**FEDERAL DEPOSIT INSURANCE CORPORATION**
**WASHINGTON, D.C.**
**and**
**STATE OF MINNESOTA**
**DEPARTMENT OF COMMERCE**

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| **In the Matter of** | ) | |
| | ) | **CONSENT ORDER** |
| **STATE BANK OF TAUNTON** | ) | |
| **TAUNTON, MINNESOTA** | ) | **FDIC-13-176b** |
| | ) | |
| **(Insured State Nonmember Bank)** | ) | |

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for State Bank of Taunton, Taunton, Minnesota ("Bank"), under 12 U.S.C. § 1813(q). The State of Minnesota, Department of Commerce, is the appropriate State banking authority for the Bank under Minnesota Statutes sections 46.01 – 46.04 (2012).

Based on the findings of the FDIC examination of the Bank as contained in the February 19, 2013 Report of Examination ("Report of Examination"), the FDIC and the State of Minnesota, Department of Commerce (collectively, "Supervisory Authorities") determined that the requirements for an order under 12 U.S.C. § 1818(b) and the Minnesota statutes 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

July 9, 2013, that is accepted by the Supervisory Authorities. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of regulations, to the issuance of this Consent Order ("ORDER") by the Supervisory Authorities.

Based on the above, the Supervisory Authorities each hereby order 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. Management shall include the chief executive officer, senior lending officer, and chief financial officer.

(b) Within 30 days of the effective date of this ORDER, the board shall engage an independent third party ("Consultant") acceptable to the Supervisory Authorities and that possesses appropriate expertise and qualifications to analyze and assess the Bank's management, management's performance, staffing needs, plans for succession, and management's 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 asset quality, earnings, management effectiveness, capital adequacy, 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 Supervisory Authorities. 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 ("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 Supervisory Authorities, 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 of the effective date of this ORDER and 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 the 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 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, and within 60 days following receipt of any review downgrading an asset to a "Substandard" or "Doubtful" classification, the Bank shall prepare a written plan to reduce the Bank's risk exposure in each such asset in excess of $100,000. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset to warrant its removal from adverse classification.

(b) In developing the asset plans required by this provision, 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 asset plans required by this provision shall be reviewed by the Board, with a notation of the review in the Board's minutes.

(d) The Bank shall submit the Board-reviewed asset plans, and any modifications thereto, to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the asset plans, and any modifications thereto, which approval shall be recorded in the minutes of the Board's meeting. Thereafter, the Bank shall implement and fully comply with the asset plans. Summaries detailing progress relative to the asset plans shall be reviewed and approved by the Board at least quarterly, with such approval noted in the Board's minutes.

**4. Restrictions on Advances to Adversely Classified Borrowers.**

(a) While this ORDER is in effect, the Bank shall not, without prior Board approval, renew or extend existing extensions of credit (directly or indirectly) or advance any additional credit to, or for the benefit of, any borrower who has an 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 the most recent report of examination.

(b) Prior to the renewal, extension, or advancement of any additional credit pursuant to this provision, such credit shall be approved by a majority of the Board, who shall certify in writing as follows:

(i) why the failure of the Bank to renew, extend, or advance such credit would be detrimental to the best interest of the Bank;

(ii) that the Bank's position would be improved thereby, including an explanatory statement of how the Bank's position would improve; and

(iii) that an appropriate workout plan has been developed and will be implemented in conjunction with, or furthered by, such renewal, extension, or advancement of additional credit.

(c) The signed certification shall be made a part of the minutes of the Board and a copy of the signed certification shall be retained in the borrower's credit file.

**5. Loan Policy and Credit Administration.**

(a) Within 60 days from 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) A copy of the Revised Loan Policies, and any modifications thereto, with all changes highlighted, shall be provided to the Supervisory Authorities for review and comment, with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comment from the Supervisory Authorities, and after consideration of any such comments, the Bank shall approve the Revised Loan Policies, or subsequent modification, 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 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 and in the loan file for that loan.

**6. Maintenance of Allowance for Loan and Lease Losses ("ALLL").**

(a) Within 10 days from the effective date of this ORDER, and within 10 days of receipt of future reports of examination from either of the Supervisory Authorities, the Board shall make a provision which will replenish the ALLL for the loans not previously reserved for and 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) 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) Within 10 days from the effective date of this ORDER, the Board shall prepare a written comprehensive policy and methodology for determining the ALLL ("ALLL Policy"). The ALLL Policy shall address the ALLL comments in the Report of Examination and 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 December 13, 2006 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.

(d) The Bank shall submit the ALLL Policy to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days from receipt of any comment from the Supervisory Authorities, and after consideration of any recommended changes, the Board shall approve the ALLL Policy, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the ALLL Policy.

**7. 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 capital "leverage 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 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 without written approval from the Supervisory Authorities.

**8. Restriction on Certain Payments.**

While this ORDER is in effect, the Bank shall not declare or pay dividends without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received by the Supervisory Authorities at least 30 days prior to the proposed action, and each request shall contain an analysis and description of the impact such dividend would have on the Bank's capital, income, and liquidity positions.

**9. Audit Program.**

(a) Within 90 days of the effective date of this ORDER, the Bank shall expand its written audit program to comply with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing, and shall include:

(i) a comprehensive audit risk assessment;

(ii) an internal audit plan, based on the risk assessment, designating the scope and frequency of audit reviews;

(iii) a description of the objectives of the audit work and the procedures used for the internal audit review;

(iv) an audit report to the Board presenting the purpose, scope, and results of audit findings, conclusions, and recommendations; and

(v) an audit findings worksheet to track results of internal audits, external audits, and regulatory examinations.

(b) Thereafter, the Board shall approve and implement the audit program, review and revise the audit program at least annually, and update the audit risk assessment at least annually.

**10. Liquidity.**

(a) Within 60 days from the effective date of this ORDER, the Board shall revise the Bank's written liquidity and contingency funding policies and plans ("Liquidity Policies and Plans") to address the comments and criticisms in the Report of Examination. The Liquidity Policies and Plans shall incorporate the guidance contained in 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 Policies and Plans.

(b) The Bank shall submit the Liquidity Policies and Plans to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the Liquidity Policies and Plans, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the Liquidity Policies and Plans.

**11. <u>Sensitivity to Market Risk</u>.**

(a) Within 30 days from the effective date of this ORDER, the Board shall revise the Bank’s written interest rate risk policy and plan (“IRR Policy and Plan”) to address the comments and criticisms in the Report of Examination. The IRR Policy and Plan shall incorporate the guidance contained in May 14, 1996 Joint Agency Policy on Interest Rate Risk. Thereafter, the Bank shall implement and fully comply with the IRR Policy and Plan.

(b) The Bank shall submit the IRR Policy and Plan to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the IRR Policy and Plan, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the IRR Policy and Plan.

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

(a) Within 60 days from the effective date of this ORDER, and within 45 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, balance sheet composition, 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 approved by the Board, which approval shall be recorded in the Board’s minutes. Thereafter, the Bank shall implement and fully comply with the plans. A copy of the business/strategic plan and profit and budget plan, and any modification thereto, shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(d) At least quarterly, the Board shall evaluate the Bank’s actual performance in relation to the plans required by this provision and shall record the results of that evaluation, and any responsive actions taken or to be taken by the Bank, in the Board's minutes.

**13. <u>Correction of Information Technology Deficiencies</u>.**

(a) Within 90 days from the effective date of this ORDER, the Bank shall correct the information technology (IT) criticisms in the Report of Examination as set out below.

(b) Within 30 days from the effective date of this ORDER, the Bank shall expand the written risk assessment and identify the location of all confidential customer and corporate information and include the following, at a minimum:

(i) identification of reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems;

(ii) assessment of the likelihood and potential damage of identified threats, taking into consideration the sensitivity of the customer information; and

(iii) the Bank's conformance with FIL-50-2011 issued June 29, 2011 entitled "FFIEC Supplement to Authentication in an Internet Banking Environment."

(c) Within 60 days, the Bank shall complete and implement a written information security program that meets the requirements and criteria found in Part 364, Appendix B of the FDIC's Rules and Regulations, and includes specific and standardized policies and procedures regarding the Bank's risk assessment, controls, testing, service-provider oversight, periodic review and updating, and reporting to the Board.

(d) Within 90 days, the Bank shall develop and implement a written IT audit program for the purpose of determining compliance with the written information security program. The IT audit program shall:

(i) be based upon the findings of the IT risk assessment;

(ii) identify the scope, type, and frequency of audits to be performed;

(iii) include provisions for Board reporting, audit tracking, and findings resolution; and

(iv) require IT audits to be performed by qualified and independent parties.

The Board or designated audit committee shall be responsible for directing and overseeing audit work performed, and for prompt resolution of audit findings.

**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 from 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) Reports detailing each outstanding exception and the status of the Bank’s corrective action shall be submitted to the Board for review during each regularly scheduled Board 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) While this ORDER is in effect, 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, Rules, and Regulations.**

(a) Within 90 days after the effective date of this ORDER, and within 90 days after receipt of any future report of examination by either of the Supervisory Authorities, the Bank shall eliminate and/or correct all violations of laws, rules and regulations cited in the Report of Examination or such future reports of examination.

(b) For any violation that cannot be corrected, the Bank shall document the reason for such inability for review by the

Board at its next monthly meeting. The Board's review, discussion, and any action upon the uncorrected violation shall be recorded in its minutes. A copy of the minutes shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(c) Within 90 days after the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws and rules and regulations.

**16. 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.

**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, 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 and Minnesota Department of Commerce.

Issued Pursuant to Delegated Authority.

Dated: ____July 15, 2013________________

FEDERAL DEPOSIT INSURANCE CORPORATION

By:

_/s/____________________________________
Mark S. Moylan
Deputy Regional Director

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

By:

/s/
Shane Deal
Deputy Commissioner