

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of)
WOODLAND BANK)
DEER RIVER, MINNESOTA)
(Insured State Nonmember Bank))
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CONSENT ORDER
FDIC-11-516b

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Woodland Bank, Deer River, 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 December 15, 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 from the July 5, 2011 FDIC Report of Examination ("Report of Examination") that the requirements for issuance of an order under 12 U.S.C. § 1818(b) has been satisfied, the FDIC hereby orders that:

1. **Assessment of Management.**

The Bank shall have and retain qualified management.

(a) Each member of management shall have the qualifications and experience commensurate with assigned duties and responsibilities at the Bank and shall be provided appropriate written authority from the Bank's Board to implement the provisions of this Order.

(b) Within 30 days from the effective date of this Order, the Board shall engage an independent third party ("Consultant") acceptable to the Regional Director of the FDIC Kansas City Regional Office ("Regional Director") and that possesses appropriate expertise and qualifications to analyze and assess the Bank's officers' and directors' performance, needs and compensation, including, but not limited to their ability to:

(i) comply with the requirements of this Order; (ii) operate the Bank in a safe and sound manner; (iii) comply with applicable laws and regulations; and, (iv) restore all aspects of the Bank to a safe and sound condition, including, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity, and sensitivity to market risk. Prior to execution, a copy of the Consultant's proposed engagement letter and a description of the Consultant's expertise and qualifications shall be provided to the Regional Director and the Minnesota Department of Commerce (collectively

"Supervisory Authorities") for review and comment. The engagement shall require that the Consultant's analysis and assessment be summarized in a written report to the Board ("Consultant's Study") within 90 days.

(c) Within 30 days of receipt of the Consultant's Study, the Board shall prepare an acceptable written Management Plan that: (i) addresses the findings of the Consultant's Study; (ii) presents a plan of action in response to each recommendation contained in the Consultant's Study, and a time frame for completing each action; and (iii) establishes procedures to review and update the Management Plan at least annually from the effective date of this ORDER.

(d) A copy of the Consultant's Study and Management Plan and any subsequent modifications 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 such comment, the Board shall approve the Management Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank and its directors, officers, and employees shall implement and follow the Management Plan. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management 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 after the receipt of any future reports of examination of the Bank 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 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 60 days from the effective date of this ORDER and within 60 days after the receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, the Bank shall formulate written plans to reduce the Bank's risk exposure in each asset in excess of \$100,000 adversely classified as "Substandard" 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.

(b) In developing the plans mandated by this paragraph, the Bank shall, at a minimum, and with respect to each 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.

(c) The plans mandated by this provision shall include a requirement that monthly written progress reports be submitted by Bank management to the Board, and a requirement that the Board review the progress reports and record 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.

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 in the Report of Examination

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 that:

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

5. **Loan Policy, Underwriting, 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 loan policy, underwriting, and credit administration deficiencies and recommendations presented on the Examination Conclusions and Comments pages of the Report of Examination.

(b) 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. The Bank shall provide a copy of the Revised Loan Policies to the Supervisory Authorities with the first progress report required by this ORDER.

(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. The reason for nonconformance and the Board's review and approval shall be documented in the minutes of the Board or committee and in the loan file for that loan.

6. **Implementation of Loan Review Program.**

(a) Within 60 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 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 or any of the requirements of this ORDER;

(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 Board shall approve the written program, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the written program. A copy of the written program shall be provided to the Supervisory Authorities with the first progress report required by this ORDER.

(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.

7. Allowance for Loan and Lease Losses (ALLL).

(a) Within 30 days, the Board shall revise Bank's written policy and methodology for determining the ALLL to address the comments and criticisms in the Report of Examination. The written policy shall provide for a review of the ALLL at least once each calendar quarter in order that the findings of the Board may be properly reported in the Bank's Call Reports. Such reviews shall, at a minimum, be made in accordance with the Call Report Instructions, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the appropriateness of the Bank's ALLL, and any analysis of the Bank's ALLL provided by either of the Supervisory Authorities. A copy of the revised written policy and methodology shall be provided to the Supervisory Authorities with the first progress report required by this ORDER.

(b) A deficiency in the Bank's ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Bank's

submission of its Call Report. The Board shall thereafter maintain an appropriate ALLL and fully comply with the policy.

8. 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 8.0 percent; and

(ii) "Total risk-based capital ratio" at least equal to 11.0 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), or (2) submit a written plan to the Supervisory Authorities for review and comment, describing in detail the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements of subparagraph (a) above, as well as a contingency plan in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the Regional Director, and after consideration of all such comments, the Board shall approve the written plan, which

approval shall be recorded in the 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.

9. Restrictions on Dividends.

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

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

(a) Within 90 days from the effective date of this ORDER and within 60 days from the first day in each calendar year thereafter, 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 or reduction, 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 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 policies. A copy of the business/strategic plan and the profit and budget plan shall be provided to the Supervisory Authorities with the first progress report required by this ORDER.

11. Correction of Technical Exceptions.

(a) Within 90 days from the effective date of this ORDER, and within 60 days after receipt of any future reports of examination 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. For any exception that cannot be corrected in a manner consistent with safe and sound banking practices, 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.

(b) Quarterly progress reports detailing each outstanding technical exception and the Bank's plan for corrective action shall be submitted to the Board for review in connection with

the Bank's periodic risk analysis. The report shall be made part of, and the review noted, in the Board's minutes.

(c) 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.

12. Elimination and/or Correction of Violations.

Within 90 days after the effective date of this ORDER, and within 60 days after receipt of any future reports of examination of the Bank by either of the Supervisory authorities, the Bank shall correct all apparent violations of law, rules, and regulations, cited in the Report of Examination, and such future reports of examinations.

13. Disclosure of Order to Sole 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.

14. Progress Reports Detailing Compliance with ORDER.

(a) During the last calendar week of April 2012, 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) actions taken or in-process for addressing each provision;

(ii) results of the corrective actions taken;

(iii) the Bank's status of compliance with each provision of the ORDER; and

(iv) appropriate supporting documentation.

(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, 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.

