FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **CORNERSTONE BANK** **ENDERLIN, NORTH DAKOTA** **(Insured State Nonmember Bank)**	)))))))))	**CONSENT ORDER** **FDIC-10-470b**

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 (FDI Act), 12 U.S.C. § 1813(q)(3).

The FDIC and the North Dakota Department of Financial Institutions ("DFI", and collectively with the FDIC - "Supervisory Authorities") examined the Bank commencing April 5, 2010. Based on the findings of that examination as contained in the April 5, 2010 Report of Examination ("Report of Examination"), the FDIC determined that the requirements for an ORDER under 12 U.S.C. § 1818(b) have been satisfied.

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 August 12, 2010. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this CONSENT ORDER ("ORDER") by the FDIC.

Based on the above, the FDIC each hereby orders that:

1. <u>Management</u>.

(a) Within 120 days from the effective date of this ORDER, the Bank shall have qualified management, including 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. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this ORDER.

(b) Within 60 days, the Board shall review and revise the written plans of action to address the findings and recommendations of the September 2009, management assessment conducted by SR Consulting, LLC., and to address the criticisms in the Report of Examination ("Management Action Plans").

(c) Within 60 days from the effective date of this ORDER, and then at least annually thereafter, the Board shall perform a written assessment ("Written Assessment") of management's ability to:

(i) comply with the requirements of this ORDER; all applicable State and Federal laws and regulations; FDIC and FFIEC 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, capital adequacy, asset quality, earnings, management effectiveness, liquidity, and sensitivity to market risks.

(d) Upon completion, a copy of the Management Action Plans and Written Assessment, 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 Action Plans and Written Assessment, which approval shall be recorded in the Board's minutes. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Action Plans and any modifications thereto. It shall remain the responsibility of the Board to fully implement the Management Action Plans within the specified time frames. In the event the Management Action Plans, or any portion thereof, are not implemented, the Board shall immediately advise the Supervisory

Authorities, in writing, of specific reasons for deviating from those plans.

2. <u>Charge-off of Adversely Classified Assets</u>.

(a) Within 10 days from the effective date of this ORDER and within 10 days after the receipt of any future report of examination of the Bank from the FDIC and/or the DFI, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” in such reports 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.

3. <u>Reduction of Adversely Classified Assets</u>.

(a) Within 60 days from the effective date of this ORDER, and 60 days from receipt of future reports of examination from the FDIC and/or the DFI, the Bank shall develop and complete a written plan to reduce the Bank’s risk exposure in each asset in excess of $250,000 classified “Substandard” or “Doubtful” in the Report of Examination and in such future reports 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 quarterly 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, renew, or 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 24 months, and is uncollected, or classified “Substandard” or “Doubtful” in the future, internally or in any future FDIC or DIF reports of examination, and is uncollected.

(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 Board appointed committee, 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 (e.g., mitigation of loss; enhance collateral protection; or greater possible loss from contract liability);

(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 or the meeting of the Board appointed committee, at which the extension of credit is approved, with a copy retained in the borrower's credit file.

5. Loan Policy and Credit Administration

(a) Within 90 days of the effective date of this ORDER, the Board shall review and revise its written loan policy and credit administration procedures ("Revised Loan Policies") to address the deficiencies and recommendations presented on the Examination Conclusions and Comments pages of the Report of Examination.

(b) Upon completion, the Bank's Revised Loan Policies 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 comments, the Bank shall approve the Revised Loan Policies, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Revised Loan Policies.

(c) In the event the Bank considers making a loan that would not conform with the Bank's Revised Loan Policies, the loan shall receive prior review and approval by the 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.

6. Concentrations of Credit.

(a) Within 60 days of the effective date of this ORDER, the Bank shall develop a written plan for systematically reducing and monitoring the concentrations of credit listed in the Concentrations section of the Report of Examination, to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location (the "Concentration Plan"). At a minimum, the Concentration Plan shall include:

(i) dollar levels and percent of capital to which the Bank shall reduce each 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 the Board’s minutes; and

(iv) procedures for monitoring the Bank’s compliance with the Concentration Plan.

(b) Upon completion, the Board shall submit the Concentration Plan to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Concentration Plan, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or such borrower’s related interests or affiliates if such extension or commitment would result in the Bank exceeding any limit contained in the Concentration Plan.

(d) Subparagraph (c) 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 (d), 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 (e.g., mitigation of loss; enhance collateral protection; or greater possible loss from contract liability);

(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) the plan of action to reduce the concentration of credit required by paragraph (a) is revised to address any new credit extension or renewal made with respect to subparagraph (d).

(e) The conclusions and approval made pursuant to subparagraph (d) 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.

7. Independent Loan Review Program.

(a) Within 75 days, the Board shall develop a written loan review program that provides for a periodic and independent review of the Bank's loan portfolio and the identification and categorization of problem credits. 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 apparent 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 loan policies and procedures;

(viii) identification of loans to directors, officers, principal shareholders, and their related interests; and

(ix) periodic written reports, but in no event less than quarterly, providing the information developed in (i) through (viii) above to the Board. The reports should also describe the action(s) taken by management with respect to problem credits.

(b) 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 Bank shall approve the program, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the loan review program.

(c) Upon implementation, a copy of each report 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, as well as any resulting determinations, shall be recorded and retained in the Board’s minutes.

8. Consolidated Reports of Condition and Income and Allowance for Loan and Lease Losses.

(a) The Bank shall accurately reflect the financial condition of the Bank in its June 30, 2010, Consolidated Reports of Condition and Income (Call Report). In meeting the requirements of this subparagraph, the Board shall appropriately consider the recommended provision to reflect an appropriately funded Allowance for Loan and Lease Losses (ALLL) described in the Report of Examination. If Bank has filed its June 30, 2010, Call Report prior to the effective date of this Order, within 10 days the Board will review and amend as necessary the June 30, 2010 Call Report to comply with the requirements of this subparagraph.

(b) Call Reports filed after the effective date of this Order shall reflect an appropriately funded ALLL and accurately reflect the financial condition of the Bank as of the reporting date.

(c) From the effective date of this Order, 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) Within 30 days from the effective date of this ORDER, the Board shall prepare a comprehensive written policy and methodology for determining the ALLL (“ALLL Policy”). The ALLL 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.

(e) Upon completion, the Bank shall submit the ALLL Policy 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. Thereafter, the Bank shall implement and fully comply with the ALLL Policy.

9. 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 ALLL:

(i) Tier 1 Leverage Capital Ratio at least equal to 8.5 percent; and

(ii) Total Risk-Based Capital Ratio at least equal to 11.5 percent.

(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 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 ALLL.

10. <u>Dividend Restriction</u>.

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

11. <u>Brokered Deposits</u>.

(a) 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.

(b) Within 30 days of the effective date of this ORDER, the Bank shall prepare a updated written plan for reducing its reliance on brokered deposits (“Brokered Deposit Plan”) to the Supervisory Authorities. 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. The Bank shall submit the Brokered Deposit Plan to the Supervisory Authorities. After receipt of all such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Brokered Deposit Plan at the next regular board meeting, not to exceed 30 days from said receipt, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the Brokered Deposit Plan.

12. Liquidity and Funds Management.

(a) Within 45 days from the effective date of this ORDER, the Board 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 and/or higher cost 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 by Bank management for viability every two weeks, and updated as necessary.

13. Business/Strategic Plan and Profit and Budget Plan.

(a) Within 45 days from the first day in each calendar year, the Board shall develop 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 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.

14. Correction of Technical Exceptions.

(a) Within 120 days from the effective date of this ORDER, and within 90 days after receipt of any future report of examination of the Bank from the FDIC and/or DFI, the Bank shall correct the exceptions listed on the "Assets with Credit Data or Collateral Documentation Exceptions" pages of the Report of Examination, and such future reports of examinations.

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

(c) For any exception that cannot be corrected, the Bank shall document to reason for such inability in the borrower's credit file, and the Board shall review and include a copy of the documentation in the Board's minutes.

(d) From the effective date of this ORDER, the Bank shall ensure that the necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

15. Elimination and/or Correction of Violations of Laws and Rules and Regulations.

(a) Within 60 days after the effective date of this ORDER, and within 60 days after receipt of any future reports of examination of the Bank by the FDIC and/or DFI, the Bank shall submit plans of action to supervisory authorities that address all apparent violations of laws and rules and regulations cited in the Report of Examination, and such future reports of examinations.

(b) The plans of actions required by this paragraph shall detail corrective actions taken and planned to correct, eliminate, and/or address, and prevent the recurrence of all apparent violations of laws and rules, and regulations detailed in the respective report of examination.

(c) Within 30 days of receipt of comments from the Supervisory Authorities, the Bank shall document in Board or Board Committee minutes all actions taken to implement the plans of action required by this paragraph.

16. Disclosure of Order to Shareholder.

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.

17. 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, 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.

MISCELLANEOUS

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.

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.

This ORDER shall be effective the _23rd_ day of _August_, 2010.

FEDERAL DEPOSIT INSURANCE CORPORATION
Issued Pursuant to Delegated Authority

By: /s/
Mark S. Moylan
Deputy Regional Director
Federal Deposit Insurance Corporation
Kansas City Regional Office