FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **PARAGON BANK** **WELLS, MINNESOTA** **(Insured State Nonmember Bank)**	**ORDER TO** **CEASE AND DESIST** **FDIC-08-212b**

Paragon Bank, Wells, 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, and its right to a hearing on those 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 January 15, 2009, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any unsafe or unsound banking practices or violations of law or regulation, the Bank consented to the issuance of the following ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it has reason to believe that the Bank has engaged in unsafe and unsound banking practices and violations of law and regulation. The FDIC, therefore, accepts the CONSENT AGREEMENT and issues 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 a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank;

B. operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

C. operating with an inadequate level of capital protection for the kind and quality of assets held and the risk inherent in the Bank's activities;

D. operating with an inappropriate allowance for loan and lease losses ("ALLL") for the volume, kind, and quality of loans and leases held and failing to make appropriate provision for possible loan and lease losses;

E. engaging in hazardous lending and lax collection practices, including, but not limited to:

1. extending or renewing credit without obtaining proper loan documentation;

2. extending or renewing credit without obtaining adequate collateral;

3. failing to establish and monitor appropriate collateral margins of secured borrowers;

4. failing to establish and enforce adequate loan repayment programs; and

5. extending or renewing credit without obtaining current and complete financial information;

F. operating with an excessive level of adversely classified loans and assets, delinquent loans, and non-accrual loans;

G. operating with inadequate loan policies and practices;

H. operating with inadequate liquidity in light of the Bank's asset and liability mix;

I. operating without adequate control over interest rate sensitivity risk;

J. operating with an inadequate investment policy;

K. operating with inadequate asset/liability and funds management practices;

L. violating laws and regulations, including:

1. the aggregate lending limit restrictions for executive officers of section 215.5(c) of Regulation O of the Board of Governors of the Federal Reserve System ("Regulation O"), 12 C.F.R. § 215.5(c), as more fully described in the FDIC's Report of Examination of the Bank dated April 29, 2008 ("Report of Examination");

2. the preferentiality prohibition of section 215.4(a)(1) of Regulation O, 12 C.F.R. § 215.4(a)(1), as more fully described in the Report of Examination;

3. the overdraft restrictions of section 215.4(e) of Regulation O, 12 C.F.R. § 215.4(e), as more fully described in the Report of Examination;

4. the requirements of Part 2675.0400 of the State of Minnesota Banking Rules, Minn. R. 2675.0400, relating to the acquisition of documentation needed to determine the credit quality of loan participations purchased, as more fully described in the Report of Examination;

5. the requirements of Part 2675.2170 of Minnesota Banking Rules, Minn. R. 2675.2170, relating to the value at which other real estate must be booked, as more fully described in the Report of Examination;

6. the requirements and restrictions of Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323, relating to

real estate appraisals, as more fully described in the Report of Examination; and

7. the substantially the same terms requirement of section 23B of the Federal Reserve Act, 12 U.S.C. § 371c-1(a)(1)(A), as more fully described in the Report of Examination; and

M. operating in contravention of supervisory policy statements and other guidance, including:

1. the Interagency Guidelines Establishing Standards for Safety and Soundness contained in Appendix A of Part 364 of the FDIC Rules and Regulations, as more fully described in the Report of Examination; and

2. the Interagency Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, as more fully described in the Report of Examination.

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

1. MANAGEMENT.

(a) Within 60 days of the effective date of this ORDER, the Bank shall develop and complete a plan ("Management Plan") for the purpose of providing qualified management for the Bank. For purposes of this Order, the qualifications of management shall be assessed on its ability to comply with the requirements of this ORDER, operate the Bank in a safe and sound manner, comply with applicable laws and regulations, and restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk. Each member of Bank management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank.

(b) The Management Plan shall include, at a minimum:

(i) identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

(ii) identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience, and other qualifications required to perform present and anticipated duties, including their ability to adhere to the Bank’s established policies and practices and restore the Bank to a safe and sound condition; and

(iv) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, and other qualifications to fill those officer or staff member positions identified in the Management Plan.

(c) The Bank shall promptly submit the Management Plan to the Regional Director of the FDIC's Kansas City Regional Office or his designee ("Regional Director") for review and comment. Within 30 days of receipt of any comments by the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the Management Plan, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the Management Plan.

(d) It shall remain the responsibility of the board of directors to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the board shall immediately advise the Regional Director, in writing, of specific reasons for deviating from the Management Plan. Any subsequent modification of the Management Plan shall be submitted to the Regional Director for review and comment and shall not be implemented without the prior written approval of the Regional Director.

2. CAPITAL ADEQUACY.

(a) Within 30 days of the effective date of this ORDER, the Bank shall achieve the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325), after establishing an appropriate ALLL:

(i) Tier 1 capital at least equal to eight (8.0) percent of total assets; and

(ii) total risk-based capital at least equal to ten (10.0) percent of total risk-weighted assets.

(b) 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.

(c) Within 30 days of 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 any capital measure falls below the established minimum, within 30 days of such required determination of capital ratios, the Bank shall submit a written plan to the Regional Director describing the means and timing by which the Bank shall increase such ratio up to or in excess of the established minimum.

(d) Any increases in capital may be accomplished by the following:

(i) the sale of common stock and non-cumulative perpetual preferred stock;

(ii) the elimination of all or part of the assets classified “Loss” in the Report of Examination without incurring loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER;

(iii) the collection in cash of assets previously charged off;

(iv) the direct contribution of cash by the directors or shareholders of the Bank; or

(v) any other means acceptable to the Regional Director.

(e) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve a public distribution of Bank securities, including a distribution limited only to the Bank’s existing shareholders, the Bank shall prepare detailed 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 other material disclosures necessary to comply with 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 materials to be used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, Room F-6043, N.W., Washington, D.C. 20429, for its review. Any changes in the materials requested by the FDIC 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 non-cumulative 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 for prior approval.

(f) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber or purchaser of Bank securities written notice of any planned or existing development or of 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 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and subscriber of the Bank’s original offering materials.

(g) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

(h) 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.

3. RESTRICTION ON DIVIDENDS AND MANAGEMENT FEES.

The Bank shall not declare or pay any cash dividend, capital distribution, earnings distribution, or management fee without the prior written consent of the Regional Director.

4. ALLOWANCE FOR LOAN AND LEASE LOSSES

(a) Within 30 days of the effective date of this ORDER, the Bank shall replenish its ALLL by a provision to the account which takes into consideration those loans required to be charged off by this ORDER, and the potential for further losses in the remaining loans or leases classified “Substandard” and “Doubtful” as well as all other loans and leases in its portfolio.

(b) Within 30 days of the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank as of December 31, 2007 and March 31, 2008, shall be amended and re-filed if they do not reflect a provision for loan and lease losses which is appropriate in view of the condition of the Bank’s loan portfolio, and which, at a minimum, incorporate the adjustments required by this paragraph.

(c) Prior to the submission of all Reports of Condition and Income after the effective date of this ORDER, the board of directors of the Bank shall review the appropriateness of the Bank’s ALLL, provide for an appropriate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided.

(d) The Bank shall submit to the Regional Director the analysis supporting the determination of the appropriateness of its ALLL. These submissions may be made a part of the progress reports otherwise required by this ORDER.

(e) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

(f) For purposes of this ORDER and in making the determinations mandated by this paragraph, the board of directors of the Bank shall consider 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 and any analysis of the Bank's ALLL provided by the FDIC.

5. CHARGE-OFF OF ADVERSELY CLASSIFIED ASSETS.

(a) Within 10 days of 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" and 50 percent of all assets or portions of assets classified "Doubtful" as of March 31, 2008, that have not been previously collected or charged off.

(b) Elimination or reduction of assets with the proceeds of other loans or extensions of credit made by the Bank is not considered collection for purposes of this ORDER.

6. REDUCTION OF SUBSTANDARD ASSETS.

(a) Within 60 days of the effective date of this ORDER, the Bank shall develop a written plan to reduce or eliminate the Bank's risk position in each asset in excess of $50,000 classified "Substandard" or "Doubtful" in the Report of Examination, including loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of Bank directors, executive officers, principal shareholders, or their "related interests", as such term is defined in section 215.2(n) of Regulation O, 12 C.F.R. § 215.2(n).

(b) The plan required by this paragraph shall include, at a minimum:

(i) the dollar levels to which risk in each classified asset will be reduced;

(ii) a description of the risk reduction methodology to be followed;

(iii) provisions requiring the submission of monthly written progress reports to the board of directors; and

(iv) provisions requiring the board's review of the progress reports to be recorded in the minutes of the board.

(c) As used in this paragraph, "reduce" means to collect, charge off, or improve the quality of a "Substandard" or "Doubtful" asset so as to warrant removal of any adverse classification by the Regional Director. In developing the plan required by this paragraph, the Bank shall, at a minimum, review the financial position of each such borrower (including source of repayment, repayment ability, and alternative repayment sources), evaluate the available collateral for each such credit, and consider possible actions to improve the Bank's collateral position.

(d) The Bank shall promptly submit the plan to the Regional Director for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the plan, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and follow the plan.

7. RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS.

(a) 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 classified "Substandard" or "Doubtful" 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) This paragraph 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 Bank's board of directors, or a designated committee thereof, who, after thorough review, shall conclude and fully document in its minutes that:

(i) the failure to extend such credit would be detrimental to the best interests of the Bank, with an explanation of why it would be detrimental;

(ii) the extension of such credit would improve the Bank's position, including an explanation of how the Bank's position would be improved; and

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

The board's or committee's conclusions and approval shall be made a part of its minutes, with a copy retained in the borrower's credit file.

8. CORRECTION OF SPECIAL MENTIONS.

Within 60 days of the effective date of this ORDER, the Bank shall correct all deficiencies in the assets listed for "Special Mention" in the Report of Examination.

9. CORRECTION OF TECHNICAL EXCEPTIONS.

(a) Within 60 days of 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. All attempts to correct exceptions shall be documented in the borrower's credit file.

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

10. LOAN POLICY.

(a) Within 60 days of the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to strengthen lending procedures and abate additional loan deterioration.

(b) The initial revisions to the Bank's loan policy shall, at a minimum, include provisions:

(i) establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the board of directors is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

(ii) requiring that all extensions of credit originated or renewed by the Bank:

(A) be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests;

(B) have current financial information, profit and loss statements or copies of tax returns, and cash flow projections, which information shall be maintained throughout the term of the loan; and

(C) have a clearly defined and stated purpose and a predetermined and realistic repayment source and schedule;

(iii) establishing standards for extending unsecured credit;

(iv) incorporating limitations on the amount that can be loaned in relation to established collateral values, including the requirement that the source of the valuations be identified and that such collateral valuations be completed prior to the disbursement of loan proceeds and be performed on a periodic basis over the term of the loan;

(v) establishing limitations on the maximum volume of loans in relation to the Bank’s total assets;

(vi) requiring the establishment and maintenance of a loan grading system and internal loan watch list;

(vii) requiring that extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such person, be thoroughly reviewed for compliance with all provisions of Regulation O and Part 337 of the FDIC's Rules and Regulations, 12 C.F.R. Part 337;

(viii) requiring accurate reporting of past due loans to the loan committee on at least a monthly basis;

(ix) establishing standards for collection efforts for past due loans;

(x) establishing guidelines for timely recognition of loss through charge-off;

(xi) requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" and "Doubtful" in regulatory reports of examination;

(xii) requiring a written plan to lessen the risk position in each line of credit identified as a problem credit on the Bank's internal loan watch list;

(xiii) prohibiting the extension of a maturity date, advancement of additional credit, or renewal of a loan to a borrower whose obligations to the Bank have been classified

“Substandard” or “Doubtful,” whether in whole or in part, in regulatory reports of examination, without the full collection in cash of accrued and unpaid interest, unless the loans are well secured and adequately supported by current and complete financial information, and the renewal or extension has first been approved in writing by a majority of the Bank’s board of directors;

(xiv) requiring a non-accrual policy in accordance with the Federal Financial Institutions Examination Council’s Instructions for the Preparation of Consolidated Reports of Condition and Income;

(xv) prohibiting the capitalization of interest or loan-related expenses, unless the board of directors provides, in writing, a detailed explanation of why said capitalization is in the best interests of the Bank;

(xvi) establishing limitations on the payment of overdrafts without the prior written approval of the Bank’s loan committee and imposing appropriate limitations on the use of the Cash Items account;

(xvii) addressing concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;

(xviii) establishing strict guidelines for out-of-territory loans which, at a minimum, shall impose an aggregate limitation on such loans, require complete credit documentation, require approval by a majority of the board of directors prior to disbursement of funds, and require a detailed, written explanation of why such loan is in the best interest of the Bank;

(xix) requiring that collateral appraisals be completed prior to the making of secured extensions of credit, and that no less than annual collateral valuations be performed for all secured loans;

(xx) establishing review and monitoring procedures to ensure compliance with the FDIC's appraisal regulations, 12 C.F.R. Part 323; and

(xxi) prohibiting the issuance of standby letters of credit unless the letters of credit are well secured and are adequately supported by current and complete financial information.

(c) The Bank shall promptly submit the revised loan policy to the Regional Director for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the revised loan policy, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the revised loan policy. Any subsequent modification of the loan policy shall be submitted to the Regional Director for review and comment and shall not be implemented without the prior written approval of the Regional Director.

11. REDUCTION OF CONCENTRATIONS OF CREDIT.

(a) Within 60 days of the effective date of this ORDER, The Bank shall review each concentration of credit listed on the Concentrations page of the Report of Examination to identify the level of risk in each concentration and adopt a written plan of action ("Concentrations Plan") to reduce each of the concentrations to not more than 25 percent of the Bank's total Tier 1 capital.

(b) The Concentrations Plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

(i) dollar levels to which the Bank shall reduce each concentration within 3 and 6 months of the effective date of this ORDER; and

(ii) provisions for the submission of monthly written progress reports to the board of directors for review and notation in the minutes of the board.

(c) The Bank shall promptly submit the Concentrations Plan to the Regional Director for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the Concentrations Plan, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the Concentrations Plan. Any subsequent modification of the Concentrations Plan shall be submitted to the Regional Director for review and comment and shall not be implemented without the prior written approval of the Regional Director.

12. FUNDS MANAGEMENT POLICY.

(a) Within 60 days of the effective date of this ORDER, and annually thereafter, the board of directors shall review the Bank’s funds management policy for adequacy and shall make the necessary revisions to address the Bank’s asset/liability and liquidity positions and strategies.

(b) At a minimum, the revised funds management policy shall:

(i) identify the personnel responsible for the funds management functions of the Bank and establish a funds management committee;

(ii) provide a statement of the Bank’s long-term and short-term liquidity needs and plans for ensuring that such needs are met;

(iii) 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;

(iv) establish a target dependency ratio;

(v) provide for a periodic calculation to determine the extent to which the Bank is funding long-term assets with short-term liabilities;

(vi) establish parameters for use, volume, and maturities of brokered deposits, deposits obtained through solicitation services and other similar rate sensitive or credit sensitive deposits, and borrowings;

(vii) convey the board’s risk tolerance and establish target liquidity ratios;

(viii) provide an adequate system of internal controls that ensures the independent and periodic review of the liquidity management process, and compliance with policies and procedures;

(ix) ensure that senior management and the board are given the means to periodically review compliance with policy guidelines, such as compliance with established limits and legal reserve requirements, and verify that duties are properly segregated;

(x) include a contingency plan that addresses alternative sources of funds if initial projections of funding sources and uses are incorrect or if a liquidity crisis arises;

(xi) define approval procedures for exceptions to policies, limits, and authorizations;

(xii) provide for tax planning;

(xiii) require specific guidelines, limitations, and authority for bond trading activities;

(xiv) conform with the Interagency Statement of Policy on Interest Rate Risk;

(xv) establish a method to measure/monitor rate sensitivity;

(xvi) establish an acceptable range for the relationship between rate sensitive assets and rate sensitive liabilities; and

(xvii) establish acceptable parameters for changes in the economic value of Equity and Net Interest Margin given changing interest rate scenarios.

(c) The Bank shall promptly submit the revised funds management policy to the Regional Director for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the revised funds management policy, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the revised funds management policy. Any subsequent modification of the policy shall be submitted to the Regional Director for review and comment and shall not be implemented without the prior written approval of the Regional Director.

13. INVESTMENT POLICY.

(a) Within 60 days of the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank’s investment policy for adequacy and shall make the necessary revisions to address the actual and contemplated condition of investments held to maturity or available for sale.

(b) At a minimum, the revised policy shall:

(i) be consistent with generally accepted accounting principles;

(ii) be consistent with the Bank’s loan, liquidity and funds management policies;

(iii) be consistent with the FDIC’s Supervisory Policy Statement on investment securities and end-user derivative activities; and

(iv) be consistent with the Federal Financial Institutions Examination Council’s Instructions for the Preparation of Reports of Condition and Income, under which the Bank shall properly segregate and account for trading account securities.

(c) The Bank shall promptly submit the revised investment policy to the Regional Director for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the revised investment policy, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the revised investment policy. Any subsequent modification of the policy shall be submitted to the Regional Director for review and comment and shall not be implemented without the prior written approval of the Regional Director.

14. PROFIT PLAN AND BUDGET.

(a) The plan and budget required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall Earnings, as well as a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 60 days of the effective date of this ORDER, the Bank shall submit to the Regional Director for review and comment a written profit plan and a realistic and comprehensive budget for all categories of income and expense for calendar year(s) 2008 and 2009. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the profit plan and budget, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and follow the plan and budget.

(c) Within 30 days of the end of each calendar quarter, the Bank's board of directors shall evaluate the Bank's actual performance against the profit plan and budget and record the results of the evaluation and any actions taken by the Bank in the minutes of the board. A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect. A copy of the profit plan and budget shall be submitted to the Regional Director for review and comment within 30 days of the end of each calendar year.

15. CALL REPORTS.

Within 30 days of the effective date of this ORDER, the Bank shall review all Consolidated Reports of Condition and Income filed with the FDIC on and after December 31, 2007, and shall file with the FDIC amended Consolidated Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the date of each such Report. In addition to the above and during the life of this ORDER, the Bank shall file with the FDIC Consolidated Reports of Condition and Income that accurately reflect the financial condition of the Bank as of the reporting period. In particular such Reports shall include any adjustment in the Bank's books made necessary or appropriate as a consequence of any examination of the Bank by the Regional Director during that reporting period.

16. RELATIONS WITH BANK HOLDING COMPANY.

The Bank shall not make any payment, directly or indirectly, to or for the benefit of the Bank's holding company, or any other Bank affiliate, without the prior written consent of the Regional Director.

17. POLICY FOR EXPENSE REIMBURSEMENTS.

(a) Within 60 days of the effective date of this ORDER, the Bank shall adopt and implement a written policy covering reimbursement of expenses to its directors, officers, and employees. The Bank shall promptly submit the policy for expense reimbursement to the Regional Director for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the expense reimbursement policy, which approval shall be recorded in the minutes of the board. Thereafter, the Bank and its institution-affiliated parties shall implement and follow the policy.

(b) At a minimum, the policy shall include:

(i) provisions which specify reasonable limitations for all categories of expenses related to customer entertainment and business development;

(ii) provisions which require all submissions for reimbursement of expenses related to customer entertainment and business development to be thoroughly documented by, at a minimum, the submission of original receipt(s), identification of the person(s) entertained, and the business purpose of the expense; and

(iii) provisions which prohibit the reimbursement of personal expenses of the Bank’s directors, officers, and employees.

(c) The Bank’s board of directors shall conduct monthly reviews of all expenses submitted for customer entertainment, business development, and any other expenses submitted by the Bank’s officers and directors, the results of which reviews shall be stated in the minutes of the meetings of the board of directors at which such reviews are performed. On a monthly basis, the Bank shall seek reimbursement, for any expenses paid which are not in conformance with the expense reimbursement policy established pursuant to this paragraph.

18. CORRECTION OF VIOLATIONS OF LAW AND CONTRAVENTIONS OF POLICY AND GUIDELINES.

(a) Within 30 days of the effective date of this ORDER, the Bank shall:

(i) consistent with safe and sound banking practices, eliminate or correct all violations of law, rules, and regulations cited in the Report of Examination;

(ii) consistent with safe and sound banking practices, eliminate or correct all contraventions of regulatory policies or guidelines cited in the Report of Examination; and

(iii) adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules, regulations, and regulatory policies and guidelines.

(b) The Bank shall document each violation or contravention that cannot be eliminated or corrected, and why, for review by the board of directors. The board's review, discussion, and any action taken with respect to the uncorrected violations or contraventions shall be recorded in the minutes of the board.

19. DISCLOSURE TO SHAREHOLDERS.

The Bank shall send to its shareholders, or otherwise furnish, a description of this ORDER in conjunction with the Bank's next shareholder communication and in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Room F-6043, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any requests for changes made by the FDIC shall be made prior to dissemination of the description, communication, notice or statement.

20. COMPLIANCE WITH ORDER.

Within 30 days of the effective date of this ORDER, the Bank shall adopt and implement a program to monitor the Bank’s compliance with this ORDER. The board of directors shall review the Bank’s compliance with this ORDER and record its review in the minutes of each regularly scheduled meeting of the board of directors.

21. PROGRESS REPORTS.

Within 30 days of the end of each calendar quarter after the effective date of this ORDER, the Bank shall furnish a written progress report to the Regional Director and the Deputy Commissioner of the Minnesota Department of Commerce, Financial Examinations Division, signed by each member of the board of directors, detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Progress reports may be discontinued when the Regional Director has, in writing, released the Bank from making additional reports.

The effective date of this ORDER shall be 10 days after its issuance by the FDIC.

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: January 26, 2009

By:

Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office