FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of	)	
	)	**ORDER TO CEASE AND DESIST**
ST. STEPHEN STATE BANK	)	
SAINT STEPHEN, MINNESOTA	)	**FDIC-09-182b**
	)	
(Insured State Nonmember Bank)	)	

St. Stephen State Bank, Saint Stephen, Minnesota ("Bank"), having been advised of its rights to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, as well as of its rights 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 June 17, 2009, 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, 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. 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:

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.

E. Engaging in hazardous lending practices, including, but not limited to the failure to:

1. obtain proper loan documentation;

2. obtain adequate collateral;

3. establish and monitor collateral margins of secured borrowers;

4. adhere to established lending policies, which set forth prudent underwriting and administration practices; and

5. obtain current and complete financial information.

F. Operating with excessive loan losses and with an excessive level of adversely classified loans or assets.

G. Operating with an inadequate asset/liability and/or funds management policy.

H. Operating with an inadequate risk rating and loan review system.

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 60 days of this ORDER, the Bank shall develop and complete a plan ("Management Plan") for the purpose of providing qualified management for the Bank.

(b) 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 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;

(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) identify the appropriate level of current and deferred compensation to each officer and staff position, including executive officer positions;

(v) 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;

(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, but no less than annually the performance of each officer and staff member;

(x) establish an 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;

(xi) establish a management succession plan, and

(xii) provide each member of management appropriate written authority from the board of directors to implement the provisions of this ORDER.

(c) Within 30 days from completion, a copy of the Management Plan shall be submitted to the Regional Director of the FDIC’s Kansas City Regional Office or his designee (“Regional Director”) and the Commissioner of the Minnesota Department of Commerce (collectively “Supervisory Authorities”) for review and comment. Within 30 days from receipt of any comment, and after consideration of such comment, the board of directors shall approve the Management Plan which approval shall be recorded in its minutes. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto.

(d) For purposes of this Order, the qualification and performance 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 State and Federal laws and regulations, FDIC and FFIEC policy statements, and the Bank’s approved policies and procedures and restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, sensitivity to market risk, and information technology. Each member of Bank management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank.

(e) During the life of this ORDER, 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,” as that term is defined in section 32 of the Act, 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

(f) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32, supra, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104.

2. 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 percent of total assets; and

(ii) Total risk-based capital at least equal to 11 percent of total risk-weighted assets.

(b) In the event any ratio is or falls below the minimum required by paragraph (a) above, the Bank shall immediately notify the Supervisory Authorities and (1) within 30 days shall increase capital in an amount sufficient to comply with paragraph (a) above, or (2) within 30 days shall 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 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 60 days. Within 10 days of receipt of any comments from the Regional Director, and after consideration of all such comments, the board shall approve the written plan and record such approval in its minutes. 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 paragraph (a) above may not be accomplished through a deduction from the allowance for loan and lease losses.

3. 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.

4. Reduction of Adversely Classified Loans.

(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 loan in excess of $100,000 classified “Substandard” in the January 20, 2009 FDIC Report of Examination (“Report of Examination”). For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of a loan so as to warrant its removal from adverse classification by the FDIC and the Minnesota Department of Commerce.

(b) In developing the plan mandated by this paragraph, the Bank shall, at a minimum, 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.

(c) The plans developed pursuant to this paragraph, and the documented actions taken to implement those plans, shall be reviewed by the Bank’s board of directors at least quarterly in connection with the determination of the appropriateness of the Bank’s allowance for loan and lease loss and in the preparation and review of the Bank’s quarterly Reports of Condition and Income. The nature and extent of the board’s review will be recorded in its minutes.

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 "Loss" or "Substandard" 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 (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 who shall fully document in its minutes 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) 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.

6. Implementation of Loan Policy.

Within 90 days from 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. Thereafter, the Bank shall implement and fully comply with the revised loan policies. In the event the Bank considers making a loan that would not conform with the Bank’s loan policies, the loan shall receive prior review and approval by the Bank’s board of directors. The reason for non-conformance and the board’s prior review and approval shall be documented in the board’s minutes and in the loan file for that loan.

7. Implementation of Loan Review Program.

(a) Within 30 days of the effective date of this ORDER, the board shall develop a program of independent loan review that will provide for a periodic review of the Bank’s loan portfolio and the identification and categorization of problem credits. At a minimum, the system shall provide for:

(i) 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) identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;

(iii) assessment of the overall quality of the loan portfolio;

(iv) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;

(v) 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;

(vi) identification of loans that are not in conformance with the Bank's lending policy and an action plan to address the identified deficiencies;

(vii) identification of loans to directors, officers, principal shareholders, and their related interests; and

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

(b) The Bank shall submit the program to the Supervisory Authorities 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 Bank shall approve the program, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the program.

(c) Upon implementation, a copy of each report shall be submitted to the board of directors, as well as documentation of the actions taken by the Bank or recommendations to the board that address identified deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the minutes of the meeting of the board of directors.

8. Maintenance of Allowance for Loan and Lease Losses.

(a) Within 30 days from the date of this ORDER, the board of directors shall make a provision which 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 90 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 in order that the results of the review conducted by the board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, consider the following:

(i) 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 FDIC and the Minnesota Department of Commerce;

(ii) the volume and mix of the overall loan portfolio, including trends in the portfolio mix by loan type and geography, trends in the severity of nonperforming or delinquent loans, trends in the severity of weaknesses in extensions of credit adversely classified in the latest Report of Examination;

(iii) previous loan loss experience by loan type, including the level, trends, and severity of overdrafts, trend of net charge-offs as a percent of average loans over the past several years, as well as an analysis of net charge-offs experienced on previously adversely classified loans;

(iv) the degree of risk associated with renewed and extended loans;

(v) the volume, trend, rate and duration of loan growth;

(vi) the results of internal loan reviews;

(vii) concentrations of credit and significant individual credits;

(viii) present and prospective economic conditions, generally and locally;

(ix) off-balance sheet credit risks; and

(x) any other factors appropriate in determining future allowances, including changes in the Bank's strategic plan, and loan products and markets.

(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 Report of Condition and Report of Income. The board of directors shall thereafter maintain an appropriate allowance.

(d) The Bank shall submit the policy to the Supervisory Authorities 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 Bank shall approve the policy, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the policy.

9. <u>Profit and Budget Plan</u>.

(a) Within 60 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 profit plan for the calendar year, 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.

(b) The written 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 adequate provisions to the allowance for loan and lease losses;

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

(iv) coordination of the Bank’s loan, investment, funds management, and operating policies, strategic plan, and allowance for loan and lease loss methodology with the profit and budget planning;

(v) a no less than quarterly budget review process to monitor the revenue and expenses of the Bank by comparing actual performance against budgetary projections, the results of the evaluation and any actions taken by the board to be reflected in the minutes of the meeting at which the evaluation is undertaken; and

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

(c) The profit 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 any recommended changes, the board of directors shall approve the profit plan which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank, shall fully implement the profit plan and any subsequently approved modification.

10. <u>Liquidity and Funds Management Policies</u>

Within 60 days of the effective date of this ORDER, the Bank shall review its written Liquidity and Funds Management Policy ("Policy") and amend the Policy to include the recommendations detailed in the Report of Examination. The Bank shall submit the Policy, and any future modifications, to the Supervisory Authorities for review and comment. Within 30 days of receipt of all such comments from the Regional Director, and after consideration of all such comments, the Bank shall approve the revised Policy, 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 Policy. At least annually thereafter, while this ORDER is in effect, the Bank shall review this Policy for adequacy and shall make any appropriate revisions to the Policy.

11. <u>Disclosure of Order to Shareholders.</u>

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.

12. Progress Reports Detailing Compliance with ORDER.

(a) Within 45 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.

(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 the _14th day of July, 2009

By:

/s/

Mark S. Moylan
Deputy Regional Director
Kansas City Regional Office