

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

MONTANA DIVISION OF BANKING AND FINANCIAL INSTITUTIONS

HELENA, MONTANA

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	)	
In the Matter of	)	
	)	CONSENT ORDER
FIRST SECURITY BANK OF HELENA	)	
HELENA, MONTANA	)	FDIC-12-209b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	
	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for First Security Bank of Helena, Helena, Montana (“Bank”) under Section 3(q) of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1813(q)(3). The Montana Division of Banking and Financial Institutions (“Division”) is the appropriate State banking agency for the Bank under Mont. Code Ann. § 32-1-211.

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 June 12, 2012, that is accepted by the FDIC and the Division. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to capital, asset quality, management and earnings, to the issuance of this Consent Order (“Order”) by the FDIC and the Division pursuant to Section 8(b)(1) of the FDI Act, and Mont. Code Ann. § 32-1-902.

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b), and Mont. Code Ann. § 32-1-902 have been satisfied, the FDIC and the Division hereby order that:

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the following: (i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile; (ii) a chief financial officer with proven ability in all aspects of financial management; (iii) a chief credit officer with significant lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

(b) The qualifications of management shall be assessed on its 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, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the Montana Division of Banking and Financial Institutions ("Commissioner"), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the

addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104 and Mont. Code Ann. § 32-1-322.

2. Upon the effective date of this Order, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; liquidity and funds managements activities; operating policies; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. (a) Within 60 days from the date of this Order, the Bank shall restructure the Board in order to ensure that independent directors shall comprise at least 51 percent of the Board.

(b) For purposes of this Order, an independent director shall be any individual who is not an officer of the Bank, any subsidiary, or any of its affiliated organizations; who does not own more than 5 percent of the outstanding shares of the Bank; who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than five (5) percent of the Bank's outstanding shares and does not otherwise have a common financial interest with such officer, director or shareholder; who is not indebted to the Bank directly or

indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding five (5) percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; was not nominated by senior management; or who is deemed to be an independent director for purposes of this Order by the Regional Director and the Commissioner. In addition, the Bank shall comply with Mont. Code Ann. § 32-1-322.

4. (a) Within 90 days from the effective date of this Order, the Bank shall increase and thereafter maintain its Tier 1 capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds ten (10) percent.

(b) Within 90 days from the effective date of this Order, the Bank shall increase and thereafter maintain its total risk-based capital ratio in such an amount as to equal or exceed twelve (12) percent.

(c) Within 60 days from the effective date of this Order, the Bank shall develop and adopt a plan to meet and maintain the capital requirements of this Order and to comply with the FDIC's Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. Such plan and its implementation shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(d) The level of capital to be maintained during the life of this Order shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. Any increase in Tier 1 capital necessary to meet the requirements of this paragraph may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(e) If all or part of the increase in capital required by this Order is accomplished by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than twenty (20) days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration, Disclosure and Securities Unit, 550 17th St. N.W., Washington, D.C. 20429, for review. Any changes requested by the FDIC shall be made prior to dissemination. If the increase in capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(f) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be

furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(g) For the purposes of this Order, the terms "leverage ratio", "Tier 1 capital" and "total risk-based capital ratio" shall have, the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2(m), 325.2(v), 325.2(y), and Appendix A.

5. The Bank shall not pay cash dividends or make any other payments to its shareholders without the prior written consent of the Regional Director and the Commissioner.

6. Within 60 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written plan (Plan) addressing the retention of profits, reducing overhead expenses, and setting forth a comprehensive budget covering the period March 31, 2012, to December 31, 2013. The Plan shall contain formal goals, strategies and benchmarks that are consistent with sound banking practices to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. It shall also contain a thorough description of the operating assumptions that form the basis for, and adequately support, each major component of the plan. Such Plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the Plan and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

7. (a) Within 10 days from the effective date of this Order, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" in the Joint Report of Examination dated February 21, 2012, and issued by the FDIC and the Division

(“ROE”) that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(b) Within 180 days from the effective date of this Order, the Bank shall have reduced the assets classified “Substandard” in the ROE, that have not previously been charged off to not more than \$6,000,000.

(c) Within 270 days from the effective date of this Order, the Bank shall have reduced the assets classified “Substandard” in the ROE, that have not previously been charged off to not more than \$5,000,000 or 100 percent of the Bank’s Tier 1 capital plus the Allowance for Loan and Lease Losses (“ALLL”).

(d) Within 365 days from the effective date of this Order, the Bank shall have reduced the assets classified “Substandard” in the ROE, that have not previously been charged off to not more than \$4,000,000 or 75 percent of the Bank’s Tier 1 capital plus the ALLL.

(e) Within 545 days from the effective date of this Order, the Bank shall have reduced the assets classified “Substandard” in the ROE, that have not previously been charged off to not more than \$1,250,000 or 25 percent of the Bank’s Tier 1 capital plus the ALLL.

(f) The requirements of this paragraph are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in this paragraph the word “reduce” means:

- (i) to collect;
- (ii) to charge-off; or

(iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC and the Division.

8. (a) Within 10 days from the effective date of this Order, the Bank shall increase the ALLL by \$800,000 and shall thereafter maintain an adequate ALLL.

(b) Within 30 days from the effective date of this Order, the Bank shall amend the December 31, 2011, Report of Condition and Income as directed by the ROE.

(c) Additionally, within 30 days from the effective date of this Order, the Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, the adequacy of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each calendar quarter. Said review shall be completed in order that the findings of the Board with respect to the ALLL are properly reported in the quarterly Reports of Condition and Income. The review shall focus on the results of the Bank's internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the allowance shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its ALLL consistent with the ALLL policy established. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

9. (a) Beginning with the effective date of this Order, 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 from the Bank that has been charged off or classified, in whole or in part, “Loss” and is uncollected. This paragraph shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification 470-60 (“ASC 470-60”), formerly known as FASB Statement Number 15 (“FAS 15”).

(b) Beginning with the effective date of this Order, 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 from the Bank that has been classified, in whole or part, “Substandard” without the prior approval of a majority of the Board or loan committee of the Bank. The Board and loan committee shall not approve any extension of credit or additional credit to such borrowers without first collecting in cash all past due interest.

10. (a) Within 30 days from the effective date of this Order, the Bank shall develop a written plan, approved by its Board for systematically reducing the level of nonperforming assets and/or assets listed on the Bank’s “Watch List” to an acceptable level. The plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) As used in this paragraph the word “reduce” means:

(i) to collect;

(ii) to charge-off; or

(iii) to sufficiently improve the quality of assets on the Watch List to

warrant their removal from the list, as determined by the FDIC and the Division.

11. (a) Within 45 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. Such policies and their implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank's loan policy and practices required by this paragraph shall, at a minimum, include the following:

(i) provisions, consistent with the FDIC's instructions for the preparation of Reports of Condition and Income, under which the accrual of interest income is discontinued and previously accrued interest is reversed on delinquent loans;

(ii) provisions that prohibit the capitalization of interest or loan-related expenses unless the Board supports in writing and records in the minutes of the corresponding Board meeting why an exception thereto is in the best interests of the Bank;

(iii) provisions that require complete loan documentation, realistic repayment terms, and current credit information adequate to support the outstanding indebtedness of the borrower. Such documentation shall include current financial information, profit and loss statements or copies of tax returns and cash flow projections;

(iv) provisions that incorporate limitations on the amount that can be loaned in relation to established collateral values;

(v) provisions that establish standards for unsecured credit;

(vi) provisions that establish officer lending limits;

(vii) provisions that require extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such persons,

to be approved in advance by a majority of the entire Board in accordance with section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(b);

(viii) provisions that require the preparation of a loan “Watch List”, which shall include relevant information on all loans in excess of \$50,000 classified “Substandard” in the ROE, or by the FDIC or Division in subsequent Reports of Examination and all other loans in excess of \$25,000, which warrant individual review and consideration by the Board as determined by the loan committee or active management. The “Watch List” shall be presented to the Board for review at least monthly with such review noted in the minutes;

(ix) provisions that require an accurate internal grading system;

(x) provisions that require the accurate identification and reporting of restructured troubled debt.

In addition to the foregoing, the Board shall adopt procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in minutes of a Board meeting at which all members are present and the vote of each is noted.

12. Upon the effective date of this Order, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

13. 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 Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank’s Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been

accomplished and the Regional Director and the Commissioner have released the Bank in writing from making further reports.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the Division, 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, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the Division.

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 the Division.

Issued pursuant to delegated authority

Dated at San Francisco, California, this 19th day of June, 2012.

_____/s/_____
J. George Doerr
Deputy Regional Director
Division of Risk Management Supervision
San Francisco Region
Federal Deposit Insurance Corporation

_____/s/_____
Melanie S. Hall
Commissioner
Montana Division of Banking and Financial
Institutions