

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

<u>In the Matter of</u>	)	CONSENT ORDER
	)	
HOMETOWN COMMUNITY BANK	)	FDIC-11-226b
CYRUS, MINNESOTA	)	
	)	
(Insured State Nonmember Bank)	)	
	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the Bank, under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q)(3).

Based on the findings of the FDIC examination of the Bank as contained in the January 3, 2011 Report of Examination ("Report of Examination"), the FDIC determined that the requirements for an order under 12 U.S.C. § 1818(b) 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 August 2, 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 or violations of law and/or

regulation, to the issuance of this Consent Order ("ORDER") by the FDIC.

Based on the above, the FDIC hereby orders that:

1. Charge-off of Adversely Classified Assets.

(a) Within 10 days after the receipt of any future reports of examination of the Bank from either the Regional Director for the FDIC Kansas City Region ("Regional Director") or the Commissioner of the Minnesota Department of Commerce (collectively, "Supervisory Authorities"), the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in 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.

2. Reduction of Adversely Classified Assets.

(a) Within 60 days from the effective date of this ORDER, and 60 days from receipt of future reports of examination from 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 \$50,000 classified "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 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 quarterly written progress reports be submitted to the Board; and

(iii) 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, the Bank shall implement and fully comply with the plans. The Bank shall submit the plans to the Supervisory Authorities with the next due progress report required by this ORDER.

3. Restrictions on Advances to Adversely Classified Borrowers.

(a) While this ORDER is in effect, the Bank shall not, renew, or 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 the future, internally or in any future reports of examination from either of the Supervisory Authorities, and is uncollected.

(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) that 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 (e.g., mitigation of loss; enhance collateral protection; or greater possible loss from contract liability);

(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) that 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 Board meeting at which the extension of credit is approved, with a copy retained in the borrower's credit file.

4. Loan Policy, Underwriting, and Credit Administration.

(a) Within 120 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 Board 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's Revised Loan Policies shall be provided to the Supervisory Authorities with the next due 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 Board minutes and in the loan file for that loan.

5. Independent Loan Review Program.

(a) Within 60 days, the Board shall develop a written loan review program that provides for a periodic and independent 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 loan policies and procedures, or risk reduction plans prepared pursuant to 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 program, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the loan review program.

The Bank shall submit the written program to the Supervisory Authorities with the next due 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.

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

(a) 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 allowance for loan and lease losses ("ALLL") for the loans 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" or "Doubtful," as well as all other loans and leases in its portfolio.

(b) Within 60 days from the effective date of this ORDER, the Board shall establish a comprehensive policy and methodology for determining the ALLL. 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.

(c) 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.

(d) The Board 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. The Bank shall submit the policy and ALLL methodology to the Supervisory Authorities with the next due progress report required by this ORDER.

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 8.0 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 45 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 of subparagraph (a) above, as well as a contingency plan, including the possible sale, merger, or liquidation of the Bank, 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.

8. Dividend Restriction.

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

9. Assessment of Management.

(a) From the effective date of this ORDER, the Bank shall take action to have and maintain qualified management, which shall be assessed on management's ability to:

(i) Comply with the requirements of this Order, all applicable State and Federal laws and regulations, FDIC and Federal Financial Institutions Examination Council 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) Within 90 days from the effective date of this ORDER, the Board shall engage an independent third party ("Consultant") acceptable to the Regional Director and that possesses appropriate expertise and qualifications to analyze and assess the management needs of the Bank and the performance of the Bank's current 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, shall include, among other things, a requirement that within 90 days of engagement, the Consultant shall deliver a written report to the Board ("Consultant's Report") summarizing the Consultant's (A) analysis of the Bank's management needs, (B) assessment of the performance of the Bank's current officers and (C) recommendations regarding any changes or additions to the Bank's officers.

(d) Within 30 days of receipt of the Consultant's Report, the Board will develop a written plan ("Management Plan") that addresses the findings of the Consultant's Report, states the actions to be taken by the Bank in response to each recommendation contained in the Consultant's Report, and establishes a time frame for completing each action. The Management Plan shall also establish procedures to review and

update the Management Plan at least annually from the effective date of this ORDER.

(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 Board's minutes. 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 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.

10. Liquidity and Asset/Liability Management Policies and Practices.

Within 120 days from the effective date of this ORDER, the Board shall review and revise its Asset, Liability, Liquidity and Funding Policy to address the recommendations made under the Liquidity and Sensitivity to Market Risk headings in the

Examination Conclusions and Comments pages of the Report of Examination. Thereafter, the Bank shall implement and fully comply with the revised policy.

11. 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 plans. The business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be submitted to the Supervisory Authorities in the next due progress report required by this ORDER.

12. Correction of Technical Exceptions.

(a) Within 120 days from the effective date of this ORDER, and within 90 days after receipt of any future report 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) Progress reports detailing each outstanding exception and the Bank's plan for corrective action shall be submitted to the Board for review on at least a quarterly basis. 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.

13. Elimination and/or Correction of Violation of Laws, Rules, and Regulations.

(a) Within 30 days from the effective date of this ORDER, and within 30 days from the receipt of any future reports of examination from either of the Supervisory Authorities, the Bank shall take steps necessary consistent with sound banking practices to correct the apparent violation of regulations cited in the Report of Examination and any violation of laws, regulations and/or rules in such future reports of examination, and shall adopt and implement appropriate procedures to ensure future compliance with all such applicable federal and state laws, rules, and regulations.

(b) For any violation 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 copy of the documentation in the Board's minutes.

14. Disclosure of Order to Shareholders.

Following the effective date of this ORDER, the Bank shall provide a copy of this ORDER to its shareholders, (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.

15. 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 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, the State of 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.

This ORDER shall be effective the 8th day of August____, 2011.

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