

AGREEMENT BY AND BETWEEN
Neighborhood National Bank
Alexandria, Minnesota
and
The Comptroller of the Currency

Neighborhood National Bank, Alexandria, Minnesota (“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 at the Bank.

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:

Thomas J. Tott
Assistant Deputy Comptroller
Minneapolis Field Office
222 South Ninth Street, Suite 800
Minneapolis, Minnesota 55402

ARTICLE II

CREDIT RISK IDENTIFICATION

(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 One Hundred Fifty Thousand Dollars (\$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.

ARTICLE III

LOAN STRUCTURE AND REPAYMENT PROGRAM

- (1) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:
 - (a) identifying the expected source of repayment in writing;
 - (b) structuring the repayment terms to coincide with the expected source of repayment, including curtailment requirements and structured principal reduction requirements where it would be prudent to do so;

- (c) 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 (1)(c) 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 (1)(c) 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; and
- (d) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable

ARTICLE IV

VALUATIONS OF REAL PROPERTY

(1) The Board needs to ensure that a process is in place and adhered to for updating values on properties securing commercial real estate loans where a material change in market conditions has occurred. The updated valuation/appraisal needs to be prepared by an independent party and provide proper documentation to support the revised value.

(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

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) authorize such actions by Bank management and adopt such policies on behalf of the Bank as may be deemed 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 authorized 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, to the extent that such non-compliance is capable of correction.

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

 January 20, 2010
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/

Clark J. Baldwin

January 20, 2010

Date

/s/

Gordie R. Billmark

January 20, 2010

Date

/s/

Robert G. Friederichs

January 20, 2010

Date

/s/

Jon P. Gorham

January 20, 2010

Date

/s/

Patrick F. Gorham

January 20, 2010

Date

Dennis Rapp

Date

/s/

Del Mari Runck

January 20, 2010

Date

/s/

Ronald Sletto

January 20, 2010

Date
