

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

|                                       |   |                      |
|---------------------------------------|---|----------------------|
| _____                                 | ) |                      |
| <b>In the Matter of</b>               | ) |                      |
|                                       | ) | <b>CONSENT ORDER</b> |
| <b>HIGHLAND BANK</b>                  | ) |                      |
| <b>SAINT MICHAEL, MINNESOTA</b>       | ) | <b>FDIC-10-029b</b>  |
|                                       | ) |                      |
| <b>(Insured State Nonmember Bank)</b> | ) |                      |
| _____                                 | ) |                      |

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Highland Bank, Saint Michael, Minnesota ("Bank"), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated April 6, 2010, that is accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices, to the issuance of this Consent Order ("ORDER") by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

1. **Qualified Management.**

(a) From the effective date of this ORDER, the Bank shall maintain qualified management.

(b) Within 90 days from the effective date of this ORDER, and annually thereafter while this ORDER is in effect, the Bank's board of directors shall assess Bank management to determine whether the Bank has an appropriate number and type of officers with the requisite knowledge, skills, ability, and experience, to operate the Bank in a safe and sound manner and restore the Bank to a satisfactory financial condition. In the event the board identifies any deficiencies in management, the board shall develop a plan within 30 days to remedy such deficiency, including a plan to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, if applicable.

(c) For the requirements of subparagraph (a) and (b) of this provision, the board shall record its findings, assessments, and plans in its minutes, and include them in the quarterly progress reports required under this ORDER.

(d) In the event of a death, disability, or resignation of a director or senior executive officer as defined in 12 C.F.R. § 303.101(b), the Bank, shall within 10 days, shall notify the FDIC Regional Director for the Kansas City Region ("Regional Director") and the Deputy Commissioner of Financial Examinations

Division, Department of Commerce (collectively, "Supervisory Authorities").

**2. 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 September 30, 2009 FDIC Report of Examination ("Report of Examination") that have not been previously collected or charged off.

(b) Elimination of reduction of assets classified "Loss" through the proceeds of other loans or extensions of credit made by the Bank is not considered collection for purposes of this provision.

**3. Reduction of Adversely Classified Assets.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop and complete and/or review and revise as necessary its written plans to reduce the Bank's risk exposure in each asset in excess of \$500,000 classified "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 such adverse classification.

(b) In developing the plans mandated by this paragraph, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including sources of repayment and repayment ability, 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 mandated by this provision shall include, at a minimum, the following:

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

(ii) a requirement that monthly written progress reports be submitted to the Board; and

(iii) a requirement that the Board review the progress reports and record with a notation of the review in the minutes of the Board meetings at which such reports are reviewed.

(d) The Board shall approve the plans, which approval shall be recorded in the Board's minutes. Thereafter, a copy of the plan or portion thereof that pertains to a specific borrower shall be maintained in the borrower's credit file, and the Bank shall implement and fully comply with the plan.

#### **4. 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, or classified "Substandard" or "Doubtful" in any future FDIC or MDoF Reports of Examination and is uncollected. The requirements of this subparagraph (a) 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) Subparagraph (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 subparagraph (b), whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, 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 conclusions and approval made pursuant to subparagraph (b) of this provision shall be made a part of the minutes of the meeting of the Board at which the extension of credit is approved, with a copy retained in the borrower's credit file.

**5. Maintenance of Allowance for Loan and Lease Losses**  
**("ALLL")**.

The Board shall review the Bank's ALLL at least once each calendar quarter. That review should be completed at such time to ensure that the findings of the Board will 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.

**6. Maintenance of Capital.**

(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 ALLL:

(i) Tier 1 leverage capital at least equal to 8 percent of total assets; and

(ii) Total risk-based capital at least equal to 11.5 percent of total risk-weighted assets.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank shall immediately notify the Supervisory Authorities and within 30 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a) of this provision, 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 in the event the primary sources of capital are not available. Thereafter at the next meeting of the Board, it shall approve the written plan and record such approval in its minutes, and the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 leverage capital necessary to meet the requirements of this section may not be accomplished through a deduction from the ALLL.

**7. Restrictions on Dividends.**

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.

**8. Liquidity.**

(a) Within 10 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, and contingency plans in the event of any type of liquidity emergency.

(b) The written analysis, projection, and contingency plans required by subparagraph (a) of this provision shall be reviewed by management for viability on a weekly basis, and updated as necessary.

**9. Brokered Deposits.**

(a) Within 30 days of the effective date of this ORDER, the Bank shall prepare an updated 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 with monthly report to Board. Upon completion, the Bank shall submit the Brokered Deposit Plan to the Supervisory Authorities. Thereafter, the Board shall approve the Brokered Deposit Plan, which approval shall be recorded in the minutes of the meeting of the Board. Thereafter, the Bank shall implement and fully comply with the Brokered Deposit Plan.

(c) The Bank shall provide a quarterly written progress report in conjunction with the progress reports required below to the Supervisory Authorities detailing the Bank's level and source of liquidity and use of brokered deposits, with specific reference to progress the Bank is making under the Brokered Deposit Plan.

#### **10. Investments Policy and Concentrations.**

(a) Within 30 days of the effective date of this ORDER, the Bank shall revise its investment policy to address the comments and criticisms in the Report of Examination.

(b) Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan (the "Concentration Plan") for systematically reducing and monitoring the Bank's investments listed in the Concentrations pages of the Report of Examination, to an amount which is commensurate with the Bank's

business strategy, revised investment policy, management expertise, size, and location. At a minimum, the plan shall include:

(i) dollar levels and percent of capital to which the Bank shall reduce the 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.

(c) The Bank shall not invest in any new private label collateralized mortgage obligations so long as such investment would result in the Bank exceeding any limit contained in the Concentration Plan.

(d) The Bank shall submit the revised investment policy and the Concentration Plan to the Supervisory Authorities, and thereafter, approved by the Board. Such approval shall be recorded in the minutes of the Board and thereafter, the Bank shall follow the revised investment policy and implement the Concentration Plan.

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

(a) Within 60 days from the effective date of this ORDER, and with the first 30 days of each calendar year thereafter, the Board 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, including projected salaries and bonuses.

(c) The Board shall approve the business/ strategic plan and the profit and budget plan, which approval shall be recorded in the Board's minutes. Thereafter, the business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Supervisory Authorities, and the Bank shall implement and fully comply with the plans.

**12. Disclosure of ORDER to Shareholders.**

Following the effective date of this ORDER, the Bank shall provide a copy of this ORDER to its shareholders, (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.

**13. 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 45 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.

(b) Progress reports may be discontinued when the Supervisory Authorities have, in writing, released the Bank from making additional reports.

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

