

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )  
) ORDER TO CEASE AND DESIST  
FIRST RESOURCE BANK )  
SAVAGE, MINNESOTA ) FDIC-09-263b  
)  
(Insured State Nonmember Bank) )  
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First Resource Bank, Savage, 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 27, 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 management and a board of directors that failed to have adequate policies and procedures for the prudent operation of the Bank.

B. Operating with inadequate capital and inadequate earnings for the volume, kind, and quality of assets held.

C. Operating with inadequate liquidity and funds management practices 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 and/or Other Real Estate Owned.

E. Operating with an inadequate policy and methodology to determine the appropriateness of the Allowance for Loan and Lease Losses.

F. Operating with excessive interest rate risk in relation to the Bank's capital and earnings.

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 90 days from the effective date of this ORDER, the Bank's board of directors shall assess Bank management to determine whether the Bank has 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. In the event the board identifies any deficiencies in management, the board shall develop a plan within 30 days to remedy such deficiency.

(b) Each member of management shall be provided appropriate written authority from the board of directors to implement the provisions of this ORDER.

(c) No less frequently than semi-annually during the life of this ORDER, the board of directors shall assess management's ability to:

(i) Comply with the requirements of this ORDER; 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 risk.

(d) The board shall record its findings, assessments, and plans in its minutes, and include them in the quarterly progress reports required under this ORDER.

## **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 12 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 Regional Director of the FDIC Kansas City Regional

Office ("Regional Director") and Commissioner for the Minnesota Department of Commerce (collectively "Supervisory Authorities") and within 30 days shall (1) increase capital in an amount sufficient to comply with paragraph (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 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 this section 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 Regional Director.

**4. Liquidity and Funds Management.**

(a) Within 60 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 any 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 other sources;

*Uses:*

(v) listing and timing of contractually binding loan commitments that are expected to be funded; and

(vi) projections, including best and worse case scenarios, of large public/private deposit withdrawals.

(b) Within 60 days from the effective date of this ORDER, the Bank shall establish contingency plans, including additional alternative funding sources, for multiple adverse liquidity scenarios.

(c) When the analyses and contingency plans required by paragraph (a) and (b) above are complete, they shall be submitted to the Supervisory Authorities for review and comment. Within 30 days of any comment by the Regional Director, and after due consideration, the board shall approve the analyses and plans, and thereafter follow them.

(d) While this ORDER is in effect, the Bank shall review and test the above analyses and contingency plans, including the accessibility of credit lines, at least annually.

**5. Brokered Deposits.**

Upon issuance of this ORDER and so long as this ORDER is in effect, the Bank shall not accept, increase, renew, or rollover brokered deposits without the prior written approval of the Regional Director.

**6. Charged-off of Adversely Classified Assets.**

By June 30, 2009, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the April 20, 2009 Report of Examination ("Report of Examination"), that have not been previously collected or charged off.

**7. 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 \$150,000 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 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 of 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.



**8. 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 any 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 is classified "Substandard" or "Doubtful" in any future Reports of Examination from either of the Supervisory Authorities and remains uncollected.

(b) Paragraph (a) of this provision shall not apply if the Bank's failure to renew or 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.

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

(a) Within 30 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.

(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 of 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.

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

(a) Within 120 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.

**11. Sensitivity to Market Risk.**

(a) Within 60 days after the effective date of the ORDER, the Bank shall review, and amend as necessary, the Bank's written interest rate risk policy. At a minimum, the policy shall provide for the following:

(i) Interest rate risk exposure limits that are commensurate with the Bank's risk profile; and

(ii) A system of internal controls, review, and audit to ensure the integrity of the overall risk management process.

(b) The Bank shall submit the policy and any future modifications to the Supervisory Authorities for review and comment. Within 30 days of 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. 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.

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

After September 30, 2009, but before October 31, 2009, and within 30 days of the end of each quarter thereafter, the Bank shall furnish a written progress report 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.

**14. Miscellaneous.**

The provisions of this ORDER shall not bar, estop or otherwise prevent the FDIC, the Deputy Commissioner, Financial Exams 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: August 31, 2009

By:

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/s/  
Mark S. Moylan  
Deputy Regional Director  
Kansas City Regional Office