

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

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<b>In the Matter of</b>	)	
	)	<b>ORDER TO CEASE AND DESIST</b>
<b>FIRST MIDWEST BANK</b>	)	
<b>CENTERVILLE, SOUTH DAKOTA</b>	)	<b>FDIC-09-200b</b>
	)	
<b>(Insured State Nonmember Bank)</b>	)	
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First Midwest Bank, Centerville, South Dakota ("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 July 1, 2009, 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 a board of directors and management that did not have adequate policies and practices for the prudent operation of the Bank.

B. 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.

C. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

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

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

F. Engaging in hazardous lending and lax collection practices.

G. Operating with inadequate earnings.

H. Violating laws or regulations.

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) From the effective date of this ORDER, the Bank shall take action to have qualified management, including an appropriate number and type of senior officers with the requisite knowledge, skills, ability, and experience, giving consideration to the size and complexity of the Bank, 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, management effectiveness, earnings, liquidity, and sensitivity to market risk. Each member of management shall be provided appropriate written authority from the board of directors to implement the provisions of this ORDER.

(b) Periodically during the life of this ORDER, the board of directors shall assess management's ability to:

(i) Comply with the requirements of this ORDER; all applicable State and Federal laws and regulations; FDIC and FFIEC policy statements; and the Bank's approved policies and procedures; and

(ii) Restore and thereafter maintain the Bank in a safe and sound condition, including, but not limited to, capital adequacy, asset quality, earnings, management effectiveness, liquidity, and sensitivity to market risks.

The board shall report its findings in minutes of the board of directors meetings.

(c) In the event of a vacancy in the Bank's necessary management structure as determined under this ORDER, the board shall document in its minutes the Bank's efforts to expeditiously fill that vacancy with a qualified individual.

## **2. Assessment of Management.**

(a) Within 45 days from the effective date of this ORDER, the board of directors shall engage an independent third party acceptable to the FDIC and the South Dakota Division of Banking(collectively, the "Supervisory Authorities"), and that possesses appropriate expertise and qualifications to analyze and assess the Bank's management and staffing performance and needs. The engagement shall require that the analysis and assessment shall be summarized in a written report to the board

of directors ("Management Report") within 60 days of engagement. Within 10 days of receipt of the Management Report, the board will conduct a full and complete review of the Management Report, which review shall be recorded in the minutes of the meeting of the board of directors.

(b) The Bank shall provide the Supervisory Authorities with a copy of the proposed engagement letter or contract with the third party for review before it is executed.

(c) Within 30 days of receipt of the Management Report, the board will develop a written Management Plan that incorporates the findings of the report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action. A copy of the Management Report and 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 FDIC Kansas City Regional Director ("Regional Director"), and after consideration of such comment, the board of directors shall approve the Management Plan which approval shall be recorded in the minutes of the meeting of the board of directors. 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

**3. 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 3(a), the Bank shall immediately notify the Supervisory Authorities and within 60 days shall (1) increase capital in an amount sufficient to comply with paragraph 3(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 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 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 of directors. 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 3(a) may not be accomplished through a deduction from the allowance for loan and lease losses.

**4. 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.

**5. Liquidity and Funds Management.**

(a) Within 30 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) listing of 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.



**6. Brokered Deposits.**

(a) 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.

(b) Within 30 days of the effective date of this ORDER, the Bank shall prepare a written plan for reducing its reliance on brokered deposits ("brokered deposit plan"). 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. Within 10 days of receipt of all such comments from the Regional Director, 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.

(c) 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.

7. **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 FDIC's February 17, 2009, Report of Examination ("Report of Examination") that have not been previously collected or charged off.

(b) Elimination or 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.

8. **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" or "Doubtful" 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 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.

(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 due consideration of any recommended changes, the Bank shall approve the plans, 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 plans.

**9. 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.

**10. Implementation of Loan Review.**

(a) Within 30 days of the effective date of this ORDER, the board shall develop a written plan for 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 plan 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) 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;

(iii) Identification of trends affecting the quality of the loan portfolio and potential problem areas;

(iv) Assessment of the overall quality of the loan portfolio;

(v) Identification of credit and collateral documentation exceptions;

(vi) Identification and status of violations of laws, rules, or regulations with respect to the lending function;

(vii) Identification of loans that are not in conformance with the Bank's lending policy;

(viii) Identification of loans to directors, officers, principal shareholders, and their related interests; and

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

(b) The Bank shall submit the plan 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 plan.

(c) Upon implementation, a copy of each report shall be submitted to the board, 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.

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

(a) Within 30 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 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. Thereafter, the Bank shall implement and fully comply with the policy.

## **12. Concentrations of Credit.**

(a) Within 90 days of the effective date of this ORDER, the Bank shall develop a written plan for systematically reducing and monitoring the Bank's portfolio of loans, securities, or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers



(the "concentration plan") as listed in the Concentrations section of the Report of Examination, to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location. At a minimum, the concentration plan shall include:

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

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

(iii) provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors; and

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

(b) The Bank shall submit the concentration plan 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 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 concentration plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or associated entities so long as such extension or commitment would result in the Bank exceeding any limit contained in the concentration plan.

**13. 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 Supervisory Authorities 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.

**14. Elimination and/or Correction of Violations of Laws, 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 violations of laws, rules and regulations, and all contraventions of guidelines and policy statements, cited by the FDIC 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 laws, rules, regulations, guidelines, and policy statements.

(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.

**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 Detailing Compliance with ORDER.**

(a) Within 40 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.

#### **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 the 15<sup>th</sup> day of July, 2009

By:

/s/

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Mark S. Moylan  
Deputy Regional Director  
Kansas City Regional Office