

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

In the Matter of:)
Neighborhood National Bank)
Alexandria, Minnesota)

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller”), through his National Bank Examiner, has supervisory authority over Neighborhood National Bank, Alexandria, Minnesota (“Bank”);

WHEREAS, 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 (“Stipulation and Consent”), dated February 16, 2011, that is accepted by the Comptroller; and

WHEREAS, 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.

NOW THEREFORE, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

PROGRESS REPORT

(1) By March 31, 2011 and every ninety (90) days thereafter, the Board shall submit to the Assistant Deputy Comptroller a written progress report setting forth in detail:

- (a) a description of the actions 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.

(2) 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:

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

(3) 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 II

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by June 30, 2011, and thereafter maintain the following minimum capital ratios (as defined in 12 C.F.R. Part 3)¹:

(a) Total capital at least equal to twelve percent (12%) of risk-weighted assets;

(b) Tier 1 capital at least equal to nine percent (9%) of adjusted total assets.²

(2) By no later than March 31, 2011, the Board shall forward to the Assistant Deputy Comptroller for his review, pursuant to paragraph (4) of this Article, a written Capital Plan for

¹ The requirement in this Order 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 required to be computed for and stated in the Bank's most recent quarterly *Consolidated Report of Condition and Income* ("Call Report") minus end-of-quarter intangible assets and other deductions pursuant to section 2(c)(5) of Appendix A of 12 C.F.R. Part 3.

the Bank covering at least a three-year period. Within five (5) days following receipt of the Assistant Deputy Comptroller'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 adhere to the Capital Plan. The Capital Plan shall include, at a minimum:

- (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, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) identification of the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs; and
- (e) contingency plans that identify alternative methods to strengthen capital should the primary source(s) under paragraph (2)(d) of this Article not be available.

(3) The Bank may pay a dividend or make a capital distribution only when the following conditions have been met:

- (a) the Bank would remain in compliance with its approved Capital Plan immediately following payment of the dividend or capital distribution;
- (b) the dividend or capital distribution would comply with 12 U.S.C. §§ 56, 60, and 1831o(d)(1); and

(c) the Bank has received prior written determination of no supervisory objection by the Assistant Deputy Comptroller.

(4) Prior to adoption, the Board shall submit a copy of the Bank's Capital Plan to the Assistant Deputy Comptroller for prior determination of no supervisory objection. The Board shall review and update the Bank's Capital Plan on at least an annual basis, or more frequently if necessary or if requested by the Assistant Deputy Comptroller. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

ARTICLE III

LOAN RISK RATING SYSTEM

(1) Within thirty (30) 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. 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;
- (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 IV

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized³ in the Report of Examination dated “as of” September 30, 2010 (“ROE”),

³ 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.

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 work out plans designed to eliminate the basis of criticism of assets criticized in the ROE (including, but not limited to, loans, leases, Other Real Estate Owned, and investment securities), 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 work out 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 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 frame for accomplishing the proposed action(s).

(3) Upon adoption, a copy of the work out plans for all criticized assets equal to or exceeding One Hundred Fifty Thousand Dollars (\$150,000) shall be forwarded to the Assistant Deputy Comptroller (in a format similar to Appendix A, attached hereto).

(4) The Board, or a designated committee of the Board, 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 program adopted pursuant to this Article;

- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(5) A copy of each review shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis.

(6) 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 program 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.

(8) The requirements in paragraph (6) of this Article shall not apply to the following extensions of credit:

- (a) An overdraft, if the aggregate amount of the overdraft outstanding to that borrower is less than ten thousand dollars (\$10,000); and
- (b) Additional funds advanced for the benefit of a borrower for the payment of taxes, insurance, or utilities where such advance is necessary to preserve the value of real property securing the loan, consistent with safe and sound banking practices, but only if the advance is for the protection of the bank's interest in the collateral.

ARTICLE V

CONTINGENCY FUNDING PLAN

(1) Within sixty (60) days the Board shall adopt, implement, and thereafter ensure adherence to a comprehensive Bank-specific Contingency Funding Plan consistent with the guidelines set forth in the "Liquidity" booklet, L-L, of the Comptroller's Handbook and the *Interagency Policy Statement on Funding and Liquidity Risk Management*. The plan shall, among other things, include:

- (a) a statement of the Board's strategy for maintaining adequate sources of stable funding given the Bank's anticipated liquidity and funding needs;
- (b) a definition of a liquidity crisis for the Bank;
- (c) an identification of early warning liquidity triggers;
- (d) an explicit quantification of the sources and uses of liquidity in stressed scenarios that correspond to the early warning liquidity triggers;
- (e) detailed action plans to identify and obtain sources of liquidity to meet projected shortfalls;

- (f) an identification of responsible bank personnel to declare, manage, and resolve a liquidity crisis;
- (g) an internal and external communication process, including a process for reporting to the Board, for disseminating relevant information; and
- (h) a process of regular testing to ensure that the plan is operationally robust.

(2) Upon adoption, the Board shall forward the Contingency Funding Plan adopted pursuant to this Article to the Assistant Deputy Comptroller for determination of no supervisory objection.

ARTICLE VI

CLOSING

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, 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 it by the several laws of the United States of America 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) Except as otherwise explicitly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order. Such time limitations may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his authorized representative whose hand appears below, and 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.

(5) In each instance in this Order in which the Board or a Board Committee is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board or Board Committee 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 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 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 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 on the Comptroller or the United States.

(7) 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.

IT IS SO ORDERED, this 16th day of February, 2011.

/s/

Thomas J. Tott
Assistant Deputy Comptroller
Minneapolis Field Office

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

In the Matter of:)
Neighborhood National Bank)
Alexandria, Minnesota)

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against Neighborhood National Bank, Alexandria, Minnesota (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges, for unsafe and unsound banking practices relating to, among other issues, capital adequacy, credit risk management, and liquidity planning.

WHEREAS, the Bank, in the interest of compliance and cooperation, and without admitting or denying any wrongdoing, consents to the issuance of a Consent Order, dated February 16, 2011 (“Order”), by executing this Stipulation and Consent to the Issuance of a Consent Order (“Stipulation and Consent”);

NOW THEREFORE, 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

ACKNOWLEDGMENTS

(1) The Bank acknowledges 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 acknowledges 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.

(2) 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

CLOSING PROVISIONS

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

February 16, 2011
Date

