

**FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.**

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	)	
<b>In the Matter of</b>	)	
	)	<b>CONSENT ORDER</b>
<b>BOUNDARY WATERS BANK</b>	)	
<b>ELY, MINNESOTA</b>	)	<b>FDIC-10-836b</b>
	)	
<b>(Insured State Nonmember Bank)</b>	)	
_____	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the Boundary Waters Bank, Ely, 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 January 19, 2011, 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. Qualified Management.**

(a) From the effective date of this ORDER, the Bank shall take action to have qualified management. Within 60 days from the effective date of this ORDER and then annually thereafter during the life of this ORDER, the Board shall assess management's ability to:

(i) comply with the requirements of this ORDER; all applicable State and Federal laws, regulations, and rules; 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.

(b) The Board shall report its findings in the Board's minutes. In the event of a vacancy in the Bank's necessary management structure as determined under this ORDER, the Board shall document in its minutes the Bank's efforts to expeditiously fill that vacancy with a qualified individual.

**2. 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 "Leverage capital ratio" of at least 8.5 percent;

(ii) "Total risk-based capital ratio" of at least 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 Regional Director of the FDIC's Kansas City Regional Office ("Regional Director") and the Deputy Commissioner of the Minnesota Department of Commerce (collectively, "Supervisory Authorities"), and within 60 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 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, 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 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.

**3. Dividend Restriction.**

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

**4. Liquidity and Funds Management.**

(a) Within 45 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 Bank management on a weekly basis, and updated as necessary.

**5. Brokered Deposits.**

(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 45 days of the effective date of this ORDER, the Bank shall prepare a written plan for reducing its reliance on brokered deposits ("Brokered Deposit Plan"). 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. Upon completion, the Bank shall submit the Brokered Deposit Plan to the Supervisory Authorities.

**6. Charge-off of Adversely Classified Assets.**

(a) Within 10 days of the effective date of this ORDER, and within 10 days from the receipt of any future reports of examination from 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 September 13, 2010, Report of Examination ("Report of Examination"), or in 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.

**7. Reduction of Adversely Classified Assets.**

(a) Within 60 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 formulate written plans to reduce the Bank's risk exposure in each asset in excess of \$250,000 adversely classified as "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 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 Bank shall approve the plans, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the plans.

**8. 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," either internally or by either of the Supervisory Authorities in any future reports of examination 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 Board's minutes, with a copy retained in the borrower's credit file.

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

(a) Within 30 days from the effective date of this ORDER, the Board shall review and revise the written policy and methodology for determining the ALLL to address the cited deficiencies in the Report of Examination. The 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 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.

(c) The Bank shall submit the revised written 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 all such comments, the Bank 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. Concentrations of Credit.**

(a) Within 90 days of the effective date of this ORDER, the Bank shall develop a written plan for systematically reducing and monitoring the Bank's portfolio of loans or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers or industries 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 (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 quarterly 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 Bank shall submit the Concentration Plan to the Supervisory Authorities for review and comment. Within 30 days of receipt of any comments from the Regional Director, and after consideration of all such comments, the Bank 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 the failure to extend such credit would be detrimental; and

(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.

(e) 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.

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

(a) (i) within 60 days from the effective date of this ORDER, and within 30 days of each calendar year thereafter the Bank shall prepare a one-year profit and budget plan;

(ii) within 120 days from the effective date of this ORDER, and within the first 30 days of each calendar year

thereafter, the Board shall develop a written three-year business/strategic plan; and

(iii) the profit and budget plans and business strategic plans shall address 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 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. The business/strategic plan shall provide specific objectives for asset growth, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position.

(c) Upon completion, the profit and budget plan and the business/strategic plan, and any subsequent modifications 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 profit and budget plan and the business/strategic plan, which approvals shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the plans.

**12. Disclosure of Order to Sole 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.

**13. 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 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, Minnesota Department of Commerce, 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: January 27, 2011

FEDERAL DEPOSIT INSURANCE CORPORATION

By:

/s/  
Mark S. Moylan  
Deputy Regional Director