

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

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In the Matter of	)	
	)	ORDER TO CEASE AND DESIST
SECURITY STATE BANK	)	
OF LEWISTON	)	FDIC-09-199b
LEWISTON, MINNESOTA	)	
	)	
(Insured State Nonmember Bank)	)	
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Security State Bank of Lewiston, Lewiston, Minnesota ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and its right to a hearing on those charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") dated August 18, 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. Engaging in unsafe lending practices.
- C. Operating with excessive loan losses and with an excessive level of adversely classified assets and delinquent and/or nonaccrual loans.
- D. Operating with inadequate loan procedures, including an inadequate risk rating and identification system.
- E. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and

lease held, and/or failing to make provisions for an adequate allowance for possible loan and lease losses.

F. Operating with inadequate earnings.

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

1. **Assessment of Management.**

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

(b) Within 90 days from the effective date of this ORDER, the board of directors, or a committee appointed by the board, shall analyze and assess the Bank's executive officers' performance and needs. For purposes of this ORDER, "executive officer" is defined as set forth in 12 C.F.R. § 215.2(e)(1). The analysis and assessment shall be summarized in a written report ("Management Report").

(c) Within 10 days of completion of the Management Report, the board will provide a copy of the Management Report to the Regional Director of the FDIC's Kansas City Regional Office ("Regional Director"), or his designee and the Commissioner, Department of Commerce, Financial Exams Division (collectively "Supervisory Authorities"), and will complete its review of the Management Report, which shall be recorded in the minutes of the meeting of the board of directors.

(d) Within 30 days of receipt of the Management Report, the board shall 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 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 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 and executive officers 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. 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 below or falls below the minimum required by paragraph 2(a), the Bank shall immediately notify the Supervisory Authorities and (1) within 30 days shall increase capital in an amount sufficient to comply with paragraph 2(a), 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. 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.

**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 Assets.**

(a) Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan to reduce the Bank's risk exposure in each asset in excess of \$200,000 classified "Substandard" or "Doubtful" in the Report of Examination. For purposes of this ORDER, "reduce" means to collect, charge off, or improve the quality of an asset to warrant its removal from adverse classification by the Supervisory Authorities. In developing the plan required by this provision, 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.

(b) Upon completion of the plans, the Bank shall 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 board of directors shall approve the plans, and record the approval in the board meeting minutes. Thereafter, the Bank shall implement and fully comply with the plans. Plans should be updated as necessary, but no less than quarterly. The board shall review the plans no less than quarterly with review noted in board meeting 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 adversely classified "Substandard" or "Doubtful" in the Report of Examination and is uncollected. The Bank shall not be prohibited 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 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.

(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.

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

(a) Before September 30, 2009, the board shall establish a comprehensive policy and methodology for determining the allowance for loan and lease losses ("ALLL"). The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed 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.

(b) 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.

(c) 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.

**7. Implementation of Loan Policy and Risk Identification Procedures.**

(a) Within 60 days from the effective date of this ORDER, the board of directors of the Bank shall review and revise the Bank's written loan policies and procedures, including risk identification procedures, to address the comments and

criticisms in the Report of Examination. This review and revision shall also encompass policies and procedures to reduce the concentration listed in the Report of Examination. The Bank's revised loan policies and procedures shall be provided to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after consideration of any recommended changes the Bank shall approve the loan policies and procedures, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and fully comply with the revised loan policies.

(b) 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 prior review and approval shall be documented in the minutes for the board meeting and in the loan file for that loan.

**8. Correction of Technical Exceptions.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall correct the exceptions listed on the "Assets with Credit Data or Collateral Documentation Exceptions" pages of the Report of Examination.

(b) For any exception that cannot be corrected, the Bank shall document the reason for such inability in the borrower's credit files, and the board of directors shall review and include a copy of the documentation in the board's minutes.

(c) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the board for review during each regularly scheduled meeting. The report shall be made part of, and the review noted, in the board's minutes.

**9. Funds Management Policies and Plans.**

(a) Within 60 days from the effective date of this ORDER, the board of directors of the Bank shall develop a written contingency funding plan ("plan"). The plan shall be updated on a regular basis and should, at a minimum, help management to monitor liquidity risk, ensure that an appropriate amount of liquid assets is maintained, measure and project funding requirements during various scenarios, and manage access to funding sources.

(b) Upon completion, the plan, and any subsequent modification shall be submitted to the Supervisory Authorities for review and comment. Within 30 days after receipt of any comment by the Regional Director, and after consideration of such comment, the board shall approve the plan, which shall be

recorded in the board's minutes. Thereafter, the Bank shall implement and follow the plan.

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

(a) Within 120 days from the effective date of this ORDER, and within the first 60 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, Bank management shall implement and the board of directors shall monitor Bank compliance with the plans.

**11. 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.

**12. Program for Monitoring Bank's Compliance with ORDER.**

Within 30 days from the effective date of this ORDER, the board of directors shall adopt and implement a program that will provide for monitoring of the Bank's compliance with the ORDER.

**13. Progress Reports.**

On or before October 31, 2009, the Bank shall furnish a written progress report to the Supervisory Authorities, using financial data as of September 30, 2009, detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities within 30 days after the end of each calendar quarter. The written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER.

**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.

