FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of **VILLAGE BANK** **ST. FRANCIS, MINNESOTA** **(Insured State Nonmember Bank)**	)))))))))	**CONSENT ORDER** **FDIC-10-426b**

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

The FDIC examined the Bank commencing March 22, 2010. Based on the findings of that examination as contained in the March 22, 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 31, 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.

Based on the above, the FDIC hereby orders that:

1. Management.

(a) From the effective date of this ORDER, the Bank shall take action to have and maintain qualified management. Specifically, within 60 days of the effective date of this ORDER, the Bank shall have a qualified chief loan officer with the requisite knowledge, skills, ability, and experience including problem loan workout experience giving consideration to the size and complexity of the Bank, to administer the loan portfolio of the Bank in a safe and sound manner and in compliance with applicable laws and regulations and restore the loan portfolio to a satisfactory condition. If the Bank is unable to employ a chief loan officer within the timeframe set forth above, the Board shall document its efforts to locate such candidates.

(b) Within 30 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 ("Regional Director"), and that possesses appropriate expertise and qualifications to analyze and assess performance and needs of the Bank's management and staff.

(c) The Bank shall provide the Regional Director and the Minnesota Department of Commerce ("MDC," and collectively with the FDIC, "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 incorporates the findings of the Consultant’s Report, 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 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;

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

(iv) 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;

(v) 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;

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

(vii) evaluate the current and past performance of all existing Bank consultants, 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;

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

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

(x) 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;

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

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

(xiii) contain a current management succession plan; and

(xiv) 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.

(xv) establish procedures to at least annually review and update the Management Plan, as well as review and assess the performance of each officer and staff member;

(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 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. Charge-off of Adversely Classified Assets.

(a) Within 10 days of 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 MDC, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” in the Report of Examination and such future reports of examination that have not been previously collected or charged off.

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

3. Reduction of Adversely Classified Assets.

(a) Within 60 days from the effective date of this ORDER and within 60 days after the receipt of any future report of examination of the Bank from the FDIC and/or the MDC, the Bank shall formulate written plans to reduce the Bank’s risk exposure in each asset in excess of $200,000 adversely classified as “Substandard” or “Doubtful” in the Report of Examination or 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 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 Board's minutes. Thereafter, the Bank shall implement and fully comply with the plans.

4. Restrictions on Advances to Adversely Classified Borrowers.

(a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off or adversely classified “Substandard” or "Doubtful," 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.

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

5. Concentrations of Credit.

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written plan for systematically reducing and monitoring the Bank’s portfolio of loans, securities, or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers as 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 (“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) The Bank shall submit the Concentration Plan to the Supervisory Authorities for review and comment. Within 30 days of receipt of all such comments from the Regional Director, 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 associated entities so long as such extension or commitment would result in the Bank exceeding any limit contained in the Concentration Plan.

6. Overdraft Policy.

Within 30 days from the effective date of this ORDER, the Board shall review and revise the Bank’s written overdraft policy and procedures (“Overdraft Policy”) to address the comments and criticisms in the Report of Examination. The Overdraft Policy shall be provided to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comment from the Regional Director, and after consideration of any such comments, the Board shall approve the Overdraft Policy, which approval shall be recorded in the

Board’s minutes. Thereafter, the Bank shall implement and fully comply with the Overdraft Policy.

7. Other Real Estate Policy.

(a) Within 60 days from the effective date of this ORDER, the Board shall develop a written policy for managing the Other Real Estate (“ORE”) of the Bank (“ORE Policy”). At a minimum, the ORE Policy shall provide for:

(i) review of the ORE portfolio, at least quarterly, by a committee appointed by the Board;

(ii) the fair market value to be determined by an appraisal prepared by an independent qualified appraiser within 60 days of acquisition; further, that an independent evaluation be obtained at least annually thereafter;

(iii) determination by the ORE committee that each parcel of ORE is listed with a real estate broker or otherwise made widely available for sale within an appropriate timeframe and at a realistic selling price;

(iv) periodic progress reports from each real estate broker marketing bank ORE, including projected sales timeframes; and

(v) detailed reports from the ORE committee to the Board at least quarterly, with a copy of the reports and documentation of the action taken to facilitate the timely sale of ORE to be included in the Board's minutes.

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

8. Loan Review Program.

(a) Within 30 days of the effective date of this ORDER, the Board shall develop a written 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 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) identification of trends affecting the quality of the loan portfolio and potential problem areas;

(iii) assessment of the overall quality of the loan portfolio;

(iv) identification of credit and collateral documentation exceptions;

(v) identification and status of any potential violations of laws, rules, or regulations with respect to the lending function and action taken to address such potential violations;

(vi) identification of loans that are not in conformance with the Bank’s lending policy or other applicable policies or plans;

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

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

(b) The written program shall be provided to the Supervisory Authorities, and shall be approved by the Board. Such approval shall be recorded in the minutes of the Board and thereafter, the Bank shall implement the written 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 provided to the Supervisory Authorities and recorded and retained in the Board's minutes.

9. <u>Maintenance of Allowance for Loan and Lease Losses</u>.

(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 internal loan review or in the most recent examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard" as well as all other loans and leases in its portfolio.

(b) Within 10 days from the effective date of this ORDER, the Board shall establish a comprehensive policy and methodology for determining the ALLL. The policy shall provide for a review of the ALLL at lease 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.

(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 policy and ALLL methodology to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Regional Director, and after consideration of any recommended changes, 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 policy.

10. 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 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 30 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 10 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 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.

11. **<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.

12. **<u>Business/Strategic Plan and Profit and Budget Plan</u>.**

(a) Within 90 days of the effective date of this ORDER, and within 30 days from the first day in each calendar year thereafter, the Board shall develop and fully implement a written three-year business/strategic plan and one-year profit and budget plan covering the overall operation of the Bank and its goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER.

(b) The business/strategic plan shall provide specific objectives for asset growth, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(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 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.

13. <u>Liquidity and Funds Management</u>.

(a) Within 30 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 subparagraph (a) of this provision above shall be reviewed for viability by the Bank's funds management committee on a monthly basis, and updated as necessary.

14. <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; and

(b) Within 30 days of the effective date of this ORDER, the Bank shall prepare an updated written plan for reducing its reliance on brokered deposits ("Brokered Deposit Plan") 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 for review and comment. Within 30 days of receipt of all such comments from the Regional Director, and after consideration of all such comments, the board shall approve the Brokered Deposit Plan, which approval shall be recorded in the minutes. Thereafter, the Bank shall implement and fully comply with the Brokered Deposit Plan.

15. Violations of Law and Regulation.

(a) Within 30 days from the effective date of this ORDER and within 90 days after receipt of any future reports of examination of the Bank by the FDIC and/or MDC, the Bank shall eliminate and/or correct all violations of law cited in the Report of Examination and such future reports of examination.

(b) For any violation that cannot be corrected, the Bank shall document the reasons for such inability and the Board shall review such documentation and include such documentation in the Board's minutes.

(c) In addition, the Bank shall adopt necessary policies and/or procedures to ensure future compliance with all applicable laws and regulations.

16. Disclosure of Order to Shareholder.

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.

17. Progress Reports Detailing Compliance with ORDER.

(a) Within 40 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.

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.

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: September 10, 2010

FEDERAL DEPOSIT INSURANCE CORPORATION

By:

/s/

Mark S. Moylan
Deputy Regional Director