

**FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.  
and  
STATE OF IOWA  
SUPERINTENDENT OF BANKING  
DES MOINES, IOWA**

<hr/>	)	<b>CONSENT ORDER</b>
	)	
<b>FARMERS &amp; MERCHANTS BANK &amp;</b>	)	<b>FDIC-10-251b</b>
<b>TRUST</b>	)	
<b>BURLINGTON, IOWA</b>	)	
	)	
<b>(Insured State Nonmember Bank)</b>	)	
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The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Farmers & Merchants Bank & Trust, Burlington, Iowa ("Bank"), under 12 U.S.C. § 1813(q). The Bank was chartered by the Superintendent of Banking for the State of Iowa ("Superintendent").

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 June 2, 2010, that is accepted by the FDIC and the Superintendent. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violation of law and/or regulations, to the issuance of this Consent Order ("Order") by the FDIC and the Superintendent.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Iowa Code Section 524.223 have been satisfied, the FDIC and the Superintendent hereby order that:

**1. Assessment of Management.**

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

Management shall be assessed on its ability to:

(i) comply with the requirements of this Order, all applicable State and Federal laws and regulations, FDIC and Federal Financial Institutions Examination Council 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, the Bank's capital adequacy, asset quality, earnings, liquidity, and sensitivity to market risks.

(b) Within 90 days of the effective date of this ORDER, the Board will develop a written Management Plan. At a minimum, without limitation, the Management Plan shall:

(i) identify the type and number of executive 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;

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

(iii) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each executive officer position, including delegations of authority and performance objectives;

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

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

(vi) contain a current management succession plan. For purposes of this ORDER, "executive officer" is defined as set forth in 12 C.F.R. § 215.2(e)(i).

(c) Upon completion, a copy of the Management Plan and any subsequent modification thereto shall be submitted for review and comment to the FDIC Regional Director for the Kansas City Region ("Regional Director") and the Superintendent ("collectively, Supervisory Authorities"). 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. 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.

**2. Reduction of Adversely Classified Assets.**

(a) Within 60 days from the effective date of this ORDER, the Board shall formulate written plans to reduce the Bank's risk exposure in each asset in excess of \$400,000 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 subparagraph (a), the Board 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 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.

(b) Upon completion of the plans, the Board shall immediately submit the plans to the Supervisory Authorities and the Board shall approve the plans, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the plans.

**3. 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) 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, or a 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 conclusions and approval of the Board, or a committee thereof, shall be made a part of the minutes of the Board or that committee, with a copy retained in the borrower's credit file. Any action taken under this paragraph by a committee of the Board shall be presented to the Board at its next meeting, and noted in the Board's minutes.

**4. Revision of Loan Policy.**

Within 60 days from the effective date of this ORDER, the Board shall review and revise the Bank's written loan policies and procedures to address the comments and criticisms in the Report of Examination, specifically: processes and parameters for stress testing the Bank's commercial real estate loans; and establishing parameters on volumes of purchased loans. Upon completion, 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 comment from the Supervisory Authorities, and after consideration of any recommended changes the Bank shall approve the loan policies and procedures, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the revised loan policies. 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 or an appropriate committee thereof. The reason for nonconformance and the Board's or committee's review and approval shall be documented in the minutes of the Board or committee and in the loan file for that loan.

5. **Implementation of Loan Review.**

(a) Within 60 days of the effective date of this ORDER, the Board shall develop an appropriate program of 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 system 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. The report should also describe the action(s) taken by management with respect to problem credits.

(b) Upon completion, the Board shall submit the 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 program, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the program.

(c) Upon implementation, each report submitted to the Board shall include documentation of the actions taken by the Bank and/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.

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

(a) The Board shall review and revise its written policy and methodology for determining the ALLL to address the criticisms in the Report of Examination. The written policy shall provide for a review of the ALLL at least once each calendar 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. Upon completion, the Bank shall submit the written policy to the Supervisory Authorities, and thereafter, it shall be approved by the Board, which shall be recorded in the minutes of the Board. The Bank shall follow and implement the written policy.

(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 shall thereafter maintain an appropriate ALLL and fully comply with the policy.

**7. Minimum Capital Requirements.**

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital ratios (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 Leverage capital ratio at least equal to 8.0 percent;

(ii) Total risk-based capital ratio at least equal to 12.0 percent.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Board shall immediately notify the Supervisory Authorities and within 45 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (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 of subparagraph (a) above, as well as a contingency plan in the event the primary sources of capital are not available. Within

30 days of receipt of any such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the written plan, which approval shall be recorded in the Board's 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 subparagraph (a) of this provision may not be accomplished through a deduction from the allowance for loan and lease losses.

**8. Dividend Restriction.**

While this ORDER is in effect, the Bank shall not declare or pay any cash dividends, or pay or agree to pay any management or consulting fees, without the prior written approval of the Supervisory Authorities.

**9. Liquidity and Funds Management.**

(a) Within 60 days from the effective date of this ORDER, the Board shall review and revise its written contingency liquidity funding plans to address the recommendations in the Report of Examination.

(b) Within 60 days of the effective date of this ORDER, the Board shall review and revise its funds management policies

and practices to address the interest rate risk issues cited in the Report of Examination.

(c) The revised contingency liquidity funding plans, and the revised funds management policies, shall be submitted to the Supervisory Authorities and approved by the Board, such approval being noted in the Board's minutes, and thereafter, implemented and followed by the Bank.

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

(a) Within 120 days from the effective date of this ORDER, and within 60 days from the first day in each calendar year, 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.

(c) Upon completion, 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 Supervisory Authorities, and after consideration of all such comments, 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 Bank shall implement and fully comply with the plans.

**11. 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 and rules and regulations cited in the Report of Examination. In addition, within 60 days from the effective date of this ORDER, the Board shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules, and regulations.

(b) The Bank shall document each violation that cannot be eliminated or corrected, and why, for review by the Board at its

next monthly meeting. The Board's review, discussion and any action upon the uncorrected violation shall be recorded in the Board's minutes.

**12. Correction of Deficiencies in Special Mention Assets and Correction of Technical Exceptions.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall correct the deficiencies listed on the "Items Listed for Special Mention" pages of the Report of Examination. All attempts to correct such deficiencies shall be documented in the borrowers' credit files.

(b) 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. All attempts to correct exceptions shall be documented in the borrowers' credit files. In all future operations, the Bank shall ensure that all necessary supporting documentation is obtained and evaluated before any credit or loan is extended by the Bank.

(c) Progress reports detailing each outstanding special mention deficiency and technical exception and the 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 Board's minutes.

**13. Disclosure of Order to Shareholders.**

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.

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

(a) Within 60 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 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, Superintendent, 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 Supervisory Authorities.

Issued Pursuant to Delegated Authority

Dated: June 10, 2010

FEDERAL DEPOSIT INSURANCE CORPORATION

By:

/s/  
Mark S. Moylan  
Deputy Regional Director

STATE OF IOWA  
DIVISION OF BANKING

By: /s/  
Thomas B. Gronstal  
Superintendent