

AGREEMENT BY AND BETWEEN
The First National Bank of Farragut
Shenandoah, Iowa
and
The Comptroller of the Currency

The First National Bank of Farragut, Shenandoah, Iowa (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has determined that the Bank has engaged in unsafe and unsound banking practices relating to its capital planning, credit underwriting, credit administration, and contingency funding planning.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

Article I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Omaha Field Office
13710 FNB Parkway, Suite 110
Omaha, Nebraska 68154

Article II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors of which at least one (1) must not be an employee of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller.

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement and shall meet at least monthly.

(3) By no later than August 31, 2008, and by the end of every calendar quarter thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall provide a summary report of the progress reached in attaining compliance with each Article of this Agreement to the Assistant Deputy Comptroller within ten (10) days of the end of each calendar quarter.

Article III

CAPITAL PLAN

(1) Effective immediately, the Bank shall at all times maintain the following minimum capital ratios:

- (a) Tier 1 capital at least equal to eight (8%) of adjusted total assets; and
- (b) total risk-based capital at least equal to eleven percent (11%) of risk-weighted assets.

(2) For purposes of this Article, "Tier 1 capital," "total risk-based capital," "adjusted total assets," and "risk-weighted assets" are as defined in 12 C.F.R. Part 3.

(3) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank is not to be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(4) Effective immediately, the Bank shall only declare dividends:

- (a) when the Bank is in compliance with its approved capital program;
- (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
- (c) with the prior written approval from the Assistant Deputy Comptroller, which shall be granted or denied within thirty (30) days of the receipt of a dividend request from the Bank.

(5) By September 30, 2008, the Board shall develop, implement, and thereafter ensure Bank adherence to a written Capital Plan for the Bank covering at least the next three years, complete with specific time frames that incorporate the requirements of this Article. Copies of the Bank’s Capital Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(6) The Bank’s Capital Plan shall establish projections for the Bank’s overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, and capital and liquidity adequacy that the Bank intends to achieve, and at a minimum, address or include:

- (a) growth limitations designed to comply with Paragraph (1) of this Article and actions to monitor, control and reduce, where appropriate, significant concentrations of credit;

- (b) recognition that the Bank cannot offer or introduce new products or enter new market segments until it adopts an appropriate credit culture, implements sound risk management principles, and returns the Bank's condition to satisfactory;
- (c) the primary source(s), especially those that are not credit sensitive, from which the Bank will strengthen its capital structure to meet the Bank's needs, if necessary;
- (d) contingency plans that identify alternative sources should the primary source(s) not be available;
- (e) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the next three years that shall address or include consideration of the requirements of this Article; and
- (f) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(7) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the Bank's Capital Plan.

Article IV

COMMERCIAL REAL ESTATE RISK MANAGEMENT

(1) Within sixty (60) days of this Agreement, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a written program (including appropriate revisions to policies and procedures) designed to manage the risk in the Bank's commercial real estate ("CRE") loan portfolio in accordance with safe and sound banking practices and the guidelines set forth in Commercial Real Estate and Construction Lending, A-CRE, *Comptroller's Handbook*, that, at a minimum, includes:

- (a) the establishment of an overall CRE strategy, to include CRE concentration limits stratified by type, locality and other meaningful measures;
- (b) monthly monitoring of concentration reports that stratify the CRE portfolio by product type, locality and other meaningful measures;
- (c) significant individual loan stress testing and/or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital;
- (d) the establishment of Loan Policy CRE underwriting standards by CRE type that include specific requirements relating to:
 - (i) maximum loan amount and maturity by type of property;
 - (ii) approval authorizations;
 - (iii) minimum file documentation and analysis;

- (iv) minimum requirements for initial investment and maintenance of hard equity;
 - (v) minimum standards for borrower net worth, property cash flow/debt service, collateral coverage, and guarantor support;
 - (vi) minimum standards for the acceptability, and limits of soft cost and/or interest reserve financing;
 - (vii) maximum amortization periods and minimum principal curtailment for CRE and construction projects that are not meeting original projections; and
 - (viii) procedures for loan closing and disbursement processes, including the supervised disbursement of construction loan proceeds;
- (e) requirements to ensure participations purchased are consistent with sound banking practices, guidelines set forth in Banking Circular 181 (Revised), dated August 2, 1984, and the requirements of 12 C.F.R. Part 34;
- (f) maintenance of proper collateral margins in loans made for the purpose of constructing or developing real estate, including but not limited to, procedures for ensuring that:
- (i) periodic, meaningful, well-documented, inspections are performed on all construction projects;
 - (ii) draws requests are advanced in accordance with construction progress and budget;

- (iii) documentation of project completion versus amount advanced is maintained;
 - (iv) lien waivers are obtained from contractors and sub-contractors; and
 - (v) borrower's hard equity is tracked by project.
- (g) standards for when CRE loan policy exceptions are appropriate, what factors should exist to mitigate exceptions, and how the level and trend of exceptions should be tracked and reported to the Board;
- (h) standards for appraisal ordering and review processes; and
- (i) standards to ensure CRE loans are appropriately risk rated.

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program, policies and procedures required by this Article.

(3) At least quarterly, the Board shall submit a written assessment of the Bank's progress in reaching compliance with the policies and procedures required by this Article to the Assistant Deputy Comptroller.

Article V

CREDIT UNDERWRITING AND ADMINISTRATION

(1) Effective as of this Agreement, the Board shall ensure that all lending officers comply with all laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) Effective as of this Agreement, the Bank may not grant, extend, renew, alter or restructure any loan or other extension of credit above \$50,000 without:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining current and satisfactory credit information, including performing and documenting analysis of credit information and a detailed cash flow analysis of all expected repayment sources;
- (e) determining and documenting whether the loan complies with the Bank's Loan Policy and if it does not comply, providing identification of the exception and ample justification to support waiving the policy exception;
- (f) making and documenting the determinations made regarding the customer's ability to repay the credit on the proposed repayment terms;
- (g) providing an accurate risk assessment grade as further described in Article VIII; and
- (h) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

(3) Within sixty (60) days of the date of this Agreement, the Board shall take the necessary steps to obtain current and satisfactory credit information on all loans above \$50,000 lacking such information, including those listed in the Report of Examination conducted as of

March 31, 2008 (the “ROE”), in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(4) Within sixty (60) days of this Agreement, the Board shall ensure proper collateral documentation is maintained on all loans above \$50,000 and correct each collateral exception for any loan above \$50,000 listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

Article VI

APPRAISAL AND EVALUATION PROCESS

(1) Within sixty (60) days of this Agreement, the Board shall revise, adopt, implement and thereafter ensure Bank adherence to a written policy designed to ensure the Bank obtains appraisals in compliance with USPAP, 12 C.F.R. Part 34, Advisory Letter 2003-9, and OCC Bulletin 2005-6, to include at a minimum:

- (a) the ordering of appraisals, independent of the lending function;
- (b) the use of Board approved appraisers only;
- (c) expectations regarding the selection of comparable sales, and when income or cost analysis should be used for income producing properties;
- (d) the establishment and implementation of a policy requiring a meaningful review, independent of the lender, of all appraisals to include analysis

commensurate with the type, size and complexity of the property being appraised; and

- (e) the establishment of a tickler system for tracking appraisals ordered, received, returned, and reviewed.

Article VII

PROBLEM LOAN MANAGEMENT

(1) Effective as of this Agreement, the Board shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) The Board's compliance with Paragraph (1) of this Article shall include the development of procedures for the monthly submission and review of problem asset reports for all criticized credit relationships totaling \$50,000 or above, that require, at a minimum, analysis and documentation of the following:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable as well as other necessary documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;

- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (e) trigger dates for positive borrower actions or for loan officers to reassess the strategy and enact collection plans; and
- (f) for criticized relationships of \$50,000 or above that were made for the purpose of constructing or developing CRE, the reports shall also include:
 - (i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;
 - (ii) project development status;
 - (iii) a comparison of development costs to the budgeted amount;
 - (iv) a comparison of sales activity to the original sales projections;
 - (v) amount of initial interest reserve and the amount of any subsequent additions to the reserve;
 - (vi) an assessment of the borrower's global cash flow; and
 - (vii) any other significant information relating to the project.

(3) Effective as of this Agreement, the Bank may not extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed \$50,000, unless each of the following conditions is met:

- (a) the Board or a designated committee thereof finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the Board or a designated committee thereof approves the credit extension and documents in writing, the reasons that such extension is necessary to promote the best interests of the Bank; and
- (b) the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

Article VIII

CREDIT RISK RATINGS AND NONACCRUAL RECOGNITION

(1) Within thirty (30) days of this Agreement, the Board shall develop a program to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, provisions requiring that:

- (a) the Bank's loans and other assets are appropriately and timely risk rated and charged-off by the lending officers using a loan grading system that is based upon current facts, existing repayment terms and that is consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the *Comptroller's Handbook*;
- (b) the Bank establish standards for classification of retail credit in accordance with the Uniform Retail Credit Classification and Account Management Policy, *OCC Bulletin 2000-20*, (June 20, 2000); and

- (c) the Bank's loans and other assets are timely placed on nonaccrual in accordance with the guidelines set forth in the Call Report.

Article IX

EXTERNAL LOAN REVIEW

(1) Within sixty (60) days of this Agreement, the Board shall employ a qualified consultant to perform an ongoing asset quality review of the Bank's Loan portfolio. The consultant shall be utilized until such time as an ongoing internal problem loan identification system is developed by the Board, implemented, and demonstrated to be effective. The external loan review system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Rating Credit Risk, A-RCR, of the Comptroller's Handbook. Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent and nonaccrual loans;
- (c) the identification/status of credit related violations of law or regulation;
- (d) credit and collateral documentation exceptions; and
- (e) loans not in conformance with the Bank's lending policies.

(2) Prior to the appointment or employment of any individual as loan review consultant or entering into any contract with any consultant, the Board shall submit the name and qualifications of the proposed consultant and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

After the OCC has advised the Bank that it does not take supervisory objection to the loan review consultant or the scope of the review, the Board shall immediately engage the loan review consultant pursuant to the proposed terms of the engagement.

(3) The Board or a designated committee shall review the independent loan review reports and ensure that, if appropriate, immediate, adequate, and continuing remedial action, is taken upon the findings noted in the reports.

(4) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be maintained in the books and records of the Bank.

(5) The Bank shall not terminate the consultant's asset quality review services without a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

Article X

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of this Agreement, the Board shall adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses ("Allowance") in accordance with Generally Accepted Accounting Principles. The Allowance policies and procedures shall be consistent with the guidance set forth in the Federal Financial Institutions Examination Council's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006 (OCC Bulletin 2006-47), and July 20, 2001 (OCC Bulletin 2001-37), and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan;
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies;
- (c) procedures for validating the Allowance methodology;
- (d) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
 - (i) trends in the Bank's internal risk ratings, delinquent and nonaccrual loans;
 - (ii) results of the Bank's external loan review;
 - (iii) concentrations of credit in the Bank, present and prospective economic conditions; and
 - (iv) applicable experience of the Bank's lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Consolidated Reports of Condition and Income ("Call Reports") for the Allowance. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Call Report, by

additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies and procedures developed pursuant to this Article.

Article XI

CONTINGENCY FUNDING PLAN

(1) Within ninety (90) days of this Agreement, the Board shall revise its Contingency Funding Plan to ensure the Bank maintains adequate liquidity in any environment. The revised plan shall be consistent with the guidelines set forth in Liquidity, L-L, February 2001, of the *Comptroller's Handbook*, and shall include, at a minimum:

- (a) a description of each potential stress scenario;
- (b) provides the projected effect of each potential stress scenario on the Bank's cash flow and balance sheet; and
- (c) provides action plans on how management will address each potential stress scenario.

(2) The revised Contingency Funding Plan shall be reviewed at least annually by the Board, and revised as necessary.

Article XII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow up on any noncompliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any noncompliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory

responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his hand on behalf of the Comptroller.

/s/

7/25/08

Troy L. Thornton
Assistant Deputy Comptroller
Omaha Field Office

Date

