

#2010-028

AGREEMENT BY AND BETWEEN
Northwestern Bank, National Association
Dilworth, MN
and
The Comptroller of the Currency

Northwestern Bank, National Association, Dilworth, 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 related to credit risk administration and investment practices.

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) This Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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

ARTICLE II

LOAN RISK RATING

(1) Within sixty (60) days, and on an ongoing basis thereafter, the Board must ensure that the Bank’s internal risk ratings of commercial and agriculture credit relationships in excess of one hundred thousand (\$100,000) (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 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-governmental 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 should 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 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 ninety (90) 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 secured by marketable securities or cash. Consistent with the guidance in the "Rating Credit Risk" booklet 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.

ARTICLE III

ANNUAL CREDIT REVIEWS

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to an annual credit review program for borrowers with aggregate commercial or agricultural loan balances over one hundred thousand dollars (\$100,000). The annual credit review shall be conducted by the responsible lending officer and shall document, at a minimum:

- (a) the specific reason or purpose of the loan;
- (b) the expected source of repayment;
- (c) past repayment performance;
- (d) terms and covenants related to each loan;
- (e) a global analysis of the borrower's current financial position, cash flow, and repayment ability;
- (f) an analysis of collateral coverage and documentation of the bank's lien position;
- (g) a description of events that could have a material adverse effect on the borrower's financial condition or repayment capacity; and
- (h) the assigned credit risk rating, including accrual designation and the amount of any impairment reserve, if necessary.

(2) Upon adoption, a written description of the program called for in this Article shall be forwarded to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

ARTICLE IV

LOAN UNDERWRITING AND CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the Report of

Examination dated as of September 30, 2009 (“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 ninety (90) 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) 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(s) 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; and

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

(4) Within ninety (90) days, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit in excess of one hundred thousand dollars (\$100,000) to any borrower only if such grant, extension, renewal, alteration, or restructure:

(a) Complies with the Bank's lending policy;

(b) Is not used to repay or refinance, in whole or in part, tax liens, or other debts outside the Bank that are delinquent, in default, in process of foreclosure, or otherwise troubled; and

(c) Has none of the following structural weaknesses, as described in Appendix F to the "Rating Credit Risk" booklet of the *Comptroller's Handbook*:

(i) repayment highly dependent on projected asset values;

(ii) repayment highly dependent on projected cash flows;

(iii) repayment highly dependent on projected equity values;

(iv) repayment dependent on projected refinancing or recapitalization;

(v) advances to fund interest payments(e.g., capitalization of interest and use of interest reserves), except when such advances are made to fund interest during the development or construction phase of a real estate development or construction loan in a manner consistent

with the guidance in the “Commercial Real Estate and Construction Lending” booklet of the *Comptroller’s Handbook*;

- (vi) repayment terms that are not supported by the borrowers and guarantor’s documented capacity to repay; and
- (vii) inadequate guarantor support.

(5) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit to any borrower only if the terms of such loan or extension of credit are consistent with the terms that were approved by the committee or officer authorized to approve such loan or extension of credit.

ARTICLE V

CRITICIZED ASSETS

(1) The Bank 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 sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to individual 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 as "doubtful," "substandard," or "special mention." Each workout plan shall include, at a minimum:

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

- (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 a global cash flow analysis of the borrower's repayment ability; and
- (d) actions designed to eliminate the basis of criticism of and protect the bank's interest in the asset, including timeframes for implementing and evaluating the effectiveness of those actions.

(3) Upon adoption, a copy of the workout plans for all criticized assets equal to or exceeding one hundred thousand dollars (\$100,000) 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 thousand dollars (\$100,000);
- (b) management's adherence to the workout plans adopted pursuant to this Article;
- (c) the status and effectiveness of the plans; and
- (d) the need to revise the plans or take alternative action.

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

(6) The Bank may extend credit, directly or indirectly, including renewals or extensions, 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 thousand dollars (\$100,000) 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 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 shall be maintained in the file of the affected borrower.

ARTICLE VI

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with generally accepted accounting principles. The ALLL 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” (OCC Bulletin 2006-47), dated December 13, 2006, and at a minimum shall include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with U.S. generally accepted accounting principles (“GAAP”);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans that are consistent with GAAP, and address the nine qualitative factors set forth in the Interagency Statement;
- (c) procedures for validating the ALLL methodology;
- (d) a process for summarizing and documenting, for the Board’s review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (“Call Reports”) for the ALLL. Any deficiency between the ALLL balance as determined by the analysis required by this Article and the Bank’s actual ALLL balance, regardless of the amount of such deficiency, shall be remedied through additional provision expense in the quarter it is discovered, prior to the filing of the Call Reports. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(2) The revised policies and procedures shall address specific actions needed to improve the methodology outlined in the ROE and in any subsequent Report of Examination.

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) 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 her hand on behalf of the Comptroller.

/s/

Sheila A. Van Ornum
Assistant Deputy Comptroller
Minneapolis Field Office

1/27/2010

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/

Fern Andersen

1/27/2010

Date

James Andersen

Date

/s/

Elizabeth Andersen-Kirch

1/27/2010

Date

/s/

Gary Haskins

1/27/2010

Date

/s/

John Satrom

1/27/2010

Date

Date
