

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

_____)	
In the Matter of)	
)	CONSENT ORDER
LAKE AREA BANK)	
LINDSTROM, MINNESOTA)	FDIC-12-466b
)	
(Insured State Nonmember Bank))	
_____)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the Lake Area Bank, Lindstrom, Minnesota ("Bank"), under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q)(3). The State of Minnesota, Department of Commerce, is the appropriate State banking authority for the Bank under §§ 46.01-46.04 (2011).

Based on the findings of the joint examination of the Bank as contained in the June 18, 2012 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 Minnesota State 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 November 16, 2012, 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 law and/or 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 from 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 and staffing needs, performance, and compensation with respect to the Bank's credit administration and underwriting processes, procedures, practices, and internal

controls, including, but not limited to such management's ability to: (i) comply with the requirements of this Order; (ii) operate the Bank in a safe and sound manner; and (iii) address the deficiencies and recommendations identified under the Asset Quality and Management Subheadings in the Examination Conclusions and Comments pages of the Report of Examination.. Prior to execution, a copy of the Consultant's proposed engagement letter detailing the proposed scope of review 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 that: (i) includes a written plan of action with a time period for completion in response to each finding and recommendation contained in the Consultant's Study and in response to the comments found under the Asset Quality and Management Subheadings in the Examination Conclusions and Comments pages of the Report of Examination; and (ii) 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 of the effective date of this ORDER and within 30 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 from the receipt of future reports of examination 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 asset plan to reduce the bank's risk exposure in each such asset in excess of \$500,000. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of the asset to warrant its removal from such 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 Board's minutes. 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 or a designated committee thereof, 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 be improved; and

(iii) that an appropriate workout plan has been developed and will be implemented in conjunction with, or furthered by, the additional credit to be extended.

(c) The signed certification shall be made a part of the minutes of the Board or its designated committee 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 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 Credit Administration, Internal Risk Rating, and Restructured Troubled Debt 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 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 or an appropriate committee thereof. The reason for nonconformance and the Board's or committee's review and approval shall be documented

in the minutes of the Board or committee 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 charged off as a result of the most recent internal loan review or in the most recent report of examination and reflect the potential for further losses in the remaining loans or leases classified "Substandard" or "Doubtful," 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.

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 "Leverage Capital Ratio" at least equal to 8 percent; and

(ii) "Total Risk-Based Capital Ratio" at least equal to 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 Supervisory Authorities and within 60 days shall: (1) increase capital in an amount sufficient to comply with paragraph (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 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 paragraph (a) of this provision may not be

accomplished through a deduction from the ALLL without prior written approval from the Supervisory Authorities.

8. Dividends.

(a) 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. Business/Strategic Plan and Profit and Budget Plan.

(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 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 modifications thereto, shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(d) At the Board's first meeting following the end of each calendar quarter, 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.

10. 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.

11. Correction of Special Mention Weaknesses.

(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 develop plans to eliminate or address the weaknesses noted in assets listed on the "Items

Listed for Special Mention" pages of the Report of Examination and such future reports of examination ("Special Mention Plans").

(b) The Special Mention Plans 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 Special Mention Plans. Progress toward meeting the Special Mention Plans will be reported to the Board monthly and recorded in the Board's minutes.

(c) Upon approval, a copy of the Special Mention Plans shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

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 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) descriptions 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

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 not bar, estop or otherwise prevent the FDIC, the State Banking Authority, 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 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 Supervisory Authorities.

This ORDER is issued and thus effective this 28th day of November, 2012.

FEDERAL DEPOSIT INSURANCE CORPORATION
Issued Pursuant to Delegated Authority

By: /s/

Mark S. Moylan
Deputy Regional Director
Federal Deposit Insurance Corporation
Kansas City Regional Office

STATE OF MINNESOTA
DEPARTMENT OF COMMERCE

By: /s/

William K. Horlitz