

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )  
PROGROWTH BANK )  
NICOLLET, MINNESOTA )  
(Insured State Nonmember Bank) )

CONSENT ORDER  
FDIC-10-238b

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The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for ProGrowth Bank, Nicollet, Minnesota ("Bank"), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated June 22, 2010 that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices and/or violations of law and/or regulations, to the issuance of this Consent Order ("ORDER") by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

1. **Assessment of Management.**

(a) From the effective date of this ORDER, the Bank shall take action to have and maintain qualified management.

(b) Within 30 days from the effective date of this ORDER, the Board shall engage an independent third party ("Consultant") acceptable to the FDIC's Regional Director for the Kansas City Region ("Regional Director"), and that possesses appropriate expertise and qualifications to: (i) analyze and assess performance and needs of the Bank's management and staff; and, (ii) provide the analysis and assessment in a written report to the Board ("Consultant's Report") within 90 days of engagement.

(c) The Bank shall provide the Regional Director and the Minnesota Department of Commerce (collectively "Supervisory Authorities") with a copy of the proposed engagement letter or contract with the Consultant for review before it is executed.

(d) Within 30 days of receipt of the Consultant's Report, the Board will develop a written Management Plan that incorporates the findings of the Consultant's Report, a plan of action in response to each recommendation contained in the Consultant's Report, and a time frame for completing each action. At a minimum, the Management Plan shall:

(i) contain a recitation of the recommendations included in the Consultant's Report or otherwise communicated to

the Bank, along with a copy of any report(s) prepared by any other outside consultants;

(ii) 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;

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

(iv) identify the authorities, responsibilities, and accountabilities attributable to each position, as well as the appropriateness of the authorities, responsibilities, and accountabilities, giving due consideration to the relevant knowledge, skills, abilities, and experience of the incumbent (if any) and the existing or proposed compensation;

(v) 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;

(vi) identify the appropriate level of current and deferred compensation to each consultant, officer, and staff position;

(vii) evaluate the current and past performance of all existing Bank consultants, officers and staff, 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;

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

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

(x) 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;

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

(xii) 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;

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

(xiv) contain a current management succession plan; and

(xv) contain a procedure to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, when applicable to changes/additions in directors and senior executive officers.

(e) A copy of the Consultant's Report and the Management Plan and any subsequent modification thereto shall be submitted to the Supervisory Authorities, for review and comment. Within 30 days from receipt of any comment from the Regional Director and after consideration of all such comments, the Board shall approve the Management Plan which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain the responsibility of the Board to fully implement the plan within the specified time frames. In the event the plan, or any portion thereof, is not implemented, the Board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from the Management Plan.

## **2. 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 January 19, 2010 FDIC Report of Examination ("Report of Examination") that have not been previously collected or charged off.

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

**3. Reduction of Adversely Classified Assets.**

(a) Within 60 days from the effective date of this ORDER, the Bank shall formulate written plans to reduce the Bank's risk exposure in each asset in excess of \$250,000 adversely classified as "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 mandated by this subparagraph (a), 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 sources of repayment and repayment ability, 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) Upon completion of the plans, the Bank shall immediately submit the plans to the Supervisory Authorities for

review and comment. Within 30 days from receipt of any comment from the Regional Director, and after consideration of all such comments, the Board shall approve the plans, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the plans.

**4. 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) Subparagraph (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 subparagraph (b), whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, 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.

(b) The Board's conclusions and approval shall be made a part of the minutes of the Board, with a copy retained in the borrower's credit file.

**5. Investments Policy and Concentrations.**

(a) Within 30 days of the effective date of this ORDER, the Bank shall revise its investment policy to address the comments and criticisms in the Report of Examination.

(b) Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan (the "Concentration Plan")

for systematically reducing and monitoring the Bank's investments listed in the Concentrations pages of the Report of Examination, to an amount which is commensurate with the Bank's business strategy, revised investment policy, management expertise, size, and location. At a minimum, the plan shall include:

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

(ii) timeframes for achieving the projected reduction in dollar levels identified in response to (i) above;

(iii) provisions for the submission of monthly written progress reports to the Board for review and notation in the minutes of the meetings of the Board;  
and

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

(c) The Bank shall not invest in any new private label collateralized mortgage obligations so long as such investment would result in the Bank exceeding any limit contained in the Concentration Plan.

(d) The Bank shall submit the revised investment policy and the Concentration Plan to the Supervisory Authorities, and

thereafter, approved by the Board. Such approval shall be recorded in the minutes of the Board and thereafter, the Bank shall follow the revised investment policy and implement the Concentration Plan.

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

The Board shall maintain an adequate written policy and methodology for determining the ALLL. 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.

**7. Minimum Capital Requirements.**

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an appropriate allowance for loan and lease losses:

(i) Tier 1 capital at least equal to 8.5 percent of total assets;

(ii) Total risk-based capital at least equal to 11.5 percent of total risk-weighted assets.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank

shall immediately notify the Supervisory Authorities and within 45 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a), or (2) submit a written plan to the 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 of subparagraph (a) above, as well as a contingency plan in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the Regional Director, 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. Thereafter, the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 capital necessary to meet the requirements of subparagraph (a) of this provision may not be accomplished through a deduction from the allowance for loan and lease losses.

**8. 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.

**9. Business/Strategic Plan and Profit and Budget Plan.**

(a) Within 60 days from the first day in each calendar year, the Board shall develop and fully implement a written three-year business/strategic plan and one-year profit and budget plan covering the overall operation of the Bank and its 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.

(b) The business/strategic plan shall provide specific objectives for asset growth, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Supervisory Authorities for review and comment. No more than 30 days after the receipt of any comment from the Regional Director, and after consideration of all such comments, the Board shall approve the business/strategic plan and the profit and budget plan, which approval shall be recorded in the

Board's minutes. Thereafter, the Bank shall implement and fully comply with the plans.

**10. Elimination and/or Correction of Cited Violations of Rules and Regulations.**

(a) Within 60 days after the effective date of this ORDER, the Bank, consistent with sound banking practices, shall eliminate and/or correct all cited violations of rules and regulations in the Report of Examination. In addition, within 60 days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable rules, and regulations.

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

**11. Disclosure of Order to Shareholders.**

Following the effective date of this ORDER, the Bank shall provide a copy or otherwise furnish a description of this ORDER to its sole shareholder, (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. Any accompanying communication, statement, or notice shall be sent to the Supervisory Authorities as part of the applicable progress report required by this ORDER.

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

(a) Within 60 days of the end of the first calendar quarter following the effective date of this ORDER, and within 30 days of the end of each calendar quarter thereafter, 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, 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.

