate or accrual determination for all credit relationships totaling two-hundred fifty thousand dollars ($250,000) or more;

(f) the President, Senior Loan Officer, and all lending officers receive immediate training with respect to the application of Subparagraphs (a) through (e) of this Article;

(g) the lending officers and senior management are assigned responsibility and held accountable (to include, at a minimum, consideration in periodic performance reviews and compensation) for ensuring that the Bank's loans and other assets are appropriately and timely risk rated, charged off and/or placed on nonaccrual;

(h) independent validation of the risk rating process;

(i) management information systems that periodically provide feedback about the effectiveness of the program by senior management and the individual lending officers.

(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 required by this Article.

ARTICLE VII

LOAN PARTICIPATIONS PURCHASED

(1) Effective as of the date of this Order, the Board shall take the necessary steps to ensure the Bank shall not purchase any loan participation unless the Bank acquires the necessary knowledge, skills and ability to underwrite the loan on its own in accordance with safe and sound banking practices and the guidelines set forth in Banking Circular 181(Revised), dated August 2, 1984.

(2) By no later than February 29, 2010, the Board shall prepare and submit to the Assistant Deputy Controller for a prior written determination of no supervisory objection, a program designed to ensure the Bank underwrites and manages the risk associated with participations purchased in accordance with safe and sound banking practices, the guidelines set forth in Banking Circular 181(Revised), dated August 2, 1984, and the requirements of 12 C.F.R. Part 34. The Bank's purchased participations program shall include:

- (a) limits on the aggregate amount of participations that may be purchased and held by the Bank, and sub limits by originating institution, by credit type, and by geographic location of the borrowing entity;
- (b) standards, procedures, and limits for the purchase of loans and participations consistent with the Bank's business strategy;
- (c) underwriting requirements, including but not limited to, the following:
  - (i) requirements for the performance of independent analysis of purchased participations to include, at a minimum, obtaining and analyzing key documents including financial statements, appraisals/evaluations, and lien status determinations;
  - (ii) periodic maintenance of current, complete financial information and analysis on the borrower as well as analysis of the repayment capacity of guarantors during the term of the loan; and
  - (iii) the identification, waiver (if appropriate), and mitigation (if appropriate) of any exceptions to the Bank's Loan Policy; and
- (d) the establishment of officer and managerial responsibility and accountability for compliance with the revised policy.

(3) 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 required by this Article.

## ARTICLE VIII

## EXTERNAL LOAN REVIEW

(1) Within thirty (30) days of this Order, the Board shall employ an outside qualified loan review consultant to perform periodic reviews of the loan portfolio. The scope and coverage of the external loan review shall provide for a written report to be filed with the Board after each review, 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*, and shall include appropriate coverage of the Bank's loan portfolio using a risk-based approach. The loan review 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) the effectiveness of overall credit administration practices; and

(i) completeness and effectiveness of problem loan workout plans.

(2) The independent loan reviews performed pursuant to this Article shall be conducted at least annually, and both the scope of the review and the firm or consultant

conducting the reviews shall be submitted to the Assistant Deputy Comptroller for a prior, written determination of no supervisory objection.

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

ARTICLE IX

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 ("GAAP"). 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 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;

(d) revision of the Bank's problem loan identification and risk rating systems;

(e) evaluation of directional consistency, the Allowance balance should increase when credit risk and loss exposure increase;

(f) 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;

(iv) present and prospective economic conditions; and

(v) 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 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.

(3) A copy of the Allowance program shall be forward to the Assistant Deputy Comptroller within fifteen (15) days of approval by the Board of Directors.

(4) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Clear explanations and documentation for the Allowance analysis should be maintained. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the

factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

## ARTICLE X

## LIQUIDITY MANAGEMENT

(1) Within sixty (60) days of this Order, the Board shall expand the Bank's Liquidity Management Reports to ensure the Bank operates with adequate backup sources of liquidity in relation to the Bank's needs. The formalized written Liquidity Management Report should address planned funding needs and include, at a minimum:

(a) revision of the sources and uses report that clearly outlines the Bank's monthly forecasted funding needs and corresponding funding sources; and

(b) Board committee review of the Liquidity Management Report on a monthly basis.

(2) Within sixty (60) days of this Order, the Bank shall revise the Bank's contingency funding plan to address the potential impact and management response from various liquidity crisis scenarios. The contingency funding plan, at a minimum, shall include but not be limited to:

(a) liquidity crisis scenarios, such as deterioration in asset quality, deterioration in overall composite rating and reductions in deposits;

(b) action triggers for implementation of the plan, such as liquidity ratios or limits;

(c) assignment of responsibilities in a crisis scenario, including names, addresses, and contact information of crisis team members;

(d) assignment of responsibility for coordination with external contacts, such as regulators, auditors, significant customers, the media and others as needed;

(e) determination of an appropriate communication strategy to the Bank's wholesale funds providers in order to maintain maximum credibility and cooperation by apprising them of the Bank's condition, discussing management's strategy for resolving issues, and to determine as early as possible the likelihood of any changes to continued line availability or increased collateral requirements;

(f) establishment of guidelines for paying premiums on deposits to ensure regulatory compliance if the Bank drops to "Adequately Capitalized" under bank regulations; and

(g) development and implementation of a testing schedule to validate the Bank's contingency funding plan.

(3) The Board shall immediately implement, and shall thereafter ensure adherence to its terms of this article. Monthly reports shall set forth liquidity requirements and sources. Copies of these reports shall be forwarded to the Assistant Deputy Comptroller.

ARTICLE XI

INTEREST RATE RISK

(1) Within sixty (60) days of this Order, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the "Interest Rate Risk" booklet of the *Comptroller's Handbook*. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

(a) establishment of adequate and effective interest rate risk management reports on which to base sound interest rate risk management decisions;

(b) establishment and implementation of an interest rate simulation model that captures option risk on the balance sheet;

(c) procedures to test the simulation model to ensure accuracy and effectiveness;

(d) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;

(e) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;

(f) prudent limits on the nature and amount of interest rate risk that can be taken; and

(g) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

ARTICLE XII

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule or regulation cited by the Comptroller. The monthly progress reports required by Article II of this Order shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within sixty (60) days of this Order, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited by the Comptroller and shall adopt, implement, and ensure Bank adherence to general procedures

addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

## ARTICLE XIII

## 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 XIV, Paragraph (3) of this Order, and is final and not subject to further review.

ARTICLE XIV

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 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 noncompliance with such actions in a timely and appropriate manner; and

(d) require corrective action be taken in a timely manner for any noncompliance 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 8th day of December 2009.

/s/ December 8, 2009

H. Gene Robinson
Assistant Deputy Comptroller
Salt Lake City Field Office

Date

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

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| | ) | AA-WE-09-88 |
| Farmers National Bank of Buhl | ) | |
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## STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER

The Comptroller of the Currency of the United States of America ("Comptroller") intends to initiate cease and desist proceedings against the Farmers National Bank of Buhl, Buhl, Idaho ("Bank"), pursuant to 12 U.S.C. § 1818(b), for unsafe and unsound banking practices relating to its Board and management oversight, credit underwriting and credit administration.

The Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated December 8, 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).

## 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/ | Dec. 8, 2009 |
| H. Gene Robinson<br>Assistant Deputy Comptroller<br>Salt Lake City Field Office | 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.

| | |
|---|---|
| | |
| Ronald L. Brown | Date |
| /s/ | 12/8/09 |
| John Gibson | Date |
| /s/ | 12/8/09 |
| Mike Hamilton | Date |
| /s/ | 12/8/09 |
| Vince Hamilton | Date |
| /s/ | 12/8/09 |
| Pat Hamilton, Jr. | Date |
| | |
| Henri LeMoyne | Date |
| /s/ | 12/8/09 |
| Steven Peterson | Date |
| /s/ | 12/8/09 |
| Ivan Skinner | Date |