

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: CN 10-38
)	
RIVERWOOD BANK)	Effective Date: December 6, 2010
)	
Bemidji, Minnesota)	
OTS Docket No. 00566)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, RiverWood Bank, Bemidji, Minnesota, OTS Docket No. 00566 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Central Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in, counseling,

or aiding and abetting the unsafe or unsound practices and/or violations of law or regulation that resulted in the Association operating with: (a) an inadequate level of capital protection for the volume, type and quality of assets held by the Association; and (b) inadequate earnings to augment capital as described in the comprehensive OTS Report of Examination of the Association dated June 7, 2010 (2010 ROE).

Capital and Business Plan.

2. By January 31, 2011, the Association shall submit a written plan (Capital and Business Plan) for the period beginning with the fiscal year ending September 30, 2010 through the fiscal year ending September 30, 2012 addressing the requirements of this Order and including capital enhancement strategies acceptable to the Regional Director. At a minimum, the Capital and Business Plan shall:

- (a) establish a minimum Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio commensurate with the Association's risk profile;
- (b) detail the Association's capital preservation and enhancement strategies with specific time frames to achieve and maintain the Board-established minimum tangible equity capital ratios;
- (c) contain operating strategies to achieve realistic core earnings;
- (d) include quarterly financial projections (balance sheet and income statement), including Tier 1 (Core) and Total Risk-Based Capital Ratios, for the period covered by the Capital and Business Plan; and
- (e) identify all relevant assumptions made in formulating the Capital and Business Plan and include a requirement that documentation supporting such assumptions be retained by the Association.

3. Upon receipt of written notice of non-objection from the Regional Director to the Capital and Business Plan, the Association shall implement and adhere to the Capital and Business Plan. A copy of the Capital and Business Plan shall be provided to the Regional Director within seven (7) days after Board approval.

4. Any material modifications¹ to the Capital and Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

5. By September 30, 2011, and each September 30th thereafter, the Capital and Business Plan shall be updated and submitted to the Regional Director pursuant to Paragraph 2 above and shall incorporate the Association's budget plan and profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

Capital and Business Plan Variance Reports.

6. Within forty-five (45) days after the end of each quarter, after implementation of the Capital and Business Plan, the Board shall review written quarterly variance reports on the Association's compliance with its Capital and Business Plan (Variance Reports). The Board's review of Variance Reports and compliance with the Capital and Business Plan shall include a review of the internal and external risks affecting the Association's ability to successfully implement the Capital and Business Plan. The minutes of the Board meeting shall fully document the Board's review and discussion. The Variance Reports shall:

(a) identify variances in the Association's actual performance during the preceding

¹ A modification shall be considered material under this Section of the Order if the Association plans to: (a) engage in any activity that is inconsistent with the Capital and Business Plan; or (b) exceed the level of any activity contemplated in the Capital and Business Plan by more than ten percent (10%).

quarter as compared to the projections set forth in the Capital and Business Plan;

(b) contain an analysis and explanation of identified variances; and

(c) discuss the specific measures taken or to be taken by the Association to address identified variances.

7. A copy of each Variance Report shall be provided to the Regional Director within seven (7) days after the Board meeting at which it was reviewed and discussed.

Allowance for Loan and Lease Losses.

8. By December 31, 2010, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an ALLL level (ALLL Policy), in accordance with generally accepted accounting principles (GAAP), to ensure that the Association addresses all corrective actions set forth in the 2010 ROE relating to ALLL. The ALLL Policy shall comply with applicable laws, regulations, and regulatory guidance.

Asset Quality.

9. By December 31, 2010, the Association shall submit a detailed, written plan with specific strategies, targets and timeframes to reduce² the Association's level of adversely classified assets (Classified Asset Reduction Plan) to the Regional Director. The Classified Asset Reduction Plan shall include, at a minimum:

(a) quarterly targets for the level of classified assets as a percentage of Tier 1 (Core) capital plus ALLL;

(b) a description of the methods for reducing the Association's level of classified assets to the established targets; and

(c) all relevant assumptions and projections.

² For purposes of this, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

10. Upon receipt of written notification from the Regional Director that the Classified Asset Reduction Plan is acceptable, the Association shall implement and adhere to the Classified Asset Reduction Plan. The Board's review of the Classified Asset Reduction Plan shall be documented in the Board meeting minutes. A copy of the Classified Asset Reduction Plan shall be provided to the Regional Director within seven (7) days of adoption by the Board.

11. By January 31, 2011, the Association shall develop individual written specific workout plans for each adversely classified asset or group of such classified assets to any one borrower or loan relationship of one million dollars (\$1,000,000) or greater, including unfunded loan commitments (collectively, Asset Workout Plans).

12. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Asset Workout Plans;
- (b) the ratio of all classified assets to Tier 1 (Core) capital plus ALLL;
- (c) a comparison of all classified assets at the current quarter end with the preceding quarter;
- (d) a discussion of the actions taken during the preceding quarter to reduce the Association's level of classified assets; and
- (e) any recommended revisions or updates to the Asset Workout Plans.

13. Within sixty (60) days after the end of each quarter, beginning with the quarter ending March 31, 2011, a copy of the Quarterly Asset Report shall be provided to the Regional Director.

Restriction on Lending to Classified Borrowers.

14. Effective immediately, the Association shall not extend, directly or indirectly, without prior written non-objection from the Regional Director, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Association that has been charged off or classified, in whole or in part, as a “Loss” and has not been collected. The Association’s expenses incurred in connection with its real estate owned, including in-substance foreclosures, are not covered by this Paragraph.

15. Effective immediately, the Association shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower who has loans with the Association that are adversely classified as “Substandard” unless prior to extending such additional credit whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board or a designated committee thereof, who shall certify in writing:

- (a) the reasons why the extension of such credit is in the best interests of the Association using current underwriting information, such as updated borrower financial information and a current appraisal, if applicable; and
- (b) that an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

The signed certification shall be made a part of the minutes of the meeting of the Board or designated committee with a copy retained in the borrower’s credit file. The Association’s expenses incurred in connection with its real estate owned, including in-substance foreclosures, are not covered by this Paragraph.

Concentrations of Credit.

16. By January 31, 2011, the Association shall submit to the Regional Director revisions to its written policy for identifying, monitoring, and controlling risks associated with concentrations of credit in commercial real estate loans (Credit Concentration Policy) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to commercial real estate loan concentrations of credit. The Credit Concentration Policy shall comply with all applicable laws, regulations, and regulatory guidance and establish concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL.

17. Upon receipt of written notification from the Regional Director that the Credit Concentration Policy is acceptable, the Association shall implement and adhere to the Credit Concentration Policy. The Board's review of the Credit Concentration Policy shall be documented in the Board meeting minutes. A copy of the Credit Concentration Policy shall be provided to the Regional Director within seven (7) days of adoption by the Board.

18. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Board shall review the Association's compliance with its Credit Concentration Policy and the appropriateness of its concentration limits given current economic conditions and the Association's capital position. The Board's review of the Association's Credit Concentration Policy shall be documented in the Board meeting minutes.

Liquidity Management.

19. By January 31, 2011, the Association shall revise its Contingency Funding Plan to address the comments in the 2010 ROE and incorporate applicable regulatory guidance.

Dividends and Other Capital Distributions.

20. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association’s written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

Growth.

21. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director. The growth restriction imposed by this Paragraph shall remain in effect until the Association receives the Regional Director’s written notice of non-objection of its Capital and Business Plan pursuant to Paragraph 3 of this Order.

Golden Parachute Payments.

22. Effective immediately, the Association shall not make any golden parachute payment³ unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

23. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁴ set forth in 12 C.F.R. Part 563, Subpart H.

³ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

⁴ The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

Employment Contracts and Compensation Arrangements.

24. Effective immediately, the Association shall not enter into any new contractual arrangement or renew, extend, or revise any contractual arrangement relating to compensation or benefits for any director or Senior Executive Officer of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such director or Senior Executive Officer, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Third Party Contracts.

25. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association⁵ or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (b) received written notice of non-objection from the Regional Director.

⁵ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

Transactions with Affiliates.

26. Effective immediately, the Association shall not engage in any new or amended transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate for which notice is submitted pursuant to this Paragraph, complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

Effective Date, Incorporation of Stipulation.

27. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

28. This Order shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

29. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

30. The Regional Director or an OTS authorized representative may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

31. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

32. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

(a) **To the OTS:**

Regional Director
Office of Thrift Supervision
One South Wacker Drive, Suite 2000
Chicago, Illinois 60606
Facsimile: (312) 917-5001

(b) **To the Association:**

Chairman of the Board
RiverWood Bank
214 5th Street, NW
Bemidji, Minnesota 56601
Facsimile: (218) 751-5814

No Violations Authorized.

33. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Daniel T. McKee
Regional Director, Central Region

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: CN 10-38
)	
RIVERWOOD BANK)	Effective Date: December 6, 2010
)	
Bemidji, Minnesota)	
OTS Docket No. 00566)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed RiverWood Bank, Bemidji, Minnesota, OTS Docket No. 00566 (Association) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).

2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

3. Based on a comprehensive examination of the Association dated June 7, 2010 (2010 ROE), the OTS finds that the Association has engaged in unsafe or unsound banking practices and/or violations of law or regulation that resulted in the Association operating with: (a) an inadequate level of capital protection for the volume, type and quality of assets held by the Association; and (b) inadequate earnings to augment capital as described in the 2010 ROE.

Consent.

4. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

5. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

6. The Association waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

OTS Authority Not Affected.

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

8. The Association acknowledges and agrees that its consent to the issuance of the Order is

solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

11. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

Signature of Directors/Board Resolution.

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board

Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting.

WHEREFORE, the Association, by its directors, executes this Stipulation.

RIVERWOOD BANK
Bemidji, Minnesota

Accepted by:
Office of Thrift Supervision

_____/s/
Paul R. Means, Chairman

By:_____/s/
Daniel T. McKee
Regional Director, Central Region

_____/s/
Lloyd J. Fehr, Director

Date: See Effective Date on page 1

_____/s/
Ronald L. Klindworth, Director

_____/s/
Douglas A. Kuepers, Director

_____/s/
David G. Landgrebe, Director

_____/s/
Clinton J. Nelson, Director

_____/s/
Dennis A. Wulf, Director

_____/s/
Steven R. Young, Director