FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **MAINSTREET BANK** **FOREST LAKE, MINNESOTA** **(Insured State Nonmember Bank)**	**ORDER TO CEASE AND DESIST** **FDIC-08-158b**

Mainstreet Bank, Forest Lake, Minnesota ("Bank"), having been advised of its rights to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of regulations alleged to have been committed by the Bank, as well as of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") dated December 11, 2008, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices and violations of regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

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

ORDER TO CEASE AND DESIST

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

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

B. Operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank.

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

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

E. Engaging in hazardous lending and lax collection practices.

F. Operating with an excessive level of adversely classified items, and delinquent loans, including nonaccrual loans.

G. Operating with inadequate liquidity in light of the Bank’s assets and liability mix.

H. Operating with an inadequate risk rating system.

I. Operating with an inadequate information security program.

J. Violating regulation(s).

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

1. Assessment of Qualified Management.

(a) Within 30 days from the effective date of this ORDER, the board of directors shall engage an independent consultant who is acceptable to the Regional Director of the FDIC’s Kansas City Regional Office (“Regional Director”) and the Deputy Commissioner of the Minnesota Department of Commerce (“Deputy Commissioner”) and who possesses appropriate expertise and qualifications to analyze and assess the Bank’s management and staffing performance and needs and to summarize his/her findings in a written report to the board of directors (“Consultant Report”).

(b) The Consultant Report required by this paragraph shall, at a minimum:

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

(ii) identify the authorities, responsibilities, and accountabilities attributable to each position, and the existing or proposed compensation;

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

(iv) identify Bank committees needed to provide guidance and oversight to management.

(c) Within 30 days of receipt of the Consultant’s Report, the board of directors shall:

(i) conduct a full and complete review of the Consultant’s Report, which review shall be recorded in the board meeting minutes; and

(ii) develop a written plan that incorporates the findings of the Report, a plan of action in response to each recommendation contained in the report, and a time frame for completing each action (“Management Plan”).

(d) 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 by the consultant;

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

(iii) identify the authorities, responsibilities, and accountabilities attributable to each position and the existing or proposed compensation and bonuses;

(iv) evaluate the current and past performance of all existing Bank officers, 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) identify and establish Bank committees needed to provide guidance and oversight to management;

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

(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 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

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

(e) The Bank shall submit the Consultant's Report and Management Plan to the Regional Director and the Deputy Commissioner 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 Management Plan, and record approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the Management Plan. 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 and the Deputy Commissioner, 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 and the Deputy Commissioner for review and comment and shall not be implemented without the prior written approval of the Regional Director.

2. Qualified Management.

Within 30 days from the date the Management Plan is adopted, the Bank shall have qualified management as set forth in the Management Plan. Management shall have the requisite knowledge, skills, ability, and experience to operate the Bank in a safe and sound manner and in compliance with applicable laws and regulations, as well as to restore the Bank to a satisfactory financial condition. Each member of management shall be provided appropriate written authority from the board of directors to implement the provisions of this ORDER. If the Bank is unable to employ qualified management within the timeframe set forth above, the board shall document its efforts to locate such candidates. Thereafter, the board shall provide monthly reports to the Regional Director and the Deputy Commissioner.

3. Reduction of Adversely Classified Assets.

(a) Within 60 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 $500,000 classified "Substandard" in the FDIC's March 24, 2008, Report of Examination ("Report of Examination"). For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the FDIC and the Minnesota Department of Commerce. 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 the source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

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

(i) a schedule for projecting the reduction of the outstanding dollar amounts 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 projected dollar balance on a quarterly basis);

(ii) specific action plans intended to reduce the Bank's risk exposure in each classified asset;

(iii) a schedule showing, on a quarterly basis, the projected 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;

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

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

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

4. Concentrations of Credit.

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop and submit a written plan to the Regional Director and the Deputy Commissioner for systematically reducing and monitoring the Bank's portfolio of construction and land development loans. At a minimum, the plan shall include:

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

(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 of directors for review and notation in minutes of the board of directors' meetings; and

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

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

5. 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 classified "Substandard," or "Loss" in the Report of Examination and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.

(b) Paragraph 5(a) shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the board of directors, after it determines that:

(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 it would be detrimental;

(ii) the extension of such credit would improve the Bank's position, with an explanation 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 board meeting minutes, with a copy retained in the borrower's credit file.

6. Loan Policy.

Within 90 days from the effective date of the ORDER, the Bank shall revise the loan policies and procedures as required by this paragraph.

(a) The Bank shall revise the loan policies and procedures to provide effective guidance and control over the Bank's commercial real estate lending function. In particular, the Bank shall include the FDIC's standards in Part 365 of the FDIC Rules and Regulations ("Real Estate Lending Standards") 12 C.F.R. Part 365, and in Financial Institution Letter 104-2006 ("Joint Guidance on Concentrations in Real Estate Lending"), including:

(i) standards for the capitalization of interest and use of interest reserves and procedures to monitor both;

(ii) appropriate real estate appraisal review procedures;

(iii) appropriate loan-to-value standards, and accurate reporting to the board of directors of all real estate loans in excess of supervisory loan-to-value limits;

(iv) feasibility studies and sensitivity analyses or stress testing;

(v) standards for complete loan documentation, including on-site inspections and current financial information;

(vi) analysis of repayment capacity of borrowers and guarantors, and collateral protection; and

(vii) commercial real estate loan concentration limits, by loan type and characteristics.

(b) The Bank shall also revise the loan policy and procedures to include a loan risk rating system that incorporates objective credit and collateral standards, and is designed to provide Bank management with:

(i) prompt identification of loans with well-defined credit weaknesses; and

(ii) essential information for determining the appropriateness of the allowance for loan and lease losses.

(c) The Bank shall submit the revised loan policy and procedures to the Regional Director and the Deputy Commissioner for review and comment. Within 30 days of receipt of any comments form the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the revised loan policy and procedures, and record approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the loan policy and procedures.

7. Charge-off of Adversely Classified Assets.

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

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

8. Maintenance of Allowance for Loan and Lease Losses.

(a) No later than September 30, 2008, the board of directors shall make a provision that will replenish the allowance for loan and lease losses ("allowance") for the loans charged off as a result of the most recent examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard" in the Report of Examination, as well as all other loans and leases in its portfolio.

(b) Within 30 days from the effective date of this ORDER, the board 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 conducted by the board may be properly reported in the quarterly Reports of Condition and Income (“Call Reports”). Such reviews shall, at a minimum, be made in accordance with the Federal Financial Institutions Examination Council’s Instructions for Reports of Condition and Income (“Call Report Instructions”), the Interagency Statements of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the appropriateness of the Bank’s allowance, and any analysis of the Bank’s allowance provided by the FDIC and the Minnesota Department of Commerce.

(c) A deficiency in the allowance 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 allowance.

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

9. Capital Maintenance.

(a) The Bank shall 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. Within 30 days from the last day of each calendar quarter the Bank shall determine its capital ratios for that calendar quarter, based on its Call Report.

(b) If its capital ratios are less than the minimum requirements, within 30 days from said required determination, the Bank shall submit a written plan to the Regional Director and the Deputy Commissioner, describing the means and timing by which the Bank shall increase such capital ratios up to or in excess of the minimum requirements. Within 30 days of receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the written plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

10. 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 Regional Director and the Deputy Commissioner.

11. Business/Strategic Plan and Profit and Budget Plan.

(a) Within 90 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the board of directors 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 Regional Director and the Deputy Commissioner for review and comment. No more than 30 days after the receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the business/strategic plan and the profit and budget plan, which approval shall be recorded in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plans.

12. Brokered Deposits.

(a) Upon the effective date of this ORDER, and so long as this ORDER is in effect, the Bank shall not accept, renew, or rollover its brokered deposits without the prior written approval of the Regional Director and the Deputy Commissioner.

(b) Within ten (10) days of the effective date of this ORDER, the Bank shall submit a written plan for reducing its reliance on brokered deposits to the Regional Director and the Deputy Commissioner for review and comment. The plan shall detail the current composition of brokered deposits by maturity and explain the means by which such deposits will be paid. Within 30 days of receipt of any such comments from the Regional Director, and after due consideration of any recommended changes, the board of directors shall approve the revised plan, and record the approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plan. For purposes of this ORDER, “brokered deposits” are defined in section 337.6(a)(2) of the FDIC Rules and Regulations, 12 C.F.R. § 337.6(a)(2).

(c) By the 10th day of each quarter-end following the effective date of this ORDER, the Bank shall provide a written progress report to the Regional Director and the Deputy Commissioner detailing the level, source, and use of brokered deposits with specific reference to progress under the Bank’s plan.

(d) Within 10 days from the effective date of this ORDER, the Bank shall revise its contingency funding plan to address reasonable funding strategies, other than brokered deposits.

13. Elimination and/or Correction of Violations of Regulations.

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

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

14. <u>Information Security Program</u>.

(a) Within 120 days from the effective date of this ORDER, the Bank shall develop and maintain a written information security program that meets or exceeds the requirements of Part 364, Appendix B, of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, Appendix B. The written information security program shall, at a minimum, require the Bank to initiate the following actions to protect critical Bank assets, and confidential and sensitive customer information:

(i) develop, document, and adopt a risk assessment methodology for conducting thorough risk assessments of critical Bank assets, confidential and sensitive customer information, and operational practices ("risk assessment");

(ii) using the methodology developed as required by paragraph 14(a)(i) above, perform a risk assessment within 60 days of adoption of the risk assessment program, and subsequent risk assessments at least annually, to identify controls required to reduce risks to predefined levels of acceptance as authorized and approved by the board of directors; and

(iii) develop, document, and implement an audit program to assess the effectiveness of the Bank's information security program. The audit program shall test and validate information security program implementation and compliance, and contain formal reporting requirements.

(b) The Bank's proposed risk assessment and audit programs prepared as required by paragraph 14(a) shall be submitted to the Regional Director and the Deputy Commissioner 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 programs, and record such approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the programs.

15. Disclosure of Order to Shareholders.

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

16. Progress Reports.

(a) Within 30 days of the end of the first quarter following the effective date of this ORDER, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Deputy Commissioner detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank’s progress toward achieving compliance with each provision of the ORDER.

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

MISCELLANEOUS

The provisions of this ORDER shall not bar, estop or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

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

This ORDER shall be effective on the date of issuance.

The provisions of the 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: December 12, 2008

By:

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Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office