FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of	)	
STATE BANK OF PARK RAPIDS PARK RAPIDS, MINNESOTA	)	**ORDER TO CEASE AND DESIST**
	)	**FDIC-08-107b**
(Insured State Nonmember Bank)	)	

The Federal Deposit Insurance Corporation ("FDIC"), on the 6th day of June, 2008, issued to State Bank of Park Rapids, Park Rapids, Minnesota ("Bank") a NOTICE OF CHARGES AND OF HEARING ("NOTICE") and on the 21st day of July, 2008, issued to the Bank an AMENDED NOTICE OF CHARGES AND OF HEARING (collectively referred to herein as the "NOTICE"), pursuant to section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b). The NOTICE charged the Bank with having engaged in unsafe or unsound banking practices and violations of law and regulation.

The Bank thereafter entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT"), dated November 17, 2008, with counsel for the FDIC, whereby, solely for the purpose of this proceeding and without admitting or denying any of the allegations in the NOTICE, 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 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;

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 for the volume, kind, and quality of loans and leases held;

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

(1) failing to obtain proper loan documentation;

(2) failing to obtain adequate collateral;

(3) failing to establish and monitor collateral margins of secured borrowers;

(4) failing to establish and enforce adequate loan repayment programs; and

(5) extending and renewing credit without obtaining current and complete financial information from the borrower;

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

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

H. failing to keep accurate books and records;

I. operating with inadequate policies and procedures reasonably designed to identify and report suspicious activities;

J. violating laws and regulations as more fully described on pages 18 and 19 of the FDIC’s Report of Examination of the Bank dated January 22, 2008 (“Report of Examination”);

K. operating in contravention of supervisory policy statements and other guidance, including, but not limited to:

(1) Appendix A of Part 364 of the FDIC Rules and Regulations – Interagency Guidelines Establishing Standards for

Safety and Soundness, as more fully described on pages 19 through 22 of the Report of Examination;

(2) Appendix A of Part 365 of the FDIC Rules and Regulations relating to real estate lending standards, as more fully described on page 22 of the Report of Examination;

(3) the Interagency Appraisal and Evaluation Guidelines, as more fully described on pages 22 and 23 of the Report of Examination; and

(4) the Interagency Policy Statement on the Allowance for Loan and Lease Losses, as more fully described on pages 23 and 24 of 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. Qualified Management.

(a) Within 120 days of the effective date of this ORDER, the Bank shall have qualified management, including a chief executive officer, a chief lending officer, and a number and type of additional senior officers appropriate to the size and complexity of the Bank. Bank officers 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, and restore the Bank to a satisfactory financial condition, including, but not limited to, capital adequacy, asset quality and diversification, management effectiveness, earnings, liquidity, sensitivity to market risk, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance.

(b) Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

2. Management Plan.

(a) Within 90 days of the effective date of this ORDER, the Bank shall develop, and the board of directors shall approve, a written Management Plan. At a minimum, the Management Plan shall:

(i) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;

(ii) identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;

(iii) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;

(iv) evaluate the current and past performance of all existing Bank officers, including executive officers and staff members, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner;

(v) establish requirements and methodologies to periodically evaluate each individual's job performance;

(vi) identify and establish Bank committees needed to provide guidance and oversight to management;

(vii) establish a plan to terminate, rotate, or reassign officers and staff as necessary, as well as recruit and retain qualified personnel consistent with the board's analysis and assessment of the Bank's staffing needs;

(viii) identify training and development needs, and incorporate a plan to provide such training and development;

(ix) establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each officer and staff member;

(x) contain a current organizational chart that identifies all existing and proposed staff and officer positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs; and

(xi) contain a current management succession plan.

(b) The approval of the Management Plan shall be recorded in the minutes of the board of directors. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the Management Plan.

3. Changes in Board of Directors or Senior Executive Officers.

The Bank shall notify the Supervisory Authorities, in writing, of the resignation or termination of any of the Bank's directors or senior executive officers within ten days of the event.

4. Minimum Capital Requirements.

(a) Within 60 days of the effective date of this ORDER, the Bank shall achieve and maintain 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 allowance for loan and lease losses:

(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) In the event any ratio falls below the established minimum, the Bank shall notify the Supervisory Authorities within ten days of the event and shall increase capital in an amount sufficient to comply with this provision within 90 days of the event.

5. Restriction on Dividends and Management Fees.

The Bank shall not declare or pay any cash dividend, management fee, capital distribution, or earnings distribution without the prior written approval of the Supervisory Authorities. The foregoing sentence notwithstanding, the Bank is not required to obtain prior written approval of the Supervisory Authorities for a payment of any kind required by the United States Department of the Treasury's Troubled Asset Relief Program (TARP) Capital Purchase Program (CPP), if, after such payment, the Bank remains in compliance with the Minimum Capital Requirements of paragraph 4 of this ORDER.

6. 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" in the Report of Examination 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.

7. Reduction of Adversely Classified Assets.

(a) Within 60 days of the effective date of this ORDER, the Bank shall develop a written plan to reduce the Bank’s risk exposure in each asset or relationship in excess of $100,000 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 Supervisory Authorities. In developing the plans required by this paragraph, 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, alternative repayment sources, the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(b) The plans required by this paragraph 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 dates 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) specific action plans intended to reduce the Bank’s risk exposure in each classified asset; and

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all adversely classified assets, and the ratio of the consolidated balance to the Bank’s projected Tier 1 capital plus the allowance for loan and lease losses.

(c) Within 60 days of the effective date of this ORDER, the board of directors shall approve the plans. Thereafter, the Bank and its institution-affiliated parties shall implement the plans.

8. 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.

9. Correction of Technical Exceptions.

(a) Within 90 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 borrowers' credit file.

(b) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the board of directors for review during each regularly scheduled meeting. The reports shall be made a part of, and the review shall be noted in, the minutes of the board.

(c) 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 exceptions shall be recorded in the minutes of the board.

10. Loan Policy.

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 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. The Bank’s loan policies shall be enhanced to address, at a minimum, the deficiencies cited by the FDIC in the Report of Examination. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the policy.

11. Independent Loan Review Program.

(a) Within 30 days of the effective date of this ORDER, the Bank shall develop a written program for independent loan review (“Loan Review Program”) that will provide for periodic review of the Bank’s loan portfolio and the identification and categorization of problem credits. At a minimum, the Loan Review Program 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 subparagraph (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 subparagraph (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 assessment of 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 the identified deficiencies; and

(xi) a mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (x) above to the board of directors. The report shall also describe the action(s) taken by management with respect to problem credits.

(b) Within 60 days of the effective date of this ORDER, the board of directors shall approve the program. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the program.

12. <u>Maintenance of Allowance for Loan & Lease Losses</u>.

(a) Within 10 days of the effective date of this ORDER, the Bank shall make a provision which will (i) replenish the allowance for loan and lease losses (“Allowance”) for the loans charged off as a result of the Report of Examination and this ORDER and (ii) reflect the potential for further losses in the remaining loans or leases classified “Substandard” and “Doubtful” in the Report of Examination, as well as all other loans and leases in its portfolio.

(b) Within 90 days of the effective date of this ORDER, the Bank shall establish a comprehensive policy and methodology for determining the appropriateness of the Allowance. The policy shall provide for a review of the Allowance at least once each calendar quarter and be completed at least 10 days prior to the end of each quarter in order that the results of the review may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, include 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 Supervisory Authorities.

13. Elimination or Correction of Violations of Laws, Rules, Regulations and Contraventions of Policy.

(a) Within 60 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.

14. Strategic Plan.

(a) Within 60 days of the effective date of this ORDER, the Bank shall develop and implement a policy governing the Bank's strategic planning process. At a minimum, the policy shall include developing and maintaining a strategic plan that includes short-, intermediate-, and long-range planning, the development of project or action plans for achieving the goals and objectives set forth in the strategic plan, procedures for monitoring performance, and, as necessary, methods for periodic revisions to the strategic plan.

(b) Within 60 days of the effective date of this ORDER, the board of directors shall approve the policy. Thereafter, the Bank shall implement and fully comply with the policy.

15. Profit Plan.

(a) Within 60 days of the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Bank shall develop a written profit plan consisting of goals and strategies, consistent with sound banking practices and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER ("Profit Plan"). The Profit Plan shall include, at a minimum:

(i) identification of the major areas in and means by which the board of directors will seek to improve the Bank's operating performance;

(ii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings, as well as maintain appropriate provisions to the allowance for loan and lease losses;

(iii) realistic and comprehensive budgets for all categories of income and expense items;

(iv) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components; and

(v) the individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

(b) Within 60 days of the effective date of this ORDER, the board of directors shall approve the Profit Plan. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the Profit Plan.

16. Liquidity and Funds Management.

(a) Within 60 days of the effective date of this ORDER, the Bank shall review its written liquidity and funds management policies and plans, and amend each as necessary. At a minimum, the policies and plans shall:

(i) address the deficiencies cited by the FDIC in the Report of Examination;

(ii) establish target liquidity ratios and/or parameters;

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

(iv) detail the current composition of brokered deposits by maturity and explain the means by which such deposits will be paid;

(v) establish target percentage levels to which the Bank will reduce the volume of loans and other long-term assets that are funded by potentially volatile liabilities and the date by which the target levels will be reached;

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

(vii) ensure that a report of anticipated cash inflows and outflows for the thirty-, sixty-, and ninety-day time-frames is prepared and presented to the board of directors on a monthly basis.

(b) Within 60 days of the effective date of this ORDER, the board of directors shall approve the policies and plans. Thereafter, the Bank and its institution-affiliated parties shall implement and fully comply with the policies and plans.

17. <u>Program for Monitoring Compliance with ORDER</u>.

Within 30 days of the effective date of this ORDER, the Bank shall adopt and implement a program for monitoring the Bank's compliance with this ORDER.

18. <u>Disclosure to Shareholders</u>.

The Bank shall send, or otherwise furnish, to its shareholders 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 by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

19. <u>Progress Reports</u>.

(a) No later than February 28, 2009, and within 30 days of the end of each calendar quarter thereafter, the Bank shall furnish a written progress report to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. The 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) actions taken or in-process for addressing each deficiency;

(ii) results of the corrective actions taken;

(iii) the status of compliance with each provision of the ORDER;

(iv) appropriate supporting documentation; and

(v) review and approval of the progress report by the board of directors.

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

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: November 19, 2008

By:

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Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office