

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )  
CITIZENS STATE BANK - MIDWEST )  
CAVALIER, NORTH DAKOTA )  
(Insured State Nonmember Bank) )

CONSENT ORDER  
FDIC-10-550b

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The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Citizens State Bank - Midwest, Cavalier, North Dakota ("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 September 16, 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 30 days from the effective date of this ORDER, the Board shall engage an independent third party ("Consultant") acceptable to the FDIC Kansas City Regional Director ("Regional Director") and the North Dakota Department of Financial Institutions (collectively, "Supervisory Authorities"), who possesses appropriate expertise and qualifications to analyze and assess performance and needs of the Bank's directors and officers.

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

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

(ii) the responsibilities of the Consultant;

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

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

(v) the qualifications of the Consultant and its 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 60 days of receipt of the Consultant's Report, the Board will develop a written Management Plan that addresses 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 authorities, responsibilities, and accountabilities attributable to each officer and consultant 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;

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

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

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

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

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

(ix) establish a plan to terminate, rotate, or reassign officers and consultants, as necessary, as well as recruit and retain qualified personnel consistent with the Board's analysis and assessment of the Bank's staffing needs;

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

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

(xii) contain a current management succession plan;

(xiii) 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; and,

(xiv) establish procedures to annually review and update the Management Plan, as well as review and assess the performance of each officer and any consultants.

(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 of receipt of any future reports of examination by either of the Supervisory Authorities, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the June 2, 2010 FDIC Report of Examination ("Report of Examination") and such future reports of examination that have not been previously collected or charged off.

(b) Elimination or 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 90 days from the effective date of this ORDER, and within 60 days of receipt of any future reports of examination by either of the Supervisory Authorities, the Bank shall develop and complete a written plan to reduce the Bank's risk exposure in each asset in excess of \$500,000 classified "Substandard" or "Doubtful" in the Report of Examination and 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 monthly 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 Board's minutes.

(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, as such plan may be modified by the Board, in writing, from time to time.

**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" in the Report of Examination and is uncollected, or classified "Substandard" or "Doubtful" internally or in any future reports of examination and is uncollected. The requirements of this subparagraph (a) shall not prohibit the Bank from renewing, after collecting in cash all interest and fees due from a borrower, any credit already extended to the borrower.



(b) Subparagraph (a) of this provision shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this subparagraph (b), whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by a majority of the Bank's 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;

(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. Concentrations of Credit.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written plan to reduce the loan concentrations listed on the "Concentrations" page of the Report of Examination, to an amount 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 plan.

(b) Upon completion of the Concentration Plan, the Bank shall approve the plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Plan.

**6. Loan Policy and Credit Administration.**

(a) Within 90 days of the effective date of this ORDER, the Board shall revise its Loan Policy and Credit Administration practices to address the deficiencies and recommendations presented on the "Examination Conclusions and Comments" pages of the Report of Examination. The Bank shall implement and fully comply with the revised loan policies.

(b) 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 a majority of the Board. 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.

**7. Loan Review Program.**

(a) Within 75 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) 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 lending policy;

(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 written program shall be provided to the Supervisory Authorities, and shall be approved by the Board. Such approval shall be recorded in the Board's minutes 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 recorded and retained in the Board's minutes.

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

(a) Within 10 days from the effective date of this ORDER, the Board shall review Consolidated Reports of Condition and Income (Call Reports) filed with the FDIC on or after June 30, 2010, and amend said Call Reports if necessary to accurately reflect an appropriately funded Allowance for Loan and Leases

Losses ("ALLL") and the financial condition of the Bank as of the date of each such Call Report. In meeting the requirements of this subparagraph, the Board shall consider the provision for loan and lease loss recommendation made in the Report of Examination.

(b) Call Reports filed after the effective date of this Order shall also accurately reflect the financial condition of the Bank as of the reporting date. The Board shall review its ALLL at least once each calendar quarter. That review should be completed at such time to ensure that the findings of the Board will be properly reported in the Bank's Call Reports. Such 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.

**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" of at least 9.0 percent; and

(ii) "Total risk-based capital ratio" of at least 12.0 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) of this provision, 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 set forth 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 Bank shall approve the written plan, and record such approval in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 leverage capital necessary to meet the requirements of this section may not be accomplished through a deduction from the ALLL.

**10. Restrictions on Dividends and Management Fees.**

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

**11. Liquidity and Funds Management.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall review its liquidity, contingency funding, and funds management policies and plans, and develop or amend each as necessary to address the concerns detailed in the Report of Examination, and specifically how the Bank will increase its liquid assets and reduce its reliance on volatile liabilities for liquidity purposes. The policies shall incorporate the guidance contained in Financial Institution Letter 84-2008, dated August 26, 2008, entitled *Liquidity Risk Management* and Financial Institution Letter 13-2010, dated April 5, 2010, entitled *Funding and Liquidity Risk Management*. Thereafter, the Bank shall implement and fully comply with the liquidity and funds management policies and plans.

**12. 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.

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

(a) Within the first 30 days of 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, and shall address the earnings/budget issues identified in the Report of Examination. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components, including projected salaries and bonuses.

(c) 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 business/strategic plan

and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Supervisory Authorities, and the Bank shall implement and fully comply with the plans.

**14. Correction of Technical Exceptions.**

(a) Within 90 days from the effective date of this ORDER, and within 90 days after receipt of any future reports of examination of the Bank by either of the Supervisory Authorities, 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 the 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. 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.

**16. 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.

(b) Progress reports may be discontinued when the Regional Director has, 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 27<sup>th</sup> day of September, 2010.

Issued Pursuant to Delegated Authority

Dated: September 27, 2010

By:

/s/  
Mark S. Moylan  
Deputy Regional Director