

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )  
STATE BANK OF COKATO )  
COKATO, MINNESOTA )  
(Insured State Nonmember Bank) )

CONSENT ORDER  
FDIC-10-212b

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The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for State Bank of Cokato, Cokato, 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 May 20, 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. **Assessment of Management.**

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

(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) A copy of the Management Plan and any subsequent modification thereto shall be submitted for review and comment to the FDIC's Regional Director for the Kansas City Region ("Regional Director") and the Minnesota Department of Commerce ("Supervisory Authorities"). Within 30 days from receipt of any comment from the Regional Director 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 Bank shall formulate written plans to reduce the Bank's risk exposure in each asset in excess of \$100,000 adversely classified as "Substandard" 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 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 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 Bank shall immediately 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 consideration of all such comments, the Board shall approve the plans, which approval shall be recorded in the minutes of the meeting of the Board. 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, 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.

(b) The Board's conclusions and approval shall be made a part of the minutes of the Board, with a copy retained in the borrower's credit file.

#### **4. Concentrations.**

(a) Within 60 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 Board for review and notation in minutes of the meetings of the Board; and

(iv) procedures for monitoring the Bank's compliance with the plan.

(b) The Bank shall not purchase any loan participations so long as such purchase would result in the Bank exceeding any limit contained in the Concentration Plan.

(c) The Bank shall submit the Concentration Plan to the Supervisory Authorities, and thereafter, shall be approved by the Board. Such approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and follow the Concentration Plan.

**5. Implementation of Loan Policy.**

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 to address the comments and criticisms in the Report of Examination, including but not limited to underwriting practices for (a) acquisition, construction, and development loans; and (b) purchases of loan participations. 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. 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 board's prior review and approval shall be documented in the board's minutes and in the loan file for that loan.

**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.

(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 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 8.0 percent of total assets;

(ii) Total risk-based capital at least equal to 12.0 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), 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 Regional Director, and after consideration of all such comments, the Board shall approve the written 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 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 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 Bank shall review and revise its 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 subparagraph (a) of this provision above shall be reviewed for viability on a weekly basis, and updated as necessary.

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

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

**10. Brokered Deposits.**

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.

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

(a) 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) 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 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.

**12. Disclosure of Order to Shareholders.**

Following the effective date of this ORDER, the Bank shall provide a copy or otherwise furnish a description 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.

**13. 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 Regional Director has, 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

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.

Issued Pursuant to Delegated Authority

Dated: June 1, 2010

By:

/s/  
Mark S. Moylan  
Deputy Regional Director