**FEDERAL DEPOSIT INSURANCE CORPORATION**
**WASHINGTON, D.C.**

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| **In the Matter of**<br><br>**HORIZON BANK**<br>**PINE CITY, MINNESOTA**<br><br>**(Insured State Nonmember Bank)** | )<br>)<br>)<br>)<br>)<br>)<br>)<br>)<br>) | **ORDER TO CEASE AND DESIST**<br><br>**FDIC-08-393b** |

Horizon Bank, Pine City, Minnesota ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices 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 December 31, 2008, 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, 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. 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:

A. Operating with inadequate capital and an inadequate allowance for loan and lease losses for the volume, kind, and quality of loans and leases held, and/or failing to make provision for an adequate allowance for possible loan and lease losses.

B. Operating with inadequate liquidity in light of the Bank’s asset and liability mix.

C. Operating with an excessive level of adversely classified loans or assets, and/or delinquent loans and/or nonaccrual loans.

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

**1. Increase and Maintain Capital.**

(a) The Bank will immediately obtain and maintain a sufficient level of capital for a Total Risk-Based Capital Ratio of not less than 12 percent and a Tier 1 Leverage Capital Ratio of not less than 8 percent.

(b) Within 10 days from the date of this ORDER, the Bank shall submit a written plan to the Deputy Regional Director of the FDIC's Kansas City Region and to the Deputy Commissioner of the Minnesota Department of Commerce, Financial Examinations Division (collectively, "Supervisory Authorities"), describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth above, as well as a contingency plan for the sale, merger, or liquidation of the Bank in the event the primary sources of capital are not available within 30 days. Within 10 days of receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the written plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the written plan.

**2. Dividend Restriction.**

While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Supervisory Authorities.

**3. Liquidity and Funds Management.**

(a) Within 10 days from the effective date of this ORDER, the Bank shall prepare a written liquidity analysis and projection for the sources and uses of funds, including but not limited to the following:

*Sources:*

(i) listing of loans available for participation or sale and a list of committed purchasers;

(ii) a listing and projected pay offs or pay downs of loans;

(iii) specific listing of all funding sources and borrowings and level of commitments/availability;

(iv) projection and breakdown of deposit growth from non-brokered deposits and sources;

*Uses:*

(v) listing and timing of contractually binding loan commitments that are expected to be funded;

(vi) projections for known maturities of anticipated brokered deposit withdrawals;

(vii) projections, including best and worse case scenarios, of large public/private deposit withdrawals;

*Projections and Contingency Plans:*

(viii) projections for curtailing loan growth and shrinking the total asset size of the Bank; and

(ix) specific contingency plans in the event that anticipated events do not materialize, or in case of some other liquidity emergency.

(b) The written analysis and projection required by paragraph (a) above shall be reviewed for viability on a daily basis, and updated as necessary.

**4. Brokered Deposits.**

Upon the issuance of this ORDER and so long as this ORDER is in effect, the Bank shall not accept, increase, renew, or rollover its brokered deposits without the prior written approval of the Supervisory Authorities. Within 10 days of the effective date of this ORDER, the Bank shall submit a written plan for reducing its reliance on brokered deposits ("brokered deposit plan") to the Supervisory Authorities. The brokered deposit plan shall detail the current composition of the Bank's brokered deposits by maturity and explain the means by which such deposits will be paid. The Bank shall submit the brokered deposit plan to the Supervisory Authorities for review and comment. For purposes of this ORDER, brokered deposits are defined in section 337.6(a)(2) of the FDIC Rules and Regulations to include any deposits funded by third-party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance. Within 10 days of receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Bank shall approve the brokered deposit plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the brokered deposit plan.

**5. Reduction of Adversely Classified Assets.**

Within 30 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 in excess of $100,000 internally identified or classified “Substandard” or “Doubtful.” For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of an asset to warrant its removal from adverse classification. In developing the plan mandated 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, 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.

**6. 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 adversely classified “Substandard” or "Doubtful," either internally or by either of the Supervisory Authorities in a Report of Examination in the last 18 months and is uncollected, or classified “Substandard” or “Doubtful” in any future Reports of Examination from either of the Supervisory Authorities 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 (a) of this provision 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 shall conclude:

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

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

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

(c) The board of directors’ conclusions and approval shall be made a part of the minutes of the board, or designated committee, with a copy retained in the borrower’s credit file.

**7. Maintenance of Allowance for Loan and Lease Losses.**

(a) Within 10 days from the effective date of this ORDER, the board of directors shall make a provision which will replenish the allowance for loan and lease losses (“ALLL”) for the loans charged off as a result of the most recent internal loan review or in the most recent examination and reflect 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 10 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining the ALLL. The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed at least 10 days prior to the end of each quarter in order that the findings of the board may be properly reported in the Bank’s Call Reports. Such reviews shall, at a minimum, be made in accordance with the Call Report Instructions, 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 ALLL, and any analysis of the Bank’s ALLL provided by either of the Supervisory Authorities.

(c) A deficiency in the Bank’s ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Bank’s submission of its Call Report. The board of directors shall thereafter maintain an appropriate ALLL.

(d) The Bank shall submit the policy and ALLL methodology to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory

Authorities, and after due consideration of any recommended changes, the Bank shall approve the policy, which approval shall be recorded in the minutes of the board of directors. Thereafter, the Bank shall implement and fully comply with the policy.

**8. Progress Reports Detailing Compliance with ORDER.**

(a) Upon written request by either of the Supervisory Authorities, the Bank shall furnish written progress reports to the Supervisory Authorities 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.

**9. Miscellaneous.**

The provisions of this ORDER shall not bar, estop or otherwise prevent the Supervisory Authorities or any other federal or state agency or department from taking any action against the Bank, any of the Bank's current or former institution-affiliated parties, or agents for violations of any law or regulations, or engaging in unsafe or unsound banking practices.

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: January 6, 2009

By:

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Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office