# STATE OF NEBRASKA
# DEPARTMENT OF BANKING AND FINANCE
# -and-
# FEDERAL DEPOSIT INSURANCE CORPORATION
# WASHINGTON, D.C.

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| In the Matter of: | ) | |
| | ) | |
| Ericson State Bank | ) | CONSENT ORDER |
| 427 Central Avenue | ) | |
| Ericson, Nebraska | ) | FDIC-10-230b |

Ericson State Bank, Ericson, Nebraska ("Bank"), is a Nebraska state-chartered bank subject to the jurisdiction of the Nebraska Department of Banking and Finance ("Department"), pursuant to the Nebraska Banking Act, *Neb. Rev. Stat.* §§ 8-101 to 8-1,140 [(Reissue 2007, Cum. Supp. 2008, Supp. 2009, LB 762, LB 890, and LB 891 (2010))].

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the Bank, under section 3(q) of the Federal Deposit Insurance Act ("Act"), 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 ______________________________________, 2010, that is accepted by the Department and the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law and/or regulation, to the issuance of this Consent Order ("ORDER") by the Department and the FDIC.

Having determined that the requirements for issuance of an Order under *Neb. Rev. Stat.* § 8-1,134 (Reissue 2007) and section 8(b) of the Act, 12 U.S.C. § 1818(b), have been satisfied, the Department and the FDIC hereby order that:

## ORDER

### ASSESSMENT OF BOARD OF DIRECTORS AND MANAGEMENT

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

(b) Within 60 days from the effective date of this ORDER, the Board shall engage an independent third party ("Consultant") acceptable to the FDIC's Regional Director for the Kansas City Region and the Director of the Department (collectively, "Supervisory Authorities"), and that possesses appropriate expertise and qualifications to analyze and assess the Bank's Board and management performance and needs.

(c) The Bank shall provide the Supervisory Authorities with a copy of the proposed engagement letter or contract with the Consultant for review before it is executed. The contract or engagement letter, at a minimum, shall include:

(i) a description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement, and the aggregate fee;

(ii) the responsibilities of the Consultant;

(iii) an identification of the professional standards covering the work to be performed;

(iv) identification of the specific procedures to be used when carrying out the work to be performed;

(v) the qualifications of the Consultant's employee(s) who are to perform the work;

(vi) the time frame for completion of the work;

(vii) any restrictions on the use of the reported findings;

(viii) a provision for unrestricted examiner access to workpapers;

(ix) a certification that the Consultant and any employees are not affiliated in any manner with the Bank; and

(x) a requirement that the Consultant's analysis and assessment shall be summarized in a written report to the Board ("Consultant's Report") within 90 days of engagement.

(d) Within 30 days of receipt of the Consultant's Report, the Board will develop a written Management Plan that addresses the findings of the Consultant, a plan of action in response to each recommendation contained in the Consultant's Report, and a time frame for completing each action. At a minimum, the Management Plan shall:

(i) contain a recitation of the recommendations included in the Consultant's Report or otherwise communicated to the Bank, along with a copy of any report(s) prepared by any other outside consultants;

(ii) identify the number and qualifications of directors needed to provide the Bank with a board of directors capable of providing adequate supervision to Bank management;

(iii) 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;

(iv) identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;

(v) 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;

(vi) 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;

(vii) identify the appropriate level of current and deferred compensation to each officer and staff position;

(viii) evaluate the current and past performance of all existing Bank directors, officers, and staff, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner;

(ix) establish requirements and methodologies to periodically evaluate each individual's job performance;

(x) identify and establish Bank committees needed to provide guidance and oversight to management;

(xi) 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;

(xii) identify training and development needs, and incorporate a plan to provide such training and development;

(xiii) establish procedures to periodically review and update the Management Plan, as well as periodically review and assess the performance of each director, officer, and staff member;

(xiv) contain a current organizational chart that identifies all existing and proposed director, officer, and staff positions, delineates related lines of authority and accountability, and establishes a written plan for addressing any identified needs;

(xv) contain a current management succession plan; and

(xvi) contain a procedure to ensure compliance with section 32 of the Act, 12 U.S.C. § 1831i, when applicable to changes/additions in directors and senior executive officers.

(e) A copy of the Consultant's Report and 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 Supervisory Authorities and after consideration of all such comments, the Board shall approve the Management Plan which approval shall be recorded in the minutes of the meeting of the Board. 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.

**BOARD PARTICIPATION**

2. The Board will increase its participation in the affairs of the Bank. The Board will establish specific procedures to fully inform the members of the Board regarding the management, operation, and financial condition of the Bank at regular intervals and in a consistent format. At a minimum, those procedures will require the Board to:

(a) Meet at least monthly;

(b) Prepare and provide a Board Information Packet for each member of the Board sufficiently in advance of monthly meetings. Prepare and follow a written agenda at each meeting; and

(c) Maintain detailed minutes of all its meetings.

**CHARGE-OFF OF ADVERSELY CLASSIFIED ASSETS**

3. (a) Within 30 days from 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 January 5, 2010 Department and FDIC Report of Examination ("Report of Examination") that have not been previously collected or charged off.

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

**REDUCTION OF ADVERSELY CLASSIFIED ASSETS**

4. (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 $100,000 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:

(i) the name under which the asset is carried on the books of Bank;

(ii) type of asset;

(iii) the financial position of the borrower;

(iv) sources of repayment and repayment ability;

(v) the value and accessibility of any pledged or assigned collateral;

(vi) any possible actions to improve the Bank's collateral position and/or reduce the classified asset;

(vii) time frames for accomplishing the proposed actions; and

(viii) monthly review of progress by the Board.

(b) In addition to the plans for each adversely classified asset required above, within 60 days from the effective date of this ORDER, the Board shall develop a written plan for the reduction of all adversely classified assets identified in the Report of Examination using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses ("ALLL") and may be accomplished by:

(i) Charge-off;

(ii) Collection;

(iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the Supervisory Authorities; or

(iv) Increase in the Bank's Tier 1 Capital.

(c) 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 Supervisory Authorities and after consideration of all such comments, the Board shall approve the plans, which approval shall be recorded in the Board's minutes. The Bank shall cause a copy of each plan to be placed in the applicable credit file and shall implement and fully comply with the plans.

(d) Upon the written request of either of the Supervisory Authorities, similar plans shall be formulated for assets adversely classified or listed for Special Mention at future examinations.

**CORRECTION OF TECHNICAL EXCEPTIONS**

4. (a) Within 90 days after the effective date of this ORDER, the Bank shall correct the technical exceptions identified in the Report of Examination.

(b) All attempts to correct exceptions shall be documented in each borrower's credit file.

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

(d) The Bank shall document each technical exception that cannot be eliminated or corrected, and the reason(s) why the exception cannot be eliminated or corrected. Each of these exceptions shall be reviewed by the Board at its next monthly meeting. The Board's review, discussion, and any action upon the uncorrected technical exceptions shall be recorded in the minutes of the Board. Thereafter, the Board shall ensure that management is obtaining comprehensive financial information prior to originating loans.

**RESTRICTIONS ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS**

5. (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, and is uncollected, or adversely classified "Substandard" or "Doubtful" in any future

Reports of Examination from either of the Supervisory Authorities 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 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's conclusions and approval shall be made a part of the Board's minutes, with a written notation of the Board's approval made in the borrower's credit file.

**IMPLEMENTATION OF LOAN REVIEW**

6. (a) Within 60 days of the effective date of this ORDER, the Board shall develop a written program 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.

(b) At a minimum, the written program 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, in writing, the information developed in (i) through (ix) above to the Board on at least a quarterly basis. The report should also describe the action(s) taken by management with respect to problem credits.

(c) The Bank shall submit the written program to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities and after consideration of all such comments, the Board shall approve the written program, which approval shall be recorded in the Board's minutes. The Bank shall implement and fully comply with the written program.

(d) Within 90 days from the effective date of this ORDER the Bank shall employ and retain a consulting firm acceptable to the Supervisory Authorities to perform a comprehensive annual written loan review meeting the loan review requirements of this paragraph and which encompasses, at a minimum, all loan relationships in excess of $100,000 and all loan participations purchased. In addition to reviewing the loans against the criteria above, such consultant shall detail any recommendations to improve the Bank's loan underwriting and loan administration.

(e) 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 Board's minutes.

**MAINTENANCE OF ALLOWANCE FOR LOAN AND LEASE LOSSES**

7. (a) Within 10 days from the effective date of this ORDER, the Board 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 examination by the Supervisory Authorities 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 30 days from the effective date of this ORDER, the Board shall establish a comprehensive written policy and methodology for determining an appropriate ALLL. The policy shall provide for a review of the 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 review shall, at a minimum, be made in accordance with Call Report Instructions and 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 shall thereafter maintain an appropriate ALLL.

(d) The Bank shall submit the written policy and ALLL methodology to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities and after consideration of all such comments, the Board shall approve the policy, which approval shall be recorded in the Board’s minutes. The Bank shall implement and fully comply with the policy.

**CAPITAL REQUIREMENTS**

8. (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) sufficient Tier 1 capital for a leverage ratio at least equal to 9 percent of total assets; and

(ii) a total risk-based capital ratio at least equal to 12 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 45 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a) above, or (2) submit a written plan ("Capital 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. Within 10 days of receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Capital Plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Capital Plan.

(c) Any increase in Tier 1 capital necessary to meet the requirements of subparagraph (a) of this provision may not be accomplished through a deduction from the allowance for loan and lease losses.

## DIVIDEND RESTRICTION

9. 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.

**BROKERED DEPOSITS**

10. Upon the issuance of this ORDER and so long as this ORDER is in effect, the Bank shall not accept, increase, renew, or rollover any brokered deposits, as defined in 12 C.F.R. § 337.6(a)(2), without the prior written approval of the Supervisory Authorities.

**LIQUIDITY AND FUNDS MANAGEMENT**

11. (a) Within 90 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 monthly basis, and updated as necessary. A copy of the written analyses and projections prepared under this provision shall be included with the progress reports required hereunder, unless required more frequently by the Supervisory Authorities.

**BUDGET AND PROFIT PLAN**

12. (a) Within ninety (90) days from the effective date of this ORDER, and within the first thirty (30) days of each calendar year thereafter, the Board shall review all elements of Bank's earnings and identify the areas in, and means by, which the Board will seek to improve earnings performance. The Board shall establish:

(i) 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;

(ii) Realistic and comprehensive budgets for all categories of income and expense items;

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

(iv) A budget review process to monitor the revenue and expenses of Bank whereby actual performance is compared against budgetary projections not less than quarterly;

recording the results of the evaluation and any actions taken by Bank in the minutes of the Board meeting at which such evaluation is undertaken.

(b) The Bank shall submit the profit and budget plan to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities and after consideration of all such comments, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and follow the profit and budget plan.

## STRATEGIC PLAN

13. (a) Within ninety (90) days after the effective date of this ORDER, BANK shall prepare and adopt a comprehensive strategic plan. The strategic plan required by this paragraph shall contain an assessment of Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall address, at a minimum:

(i) Strategies for pricing policies and asset/liability management;

(ii) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

(iii) Goals for reducing problem loans;

(iv) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;

(v) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(vi) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the strategic plan to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Supervisory Authorities and after consideration of all such comments, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and follow the strategic plan.

**DISCLOSURE OF ORDER TO SHAREHOLDER**

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

**PROGRESS REPORTS DETAILING COMPLIANCE WITH ORDER**

15. Within 30 days after the first calendar quarter subsequent to the effective date of this ORDER, and every 90 days 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.

**BINDING EFFECT**

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 any of the Bank's current or former institution-affiliated parties.

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 and Department.

Issued Pursuant to Delegated Authority

Dated the 20th day of May, 2010.

| NEBRASKA DEPARTMENT OF BANKING AND FINANCE | FEDERAL DEPOSIT INSURANCE CORPORATION |
|---|---|
| By: /s/ | By: /s/ |
| John Munn | Mark S. Moylan |
| Director | Deputy Regional Director |
| | Kansas City Regional Office |