

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of)	
)	
)	ORDER TO CEASE AND DESIST
1 ST AMERICAN STATE BANK OF)	
MINNESOTA)	
HANCOCK, MINNESOTA)	FDIC-07-283b
)	
)	
(Insured State Nonmember Bank))	
)	

1st American State Bank of Minnesota, Hancock, Minnesota ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and regulation alleged to have been committed by the Bank, as well as of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") dated February 14, 2008, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices and violations of law and regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe and unsound banking practices and violations of law and regulation. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law and regulation:

A. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

B. Operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank and, in particular, failed to provide adequate monitoring and management of the risks associated with third-party relationships.

C. Operating with an inadequate level of capital protection for the kind and quality of assets held and appropriate to the risk inherent in the activities engaged in by the Bank.

D. Operating with an inappropriate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.

E. Engaging in hazardous lending and lax collection practices.

F. Operating with an excessive level of out-of-territory loans and leases.

G. Operating with an excessive level of adversely classified loans.

H. Operating with an inadequate loan policy.

I. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

J. Failing to account for loan purchases in accordance with generally accepted accounting principles.

K. Operating with an inadequate asset/liability and/or funds management policy.

L. Operating with inadequate policies to monitor and control asset growth.

M. Operating with inadequate management of its Information Technology operations.

N. Violating laws and regulations.

IT IS FURTHER ORDERED that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. **Qualified Management.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall have qualified management, including a chief executive officer and a number and type of senior officers appropriate to the size and complexity of the Bank. They shall have the requisite knowledge, skills, ability, and experience to operate the Bank in a safe and sound manner, and in compliance with applicable laws and regulations, as well as to restore the Bank to a satisfactory financial condition. Their focus must include, but not be limited to, capital adequacy, asset quality, management effectiveness, earnings, liquidity, sensitivity to market risk, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance. Each member of management shall be provided appropriate written authority from the board of directors to implement the provisions of this ORDER.

(b) Immediately, and periodically during the life of this ORDER, but no less frequently than annually, management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER, all applicable State and Federal laws and regulations, FDIC and

FFIEC policy statements, and the Bank's approved policies and procedures; and

(ii) restore and thereafter maintain the Bank in a safe and sound condition, including, but not limited to, capital adequacy, asset quality, earnings, management effectiveness, liquidity, sensitivity to market risks, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance.

(c) Within 180 days from the effective date of this ORDER, the Bank shall submit a management succession plan to the Regional Director of the FDIC's Kansas City Regional Office ("Regional Director") and the Deputy Commissioner of the Minnesota Department of Commerce ("Deputy Commissioner") for review and comment. Within 30 days of the receipt of all such comments from the Regional Director and the Deputy Commissioner, and after due consideration of all such comments, the board shall approve the plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and follow the management succession plan.

2. Independent Directors.

(a) Within 180 days from the effective date of this ORDER, the Bank shall add two independent directors to the board of directors. For purposes of this ORDER, an individual is "independent" with respect to the Bank if he or she:

(i) is not employed in any capacity by the Bank, any of its subsidiaries, or affiliated organizations, other than as a director;

(ii) does not own or control more than 10 percent of the outstanding shares of the Bank or its parent company;

(iii) is not related by blood or marriage to an officer or director of the Bank or its affiliates, or to any shareholder owning more than 10 percent of the outstanding shares of the Bank or its parent company, and who does not otherwise share a common financial interest with such officer, director, or shareholder;

(iv) is not indebted, directly or indirectly, to the Bank or any of its affiliates, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses;

(v) is a resident of, or engaged in business in, the Bank's trade area; or

(vi) is otherwise deemed to be an independent director for purposes of this ORDER by the Regional Director and the Deputy Commissioner.

(b) As part of the process for adding independent directors required in paragraph 2(a), within 90 days of the effective date of this ORDER, the board of directors shall

prepare and forward to each Bank shareholder a list of potential candidates for nomination as an independent director. The board shall document in the board meeting minutes the list of potential candidates as well as any communications the board had with the potential candidates regarding their nomination as an independent director.

(c) If the requirements of paragraphs 2(a) and (b) are not satisfied within the time required, the board shall continue to perform the requirements of paragraph 2(b) until two independent directors are added to the board.

3. Changes in Board of Directors and/or Senior Officers.

The Bank shall notify the Regional Director and the Deputy Commissioner in writing of any resignations or terminations of any members of its board of directors and/or any of its senior officers within 15 days of the event.

4. Minimum Capital Requirements.

(a) Within 90 days from the effective date of ORDER, the Bank shall achieve and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an adequate allowance for loan and lease losses:

(i) Tier 1 Leverage Capital at least equal to 8 percent of total assets; and

(ii) Total Risk-based Capital at least equal to 10 percent of total risk-weighted assets.

(b) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, App. A.

5. Capital Maintenance.

(a) Beginning 90 days from the effective date of this ORDER and thereafter while this ORDER remains in effect, the Bank shall maintain a Tier 1 Leverage Capital Ratio and a Total Risk-based Capital Ratio ("capital ratios") at or above the minimum standard required in paragraph 4 of the ORDER. Within 30 days from the last day of each calendar quarter, the Bank shall determine, from its Reports of Condition and Income, its capital ratios for that calendar quarter. If either of its capital ratios is less than the minimum standard required in paragraph 4, within 30 days from said required determination, the Bank shall submit a written capital plan to the FDIC describing the means and timing by which the Bank shall increase such ratios up to or in excess of the minimum standard. At a minimum, the capital plan shall include:

(i) specific plans to achieve the capital levels required under the plan and this ORDER;

(ii) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of this paragraph;

(iii) projections for asset growth and capital requirements, which shall be based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan;

(iv) increases or decreases in total assets of more than 10 percent during any three-month period shall be supported by relevant projections and analysis that consider capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risk;

(v) projections for the amount and timing of the capital necessary to meet the Bank's current and future needs;

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

(vii) contingency plans that identify alternative sources of capital should the primary source(s) referenced under paragraph 5(a)(vi) above not be available; and

(viii) a dividend policy that permits the declaration of a dividend only when:

a. the Bank is in compliance with its approved capital program;

b. the Bank is in compliance with applicable State and Federal laws and regulations;

c. after payment of such dividends, the Bank remains in compliance with the above minimum capital ratios; and

d. such declaration and payment of dividends has been approved in advance by the board of directors;

(b) the board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to the capital plan;

(c) any increase in capital necessary to meet the requirements of the provisions of this paragraph may be accomplished by the following:

(i) the sale of new securities in the form of common stock;

(ii) the sale of noncumulative perpetual preferred stock;

(iii) the direct contribution of cash by the directors, shareholders, or parent holding company of the Bank; or

(iv) any other method acceptable to the FDIC and approved in advance in writing by the Regional Director and Deputy Commissioner.

(d) No increase in Tier 1 capital necessary to meet the requirements of this ORDER may be accomplished through a deduction from the Bank's allowance for loan and lease losses or other reserve accounts, unless the increase is approved in advance, in writing, by the Regional Director and the Deputy Commissioner. Further, the Bank shall not lend funds directly or indirectly, whether secured or unsecured, to any purchaser of Bank or affiliate stock or other securities, or to any investor by any other means for any portion of any increase in Tier 1 capital required herein.

6. Increase in Capital.

(a) If all or part of the increase in capital required by the provisions of this ORDER is accomplished by the sale of new securities, the board of directors shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other

material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the Regional Director and the Deputy Commissioner, and the FDIC's Registration, Disclosure, and Securities Unit, 550 17th Street, N.W., Room F-6053, Washington, D.C. 20429, for review. Any changes requested by the FDIC or the Deputy Commissioner to be made in the plan or materials shall be made prior to their dissemination. If the Regional Director allows any part of the increase in Tier 1 capital to be provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to the interest rate and any convertibility factor, shall be presented to the Regional Director and the Deputy Commissioner for prior approval.

(b) In complying with the provisions of this paragraph 6, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 30 days

from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(c) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations.

7. Restriction on Bonuses and Dividends.

While this ORDER is in effect, the Bank shall not declare or pay bonuses to directors or officers, or cash dividends, in any amount unless:

(a) the declarations and payments are made in accordance with applicable State and Federal laws and regulations;

(b) the minimum standard capital ratios required by paragraph 4 are maintained after payment of the bonuses or dividends;

(c) the declaration and payment of bonuses or dividends are approved in advance by the board of directors, with such declarations reflected in the minutes of the board meeting during which such declarations were acted upon;

(d) the Bank is in substantial compliance with this ORDER;
and

(e) the declaration and payment of bonuses or dividends is approved in advance, in writing, by the Regional Director and the Deputy Commissioner, which approval shall not be unreasonably withheld.

8. Maintenance of Allowance for Loan and Lease Losses.

(a) Within 30 days from the date of this ORDER, the board of directors shall make a provision which will replenish the allowance for loan and lease losses ("allowance") for the loans charged off as a result of the most recent examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard," or listed for "Special Mention," in the FDIC's September 17, 2007, Report of Examination ("Report of Examination"), as well as all other loans and leases in its portfolio.

(b) Within 60 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining an appropriate allowance. The policy shall provide for a review of the allowance at least once each calendar quarter and be completed at least 25 days prior to the end of each quarter in order that the results of the review conducted by the board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, include the following:

(i) the Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the appropriateness of the Bank's allowance, and any analysis of the Bank's allowance provided by the FDIC and the Deputy Commissioner;

(ii) the volume and mix of the overall loan portfolio, including trends in the portfolio mix by loan type and geography, trends in the severity of nonperforming or delinquent loans, and trends in the severity of weaknesses in extensions of credit identified as "Special Mention" and adversely classified in the Report of Examination;

(iii) previous loan loss experience by loan type, including the level, trends, and severity of overdrafts, trend of net charge-offs as a percent of average loans over the past several years, as well as an analysis of net charge-offs experienced on previously adversely classified loans;

(iv) the degree of risk associated with renewed and extended loans;

(v) the volume, trend, rate, and duration of loan growth;

(vi) the results of internal loan reviews;

(vii) concentrations of credit and significant individual credits;

(viii) present and prospective economic conditions, generally and locally;

(ix) off-balance sheet credit risks; and

(x) any other factors appropriate in determining future allowances, including changes in the Bank's strategic plan, and loan products and markets.

(c) The Bank shall submit the policy to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Deputy Commissioner, and after due consideration of any recommended changes, the board shall approve the policy, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

(d) While this ORDER is in effect, with each progress report to the Regional Director and the Deputy Commissioner required by the ORDER, the Bank shall submit an analysis supporting the determination of the adequacy of the allowance.

9. Reduction of Adversely Classified Assets.

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop and complete a written plan to reduce the

Bank's risk exposure in each asset classified "Substandard" in the Report of Examination. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the FDIC and the Deputy Commissioner. In developing the plan mandated by this paragraph 9, the Bank shall, at a minimum, and with respect to each adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) In addition, the plan mandated by this paragraph 9 shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each adversely classified asset, including expected timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the expected consolidated balance to

the Bank's projected Tier 1 capital plus the allowance for loan and lease losses;

(iii) a provision for the Bank's submission of monthly written progress reports to its board of directors; and

(iv) a provision mandating board review of the progress reports, with a notation of the review recorded in the board meeting minutes.

(c) Upon completion, the Bank shall submit the plan to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Deputy Commissioner, and after due consideration of any recommended changes, the board shall approve the plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plan.

10. Restrictions on Advances to Adversely Classified Borrowers.

(a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off, or listed for "Special Mention," or classified "Substandard" or "Loss" in the Report of Examination and is uncollected. The requirements of this paragraph shall

not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.

(b) Paragraph 10(a) of the ORDER shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph 10(b), whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the board of directors, who shall conclude and fully document in the minutes that:

(i) the failure of the Bank to extend such credit would be detrimental to its best interests;

(ii) the extension of such credit would improve the Bank's position, with an explanatory statement of why its position would improve;

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and

(iv) all necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and satisfactory appraisal, title, and lien documents.

(c) A copy of the board of directors' approval shall be retained in the borrower's credit file.

11. Charge-off of Adversely Classified Assets.

(a) Within 10 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report of Examination that have not been previously collected or charged off.

(b) Elimination or reduction of assets through proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph 11.

12. Reduction of Special Mention Assets.

(a) Within 180 days from the effective date of this ORDER, the Bank shall develop a plan to correct all deficiencies in the assets listed for "Special Mention" in the Report of Examination. The Bank shall immediately submit the plan to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Deputy Commissioner, and after due consideration of any recommended changes, the board shall approve the plan, which approval shall be recorded in the board

meeting minutes. Thereafter, the Bank shall implement and fully comply with the plan.

(b) The Bank shall document each deficiency in assets listed for "Special Mention" that cannot be eliminated or corrected for review by the board of directors at its monthly meeting. The board's review and any action on the uncorrected deficiencies shall be recorded in the board meeting minutes.

13. Concentrations of Credit.

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit a written plan to the Regional Director and the Deputy Commissioner for systematically reducing and monitoring the Bank's portfolio of loans or other assets listed in the "Concentrations" section of the Report of Examination, to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location. At a minimum, the plan shall include:

(i) expected dollar levels and percent of capital to which the Bank shall reduce each concentration;

(ii) timeframes for achieving the expected reduction in dollar levels identified in response to paragraph 13(a)(i) above;

(iii) provisions for the submission of monthly written progress reports to the board of directors for review and notation in the board meeting minutes; and

(iv) procedures for monitoring the Bank's compliance with the plan.

(b) The Bank shall submit the concentration plan to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Deputy Commissioner, and after due consideration of all such comments, the board shall approve the revised plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the concentration plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or associated entities so long as such extension or commitment would result in the Bank exceeding any limit contained in the concentration plan. This paragraph 13(c) of the ORDER shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be

approved by the board of directors, who shall conclude and fully document in the minutes that:

- (i) the failure of the Bank to extend such credit would be detrimental to its best interests;
- (ii) the extension of such credit would improve the Bank's position, with an explanatory statement of why its position would improve;
- (iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and
- (iv) all necessary loan documentation is on file, including, at a minimum, current financial and cash flow information, and satisfactory appraisal, title, and lien documents. A copy of the board of director's approval shall be retained in the borrower's credit file.

14. Implementation of Loan Policy.

(a) Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors shall review the Bank's loan policies and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policies and procedures necessary to strengthen the Bank's asset quality and lending functions and to prevent further

deterioration. As required by this paragraph 14, the Bank's loan policies shall be enhanced to address the credit administration, and underwriting recommendations and/or criticisms on the "Examination Conclusions and Comments," and the "Risk Management Assessment" pages of the Report of Examination, including, and in particular:

- (i) concentration of credit;
- (ii) diversification of risk;
- (iii) out-of-territory lending;
- (iv) credit and collateral documentation; and
- (v) conflicts of interest.

(b) The Bank shall submit the revised policy to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Deputy Commissioner, and after due consideration of any recommended changes, the board shall approve the policy, with its approval recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policy.

15. Implementation of Independent Loan Review Program.

(a) Within 120 days of the effective date of this ORDER, the board shall develop a program of independent loan review that will provide for a periodic review of the Bank's loan

portfolio and the identification and categorization of problem credits and of concentrations of credit. At a minimum, the system shall provide for:

(i) prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;

(ii) action plans to reduce the Bank's risk exposure from each identified relationship;

(iii) prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of paragraph 15(a)(i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of record, relationship to the primary obligor identified under paragraph 15(a)(i), and an assessment of the risk exposure from the aggregate relationship;

(iv) identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;

(v) assessment of the overall quality of the loan portfolio;

(vi) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;

(vii) identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to address the identified violations;

(viii) identification of loans that are not in conformance with the Bank's lending policy and an action plan to address the identified deficiencies;

(ix) identification of loans to directors, officers, principal shareholders, and their related interests;

(x) an independent assessment of the number of lending staff needed and the ability of individual members of the lending staff to operate within the framework of the Bank's loan policy and applicable laws, rules, and regulations, and an action plan to address any identified deficiencies; and

(xi) a mechanism for reporting periodically, but in no event less than semi-annually, the information developed in paragraphs 15(a)(i) through 15(a)(viii) above to the board of directors. The report should also describe the action(s) taken by management with respect to problem credits.

(b) The Bank shall submit the program to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional

Director and the Deputy Commissioner, and after due consideration of any recommended changes, the board shall approve the program, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the program.

(c) Upon implementation, a copy of each report shall be submitted to the board, as well as documentation of the actions taken by the Bank or recommendations to the board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the board meeting minutes.

16. Correction of Technical Exceptions.

(a) Within 120 days from the effective date of this ORDER, the Bank shall correct the exceptions listed on the "Assets with Credit Data or Collateral Documentation Exceptions" pages of the Report of Examination.

(b) The Bank shall document each technical exception that cannot be eliminated or corrected for review by the board of directors at its monthly meeting. The board's review and any action on the uncorrected technical exception shall be recorded in the board meeting minutes.

(c) From the effective date of this ORDER, the Bank shall ensure that the necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

17. Elimination and/or Correction of Violations of Laws, Rules, and Regulations.

(a) Within 180 days after the effective date of this ORDER, the Bank, consistent with sound banking practices, shall eliminate and/or correct all violations of laws, rules, and regulations cited by the FDIC in the Report of Examination. In addition, within 30 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules, and regulations.

(b) Within 180 days after the effective date of this ORDER, the Bank, consistent with sound banking practices, shall eliminate and/or correct all contraventions of policy cited by the FDIC in the Report of Examination. In addition, within 30 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable policies.

(c) The Bank shall document each violation or policy contravention that cannot be eliminated or corrected, and why, for review by the board of directors at each monthly meeting.

The board's review, discussion, and any action upon the uncorrected violation or policy contravention shall be recorded in its minutes.

18. Formulation and Adoption of Business/Strategic Plan.

(a) Within 120 days after the effective date of this ORDER, the Bank shall formulate and adopt a comprehensive business/strategic plan ("Business Plan") covering at least an operating period of three years. The plan required by this paragraph 18 shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written Business Plan shall address short-term goals and operating plans to comply with the terms of this ORDER and correct all regulatory criticisms, intermediate and long-range goals and project plans. In addition, the plan shall address, at a minimum:

- (i) strategies for asset/liability management;
- (ii) the anticipated average maturity and average yield on loans and securities, the average maturity and average cost of deposits, the level of earning assets as a percentage of total assets, and the ratio of net interest income to average earning assets;

(iii) the dollar volume of total loans, total investment securities, and total deposits, including brokered and internet deposits;

(iv) plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals; and

(v) goals for reducing problem loans.

(c) The Bank shall submit the Business Plan to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Deputy Commissioner, and after due consideration of all such comments, the board shall approve the revised plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and follow the Business Plan.

19. Conflicts of Interest.

(a) Following the effective date of this ORDER, the Bank shall not engage in any loan or other transaction involving any interest of a Bank officer, director, or principal shareholder ("Insider") without the knowledge and approval of the board of directors.

(b) Within 60 days from the effective date of this ORDER, the board of directors shall revise the Bank's ethics/conflicts

of interest policy to adopt procedures to prohibit the Bank from engaging in any loan or other transaction involving any interest of an Insider without the knowledge and approval of the board.

At a minimum, the policy shall require that:

(i) each Insider must disclose in writing to the board all of his or her potential interests in any loan or other transaction being considered by the Bank;

(ii) when an Insider reports an interest in a loan or other transaction, the board shall determine whether the Insider's interest conflicts with the interests of the Bank;

(iii) if the board determines there is a conflict, the Bank may not engage in the loan or other transaction unless the board determines the conflict has been resolved; and

(iv) each Insider disclosure and the board's resolution of any conflict of interest shall be included in the board meeting minutes.

(c) The board shall adopt the ethics/conflicts of interest policy revised as required in paragraph 19(b) and record its approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the revised policy.

(d) Within 60 days from the effective date of the ORDER, each Insider shall report to the board all of his or her interests in any outstanding loan or other transaction engaged

in by the Bank. The report shall be in writing and included in the board meeting minutes.

(e) While this ORDER is in effect, the Bank may not renew or extend any outstanding loan or other transaction that does not comply with the requirements of this paragraph 19.

20. Funds Management Policies and Plans.

(a) Within 45 days from the effective date of this ORDER, the Bank shall review its written funds management policies and plans, and amend each as necessary. The Bank shall submit the policies and plans, and any future modifications, to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days of receipt of all such comments from the Regional Director and the Deputy Commissioner, and after due consideration of all such comments, the board shall approve the revised policies and plans, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the policies and plans.

(b) At a minimum, the policies and plan shall:

(i) provide a statement of the Bank's long-term and short-term liquidity needs and plans for insuring that such needs are met;

(ii) provide for a periodic review of the Bank's deposit structure, including the volume and trend of total

deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on large time deposits, public funds, out-of-area deposits, and any other information needed;

(iii) establish target liquidity and dependency ratios and/or parameters;

(iv) establish parameters for use, volume, and maturities of brokered deposits, deposits obtained through solicitation services, and borrowings;

(v) coordinate the Bank's Business Plan and the loan and investment policies as revised pursuant to the requirements of this ORDER with the written funds management policy; and

(vi) establish contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs.

21. Volatile Liabilities.

(a) Upon the effective date of this ORDER, and so long as this ORDER is in effect, the Bank shall give written notice to the Regional Director and the Deputy Commissioner at any time the Bank plans to make use of, or increase its use of, volatile liabilities. For purposes of this ORDER, volatile liabilities include long-term borrowings, deposit funds solicited via a

third-party rate service of any kind, and brokered deposits, as that term is defined by section 337.6(a)(2) of the FDIC's Rules and Regulations. The notification shall indicate how the funds are to be utilized, with specific reference to credit quality of investments/loans and the effect on the Bank's funds position and asset/liability matching. The notification shall be submitted to the Regional Director and the Deputy Commissioner no less than 30 days prior to the anticipated date of implementation. Within 30 days of receipt of any comments from the Regional Director and the Deputy Commissioner, and after due consideration of all such comments, the board shall approve the revised plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plan.

(b) As long as the Bank is "undercapitalized," as that term is defined in section 325.103 of the FDIC Rules and Regulations, the Bank may not accept, renew, or rollover any brokered deposit.

22. Correction of Information Technology Deficiencies.

(a) Within 180 days from the effective date of this ORDER, management will correct all deficiencies cited in the Report of Examination.

(b) For any deficiencies that cannot be corrected, the Bank shall document why corrections could not be made, which report shall be reviewed by the board of directors at its next meeting, and whose review, discussion and any action taken shall be recorded in the board meeting minutes.

23. Disclosure of ORDER to Shareholders.

Following the effective date of this ORDER, the Bank shall provide to its shareholders or otherwise furnish a description of this ORDER, (i) in conjunction with the Bank's next shareholder communication, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

24. Program for Monitoring Bank's Compliance with ORDER.

Within 30 days from the effective of this ORDER, the board of directors shall adopt and implement a program that will provide monitoring of the Bank's compliance with this ORDER. Following the adoption of the program, the board shall review the Bank's compliance with this ORDER and record its review in the board meeting minutes.

25. Progress Reports Detailing Compliance with ORDER.

(a) By April 30, 2008, and within 30 days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Deputy Commissioner detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER, including at a minimum:

(i) description of the identified weaknesses and deficiencies;

(ii) provision(s) of the ORDER pertaining to each weakness or deficiency;

(iii) actions taken or in-process for addressing each deficiency;

(iv) results of the corrective actions taken;

(v) the Bank's status of compliance with each provision of the ORDER; and

(vi) appropriate supporting documentation.

(b) Progress reports may be discontinued when the Regional Director has, in writing, released the Bank from making additional reports.

Nothing here shall prevent the FDIC from conducting on-site reviews and/or examinations of the Bank, its affiliates, agents servicers, and other institution-affiliated parties at any time to monitor compliance with this ORDER.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority.

Dated: February 25, 2008.

By:

Gregory P. Bottone
Acting Deputy Regional Director
Kansas City Regional Office