

#2013-176

Also Terminates #2008-084

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:

Landmark Community Bank, National Association
Isanti, Minnesota

AA-EC-2013-102

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”), through his authorized representative, has supervisory authority over Landmark Community Bank, National Association, Isanti, Minnesota (“Bank”);

WHEREAS, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a Stipulation and Consent to the Issuance of a Consent Order (“Stipulation and Consent”), dated November 21, 2013 that is accepted by the Comptroller through his duly authorized representative; and

WHEREAS, by this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller;

NOW, THEREFORE, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

COMPLIANCE COMMITTEE

(1) Within fifteen (15) days of the date of this Order, the Board shall appoint and maintain an active Compliance Committee of at least three (3) directors of which at least two (2) shall not be employees, former employees, or controlling shareholders 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 immediately submitted in writing to the Director of Special Supervision (“Director”). The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Order.

(2) The Compliance Committee shall meet at least monthly.

(3) Within sixty (60) days of the date of this Order and every thirty (30) days thereafter, or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each Article of this Order, Bank personnel responsible for implementing the corrective actions, and the timeframes for completion;
- (b) actions taken to comply with each Article of this Order; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee’s reports, with any additional comments by the Board, to the Director within ten (10) days of receiving each such report.

ARTICLE II

STRATEGIC PLAN

(1) Within sixty (60) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph (3) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a two-year period. The Strategic Plan shall establish objectives for the Bank’s overall risk profile, earnings performance, growth,

balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact strategic goals and objectives;
- (d) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Order;
- (e) a description of the processes in place to ensure the Bank has sufficient and adequate processes, personnel, succession programs and control systems to mitigate risks in the Bank's market(s);
- (f) a description of the Bank's targeted market(s), competitive factors in its identified target market(s) and a description of control systems to mitigate risks in the Bank's markets;
- (g) an assessment of the present and planned product lines (assets and liabilities) and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;
- (h) assigned responsibilities and accountability for the strategic planning process; and
- (i) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) If the Board's Strategic Plan under paragraph (1) of this Article includes a proposed sale or merger of the Bank, the Strategic Plan shall, at a minimum, address the steps that will be taken and the associated timeline to effect the implementation of such sale or merger.

(3) Prior to adoption by the Board, a copy of the Strategic Plan and any subsequent amendments or revisions shall be submitted to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(4) The Bank may not initiate any action that deviates significantly from the Strategic Plan without a written determination of no supervisory objection from the Director. The Board must give the Director at least thirty (30) days advance written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan. For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, products and services, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in the aggregate, may have a material impact on the Bank's

operations or financial performance; or any other changes in personnel, operations that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan that includes a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Upon completion of its evaluation, the Board shall submit a copy to the Director.

(6) The Board shall review the Strategic Plan at least annually and more frequently if necessary or if required by the Director in writing. If the Strategic Plan is updated with any significant deviation from the prior Strategic Plan, the Board shall submit a copy of the updated Strategic Plan pursuant to the requirements of paragraph (3) of this Article for the Director's review and prior written determination of no supervisory objection.

(7) Until the Strategic Plan required under this Article has received a written determination of no supervisory objection from the Director, the Bank shall not significantly deviate from the products, services, asset composition and/or size, funding sources, structure, operations, policies, procedures, and/or market(s) of the Bank that existed before this Consent Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must be submitted to the Director at least thirty (30) days in advance of the significant deviation, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing,

management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change.

ARTICLE III

CAPITAL PLAN AND HIGHER MINIMUMS

(1) No later than March 31, 2014, the Bank shall meet and maintain the following capital ratios (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 capital to adjusted total asset ratio at least equal to nine percent (9%); and
- (b) Total risk-based capital ratio at least equal to twelve percent (12%).

(2) The requirement in this Order to meet and maintain specific capital levels means that the Bank may not 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).

(3) Within sixty (60) days of the date of this Order, the Board shall develop and implement an effective internal capital planning process to assess the Bank’s capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall in no event be less than the requirements of paragraph (1) of this Article. The capital planning process shall be consistent with OCC Bulletin 2012-16 (June 7, 2012), *Guidance for Evaluating Capital Planning and Adequacy*, and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Director in writing.

(4) Within ninety (90) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph (6) of this Article, a written Capital Plan for the

Bank, consistent with the Strategic Plan required by Article II of this Order, covering at least a two-year period. The Capital Plan shall, at a minimum:

- (a) include specific plans for the maintenance of adequate capital, which may in no event be less than the requirements of paragraph (1) of this Article;
 - (b) identify and evaluate all material risks;
 - (c) determine the Bank's capital needs in relation to material risks and strategic direction, as set forth in the Strategic Plan;
 - (d) identify and establish a strategy to maintain capital adequacy and strengthen capital, and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
 - (e) include detailed quarterly financial projections; and
 - (f) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Order that will have an impact upon the Bank's capital.
- (5) The Bank may declare or pay a dividend or make a capital distribution only:
- (a) when the Bank is in compliance with a Capital Plan that has received a written determination of no supervisory objection and would remain in compliance with its approved Capital Plan immediately following the declaration or payment of the dividend or the capital distribution;
 - (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60;
 - (c) when the Bank is in compliance with the minimum capital ratios set forth in paragraph (1) of this Article; and
 - (d) following the prior written determination of no supervisory objection by the Director.

(6) Prior to its adoption by the Board, a copy of the Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. The Board shall review and update the Bank's Capital Plan at least annually and more frequently if necessary or if requested by the Director in writing. Revisions to the Bank's Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the Capital Plan and any amendments or revisions thereto.

(7) At least quarterly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the written Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board will require the Bank to take to address any deficiencies, which shall be documented in the Board meeting minutes. Upon completion of its evaluation, the Board shall submit a copy to the Director within ten (10) days.

(8) If the Bank fails to maintain the capital ratios required by paragraph (1) of this Article, fails to submit a Capital Plan as required by paragraph (4) of this Article, or fails to implement a Capital Plan to which the Director has provided a written determination of no supervisory objection, then the Bank may, in the Director's sole discretion, be deemed undercapitalized for purposes of this Order. The Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized

depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 6 for national banks. For purposes of this requirement, an action “necessary to carry out the purpose of this section” under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank’s capital to the minimum ratios required by this Order, and any other action deemed advisable by the OCC to address the Bank’s capital deficiency or the safety and soundness of its operations.

ARTICLE IV

BOARD TO ENSURE EFFECTIVE MANAGEMENT AND BOARD STRUCTURE

(1) By no later than March 31, 2014, the Bank shall appoint a qualified, capable, full-time, and permanent CEO/President and director. Pursuant to 12 U.S.C. § 1831i and 12 C.F.R. § 5.51, the Bank must receive a written notice of intent not to disapprove from the OCC before appointing an individual as permanent CEO/President and director. Accordingly, the Bank shall provide the OCC with the prior written notice required by 12 U.S.C. § 1831i and 12 C.F.R. § 5.51 to appoint a qualified, capable, full-time, and permanent CEO/President and director by no later than December 31, 2013.

(2) Within ninety (90) days of the date of this Order, the Board shall develop, adopt and implement corporate governance and decision-making processes to correct the Bank’s deficiencies in management and Board oversight as described in the Bank’s recent supervisory history, including the most recent Report of Examination (“ROE”). At a minimum, the Board shall ensure and document that:

- (a) all Bank officers are capable of performing present and anticipated duties, factoring in each officer’s past actual performance, experience, and qualifications compared to their position description, duties and responsibilities, with particular emphasis on

their proposed responsibilities to execute the Strategic Plan and correct the concerns raised in the ROE;

- (b) clear lines of responsibility and authority exist for each officer;
- (c) a management employment and succession program exists to promote the retention and continuity of capable management;
- (d) sufficient policies, processes, personnel, and control systems exist to effectively implement and ensure adherence to all provisions of this Order, and to ensure that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order;
- (e) a process exists to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight and information systems, policies, procedures and other risk management systems with time-sensitive strategies to address any deficiencies;
- (f) a process exists to ensure that management appropriately responds to any audit, compliance, or regulatory deficiencies; and
- (g) that the Board receives and reviews sufficient Bank information from management on the operation of the Bank and compliance with this Order to enable the Board to provide effective oversight and to enable each Director to fulfill his or her fiduciary duties and other responsibilities under law and as outlined in the OCC's *The Directors Book* and "Duties and Responsibilities of Directors" booklet of the *Comptroller's Handbook*.

(3) The Board shall establish, at least annually, the objectives by which each Bank officer's effectiveness shall be measured.

(4) The Board shall establish procedures to prepare an annual written performance appraisal for each Bank officer that evaluates that officer's performance according to her or his position's description and responsibilities. Each annual written performance appraisal also must address the following as it applies to each officer:

- (a) compliance with objectives established by the Board;
- (b) compliance with Board-approved policies and procedures;
- (c) compliance with Board-approved strategic and capital plans;
- (d) compliance with action plans to correct issues raised in Reports of Examination or audit reports; and
- (e) compliance with laws, regulations, and regulatory guidance.

(5) The Board shall ensure that the Bank addresses any performance deficiencies identified pursuant to paragraph (3) of this Article.

(6) Within ninety (90) days, the Compliance Committee shall conduct a review of the Board and the Board's committee structure. The review shall include:

- (a) an evaluation of the existing structure;
- (b) an analysis of the composition and size of the Board;
- (c) an analysis of all insider transactions and a determination of whether conflicts of interest exist that limit the effectiveness of any Board member;
- (d) an analysis of the type and frequency of information provided to the Board;
- (e) an analysis of the number of committees and responsibilities assigned to each committee;
- (f) the composition of each committee with regard to the number of members and the technical expertise required for each committee member; and

(g) specific recommendations to improve the efficiency and responsiveness of the Board and each committee.

Upon completion of the review, a copy of the report shall be forwarded to the Director along with a copy of the Board resolution approving appropriate adjustments in the Board and committee structure.

ARTICLE V

DIRECTOR AND OFFICER COMPENSATION

(1) Within forty-five (45) days, the Board shall identify an independent consultant (“IC”) to perform a review and evaluation of the Bank’s compensation program for all Bank officers and directors. Prior to engaging the IC, the Board shall submit the name and qualifications of the IC, and a copy of the proposed contract with the IC, to the Director for prior written determination of no supervisory objection. The IC must complete and submit a written report to the Board within sixty (60) days of the Board’s receipt of the Director’s written determination of no supervisory objection. Immediately following completion, the Bank shall submit the results of the IC report to the Director. At a minimum, and in writing, the IC shall review and evaluate the reasonableness of compensation for each officer and director, including individual components (e.g., base salary, incentive compensation, fees, etc.) and other benefits (e.g., insurance, retirement, leave, etc.) to ensure that compensation for each officer and director, at a minimum:

- (a) is market-based, reasonable, and proportionate to the services rendered;
- (b) considers the condition of the Bank;
- (c) is consistent with the Strategic Plan required under the Order;
- (d) complies with OCC Bulletin 2010-24; and

(e) complies with 12 C.F.R. Part 30.

(2) Within ten (10) days of the receipt of the IC's report, the Board shall develop a plan that addresses the findings and recommendations noted in the IC report. Both the IC's report and the Board's plan to address the findings shall be submitted to the Director.

(3) The Board shall review the Bank's compensation plan annually and ensure that it is compliant with 12 C.F.R. § 30, Appendix A, Section III. The Board's annual review shall be written and forwarded to the Director by January 31st of each year.

ARTICLE VI

AFFILIATE TRANSACTIONS

(1) The Bank may directly or indirectly pay money or provide other compensation to or for the benefit of its affiliates, extend credit in any form, including overdrafts, to or for the benefit of its affiliates, transfer assets between the Bank and its affiliates, or enter into or engage in any transaction that obligates the Bank to do any of the foregoing only after:

(a) the Board has reviewed the proposed transaction and has documented the review in writing;

(b) the Board has determined in writing that it is in the best interests of the Bank to engage in such transaction and that the transaction complies with all applicable laws, rules, regulations, and Comptroller's issuances, including, but not limited to 12 C.F.R. Part 223; and

(c) the Board approves the transaction in writing.

(2) For purposes of this Order, "affiliate" shall have the meaning set forth in 12 U.S.C. § 371c and 12 C.F.R. Part 223.

ARTICLE VII

INSIDER TRANSACTIONS

(1) The Bank is prohibited from making an extension of credit directly or indirectly to any insider, including any extension of credit made to a third-party borrower who then transfers the proceeds to an insider or uses the proceeds for the tangible economic benefit of an insider, unless the extension of credit is:

- (a) approved in advance by a majority of the entire Board, not merely a quorum thereof, with any interested insider abstaining from voting and/or participating directly or indirectly in the deliberations regarding the approval; and
- (b) the Board has determined in writing that it is in the best interests of the Bank to engage in such action and that the action complies with all applicable laws, rules, regulations, and Comptroller's issuances, including, but not limited to 12 U.S.C. §§ 375a and 375b, and 12 C.F.R. Part 215.

(2) For purposes of this Order, "insider" and "extension of credit" shall have the same meanings as set forth in 12 C.F.R. §§ 215.2(h) and 215.3, respectively.

(3) Within thirty (30) days of the date of this Order, the Board shall ensure that it has complete and centralized records of all extensions of credit made to insiders, as well as all extensions of credit made to any third-party who then transferred proceeds to an insider or used such proceeds for the tangible economic benefit of an insider. These records shall be maintained by the Board and any new extensions of credit, payoffs, renewals, modifications, or other change in circumstances regarding an insider's credit relationship with the Bank shall be immediately reported to the Board and reflected in the centralized records.

ARTICLE VIII

LOAN REVIEW

(1) Within sixty (60) days of the date of this Order, the Board shall implement systems to ensure adherence to an effective, independent, and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to ensure the timely identification and categorization of problem credits. The system shall provide for a quarterly written report to be filed with the Board or a designated committee thereof after each review and shall use a loan and lease grading system consistent with the guidelines set forth in "Rating Credit Risk" and "Allowance for Loan and Lease Losses" booklets of the *Comptroller's Handbook*. Further, the loan review system shall be consistent with generally accepted accounting principles ("GAAP"). Such quarterly reports shall include, at a minimum, conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent and nonaccrual loans and leases;
- (d) credit underwriting and documentation exceptions;
- (e) the identification and status of credit-related violations of law, rule, or regulation;
- (f) credit analysis and documentation of such analysis;
- (g) accuracy of internal risk ratings;
- (h) completeness and effectiveness of problem loan workout plans;
- (i) the accuracy of the Bank's identification of troubled debt restructurings;
- (j) loans and leases to executive officers, directors, or principal shareholders of the Bank, as well as the related interest of any such executive officers, directors, or

principal shareholders and compliance with 12 U.S.C. §§ 375a and 375b,
12 C.F.R. Part 215, 12 U.S.C. § 371c and 12 C.F.R. Part 223;

(k) loans and other extensions of credit that are exceptions to or not in compliance with the Bank's lending policies and procedures;

(l) the accuracy of specific allocations to the Allowance for Loan and Lease Losses ("ALLL") and the ALLL methodology; and

(m) an evaluation of the Bank's efforts to manage and account for its Other Real Estate Owned in accordance with GAAP.

(2) The Board shall evaluate the loan review written report(s) and shall ensure that immediate, adequate, and continuing remedial action is taken to correct any deficiencies noted in the report(s).

ARTICLE IX

LOAN PORTFOLIO MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall revise the Bank's credit policy, consistent with the "Loan Portfolio Management" booklet of the *Controller's Handbook* to improve the Bank's loan portfolio management. Thereafter, the Board shall monitor and ensure Bank adherence to the credit policy. At a minimum, the credit policy should be revised to address credit documentation and underwriting, the Bank's concentrations of credit program, and any other deficiencies in the Bank's lending procedures noted in the most recent Report of Examination ("ROE"). A copy of the revised credit policy should be forwarded to the Director.

(2) The Board shall ensure that all Bank lenders or any other personnel performing credit analyses are adequately trained in cash flow analysis, particularly analysis using information on

a global cash flow basis, evaluation of contingent liabilities, and verification of liquidity, and that processes are in place to ensure that additional training is provided as needed.

(3) The Board shall ensure that the Bank has adequate Management Information Systems, including adequate and accurate loan policy exception and concentration of credit reports, to ensure that the Board and management are provided timely, accurate, consistent, complete and relevant information necessary to manage effectively the Bank's loan portfolio.

(4) Within sixty (60) days of the date of this Order, the Board shall develop and adhere to a written concentration risk management program for identifying, monitoring, and controlling risks associated with concentrations of credit and ensure that it is consistent with the guidance set forth in OCC Bulletin 2006-46, *Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices: Interagency Guidance on CRE Concentration Management*, and the "Concentrations of Credit" booklet of the *Comptroller's Handbook*. At minimum, the program shall include the following:

- (a) policy guidelines addressing the level and nature of exposures acceptable to the Bank and setting concentration limits, including limits on commitments to individual borrowers and appropriate sub-limits, with particular emphasis on one-to-four family investor loans;
- (b) procedures to periodically review and revise, as appropriate, risk exposure limits and sub-limits to conform to any changes in the Bank's strategies and to respond to changes in market conditions;
- (c) quarterly portfolio-level stress tests or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital, with

particular emphasis on larger concentrations including one-to-four family investor loans;

- (d) appropriate strategies for managing concentration levels, including a contingency plan to reduce or mitigate concentrations deemed imprudent for the Bank's earnings, capital, or in the event of adverse market conditions; and
- (e) quarterly reports to the Board, which shall at a minimum include the following:
 - (i) a summary of concentration levels by type and sub-type;
 - (ii) a summary of the Bank's market analysis;
 - (iii) strategies implemented to ensure or obtain compliance when concentrations approach or exceed Board-approved limits; and
 - (iv) a summary of changes in risk levels by concentration type and sub-type with discussion of recommended changes in credit administration procedures (i.e., underwriting practices, risk rating, monitoring, training).

(5) Upon completion, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the written concentration management program.

(6) Upon completion, the Board shall forward a copy of the program required in paragraph (4) of this Article and any concentration reports, studies, or analysis to the Director.

ARTICLE X

PROBLEM ASSET MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a written program designed to eliminate the basis of criticism of those assets

criticized as “doubtful,” “substandard,” or “special mention” in the most recent ROE, in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the OCC Examiners during any examination. At a minimum, the program shall include the development of Criticized Asset Reports (“CARs”) identifying all credit relationships and other assets totaling in the aggregate one hundred thousand dollars (\$100,000) or more, criticized as “doubtful,” “substandard,” or “special mention.” The CARs must be updated and submitted to the Board or a committee designated by the Board monthly and to the Director quarterly.

(2) Each CAR shall cover an entire credit relationship and other assets and include, at a minimum, analysis and documentation of the following:

- (a) the origination date, any renewal or extension dates, amount, and purpose of each loan or other asset, and the originating and current handling officer(s) for each loan or other asset (except other real estate owned and repossessed assets detailed in Article XI);
- (b) the expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment source(s);
- (c) the appraised value of supporting collateral, along with the date and source of the appraisal, and the position of the Bank’s lien on such collateral, as well as other necessary documentation to support the current collateral valuation;
- (d) an analysis of current and complete credit information, including a global cash flow analysis where loans are to be repaid from operations;
- (e) results of any impairment analysis as required under Accounting Standards Codification (“ASC”) Topic 310;

- (f) accurate risk ratings consistent with the classification standards contained in the *Comptroller's Handbook* on "Rating Credit Risk";
- (g) appropriate accrual status pursuant to the FFIEC Instructions for the Preparation of Consolidated Reports of Condition and Income;
- (h) significant developments, including a discussion of changes since the prior CAR, if any; and
- (i) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including, if appropriate, an exit strategy.

(3) The Bank shall not extend credit, directly or indirectly, including renewals, modifications or extensions, to a borrower whose loans or other extensions of credit are criticized in any ROE, in any internal or external loan review, or in any list provided to management by the OCC Examiners, and whose aggregate loans or other extensions of credit equal or exceed one hundred thousand dollars (\$100,000) or more, unless and until a majority of the Board, or a designated committee thereof, determines in writing that each of the following conditions are met:

- (a) the extension of credit is necessary to promote the best interests of the Bank;
- (b) a written credit and collateral analysis is performed; and
- (c) the CAR for that borrower will not be compromised by the extension of credit.

(4) A copy of the findings and approval of the Board or designated committee thereof shall be maintained in the credit file of the affected borrower.

ARTICLE XI

OTHER REAL ESTATE OWNED AND REPOSSESSED ASSETS

(1) Within sixty (60) days of the date of this Order, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and ensure adherence to a program to ensure that Other Real Estate Owned (“OREO”) is managed in accordance with 12 U.S.C. § 29 and 12 C.F.R. Part 34 and the Other Real Estate Owned booklet of the *Comptroller’s Handbook*. The Board shall implement systems to ensure that repossessed assets are legally held by the Bank, and if applicable, in accordance with 12 C.F.R. §§ 5.34 and 5.36. The program shall, at a minimum, address and include:

- (a) defined management responsibilities and authorities for OREO properties and repossessed assets;
- (b) accounting procedures for OREO properties and repossessed assets are in accordance with GAAP and the instructions to the Consolidated Report of Condition;
- (c) procedures to require timely and independent OREO appraisals pursuant to 12 C.F.R. § 34.85 and 12 C.F.R. Part 34, Subpart C and timely evaluations for repossessed assets;
- (d) a detailed marketing strategy and targeted time frames for disposing of each OREO property; and
- (e) the creation of a file for each OREO property and repossessed asset containing at a minimum all the information addressed in this Article.

(2) Effective immediately, the Bank shall not sell any OREO or repossessed property for one hundred fifty thousand dollars (\$150,000) or more without obtaining prior written approval

from the Board and documenting this prior approval in the Board's minutes. The Board's approval must include the following:

- (a) a written certification by the Board that the sale is being entered into at arm's length;
- (b) a written certification by the Board that the sale complies with GAAP; and
- (c) a written certification by the Board that the sale is in the best interests of the Bank.

(3) Effective immediately, the Bank shall not increase the value of any loan in default, any OREO parcel, or repossessed property through the purchase of a prior lien, the capitalization of expenses, or any other means without obtaining prior written approval from the Bank's Board and documenting this prior approval in the Board's minutes. The Board's approval must include:

- (a) a written certification by the Board that the decision to increase the problem asset is in the best interests of the Bank;
- (b) a written certification that the transaction complies with GAAP;
- (c) a written certification that the Board has considered all potential legal and reputation risks prior to the transaction; and
- (d) a written certification by the Board that the transaction will not be detrimental to the Bank, including its earnings or capital.

ARTICLE XII

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within thirty (30) days of the date of this Order, the Board shall adopt and thereafter ensure that the Bank implements and adheres to written policies and procedures to maintain an adequate ALLL in accordance with GAAP. The Bank's ALLL policies and procedures shall be consistent with the guidance set forth in OCC Bulletins 2001-37 (July 20, 2001) and 2006-47

(December 13, 2006) and with the “Allowance for Loan and Lease Losses,” booklet of the *Comptroller’s Handbook*, and shall include:

- (a) internal loan risk ratings;
- (b) results of the Bank’s independent loan review;
- (c) criteria for determining which loans will be reviewed under Accounting Standards Codification (“ASC”) Topic 310, how impairment will be determined, and procedures to ensure the analysis of loans complies with ASC 310 requirements;
- (d) criteria for determining loan pools under ASC 450 and an analysis of those loan pools;
- (e) recognition of non-accrual loans in conformance with GAAP and regulatory guidance;
- (f) loan loss experience;
- (g) trends of delinquent and non-accrual loans;
- (h) concentrations of credit in the Bank; and
- (i) present and projected economic and market conditions.

(2) The policies and procedures shall provide for a review of the ALLL by the Board at least once each calendar quarter. Any deficiency in the ALLL shall be corrected in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation of the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL shall be maintained.

(3) A copy of the Board’s ALLL policy and procedures, and any subsequent revisions, shall be submitted to the Director.

ARTICLE XIII

APPRAISAL AND EVALUATION PROCESS

(1) Within sixty (60) days of the date of this Order, the Board shall revise and adopt, and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a revised real estate appraisal program that addresses appraisals and evaluations prior to and after the credit decision. The revised program shall be consistent with 12 C.F.R. Part 34 and the “Interagency Appraisal and Evaluation Guidelines,” included in OCC Bulletin 2010-42. At a minimum, the real estate appraisal program shall incorporate specific requirements that:

- (a) provide for the independence and minimum qualifications of the person ordering, performing, and reviewing appraisals or evaluations;
- (b) establish selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations;
- (c) ensure that appraisals and evaluations contain sufficient information to support the credit decision;
- (d) maintain criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices;
- (e) provide for the receipt and documented review of the appraisal or evaluation report in a timely manner to facilitate the credit decision;
- (f) develop criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction;
- (g) implement internal controls that promote compliance with these program standards, including those related to monitoring third-party arrangements;

- (h) establish criteria for collateral valuation monitoring; and
 - (i) establish criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of 12 C.F.R. § 34.
- (2) Upon adoption, a copy of the program shall be forwarded to the Director.

ARTICLE XIV

FORENSIC AUDIT TO VERIFY ACCURACY AND COMPLETENESS OF BANK DOCUMENTS, BOOKS, AND RECORDS

(1) Within sixty (60) days of the date of this Order, the Board shall identify a forensic auditor to verify the accuracy and completeness of the Bank's documents, books, and records, including at a minimum, insider and affiliate transactions (including Bank transactions between Bank insiders (and/or their affiliates) and Bank customers), OREO transactions, and direct/indirect compensation paid to Bank officers and Board members from January 1, 2011 through the date of this Order or as subsequently directed in writing by the OCC.

(2) The Board shall ensure that the forensic auditor retained pursuant to paragraph (1) of this Article agrees in the engagement letter to provide the OCC with access to and copies of any work papers, drafts, reports, policies, and procedures relating to the services performed by the forensic auditor for the Bank.

(3) Prior to engaging the forensic auditor, the Board shall submit the name and qualifications of the forensic auditor and the proposed engagement contract to the Director for prior written determination of no supervisory objection. The audit must be completed within ninety (90) days of receipt of the Director's written determination of no supervisory objection. Immediately following completion, the Bank shall submit the results of the audit to the Director.

(4) Within thirty (30) days of the date of receipt of the audit, the Board shall develop a plan to address the results of the audit (“Audit Plan”). The Audit Plan shall, at a minimum, include:

- (a) making appropriate adjustments to the Bank’s books and records;
- (b) exercising the Bank’s rights or claims for damages, restitution, indemnification, or other monetary claims identified as a result of the forensic audit; and
- (c) complying with applicable laws, regulations, rulings and other regulatory guidance, including but not limited to the requirements of 12 C.F.R. § 21.11, 12 C.F.R. § 30, Appendix A, Section III , 12 U.S.C. § 371c and 12 C.F.R. Part 223, 12 U.S.C. §§ 375a and 375b, and 12 C.F.R. Part 215, as applicable.

(5) The Board shall submit the Audit Plan to the Director for prior written determination of no supervisory objection. Upon receipt of a written determination of no supervisory objection to the Audit Plan, the Board shall adopt, and thereafter ensure that the Bank implements, subject to Board review and ongoing monitoring, and adheres to the Audit Plan. Any proposed changes to or deviations from the Audit Plan shall be submitted in writing to the Director for prior supervisory review and prior written determination of no supervisory objection.

ARTICLE XV

AUDIT PROGRAM

(1) Within sixty (60) days of the date of this Order, the Board shall adopt, and the Bank, subject to Board review, shall thereafter implement and ensure adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities and weak practices in the Bank’s operations;

- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations, with particular emphasis on affiliate and insider transactions;
- (c) assess and report the effectiveness of policies, procedures, controls, and management oversight relating to accounting and financial reporting;
- (d) evaluate the Bank's adherence to established policies and procedures, with particular emphasis on the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification;
- (e) adequately cover Bank activities to maintain or improve the efficiency and effectiveness of the Bank's risk management, internal controls, and corporate governance functions;
- (f) ensure timely follow-up on identified deficiencies to ensure their correction; and
- (g) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(2) Within ninety (90) days of the date of this Order, the Bank shall retain the services of a qualified and independent Certified Public Accountant to render an opinion on the Bank's December 31, 2013, Statement of Condition ("Balance Sheet") and its Income Statement for year 2013 and the fiscal years thereafter.

(3) The Board shall ensure that immediate actions are undertaken to correct deficiencies cited in audit reports and shall maintain a written record describing the deficiency, the projected corrective action, and the status of the corrective action. The Board shall ensure that management provides detailed written explanations in those circumstances, if any, where the deficiencies cannot be remedied, and that the audit staff maintain a written record describing

those actions. The Board shall provide for a timely, independent, written follow-up for any uncorrected deficiencies.

ARTICLE XVI

VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent ROE or any subsequent ROE, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within sixty (60) days after the violation is cited or brought to the Board's or Bank's attention, the Bank shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified date.

(2) The monthly progress reports required by Article I of this Order shall include the date and manner in which each correction has been effected during that reporting period.

(3) Within sixty (60) days of the date of this Order, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent violations cited in the most recent ROE; and
 - (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.
- (4) Upon adoption, a copy of these procedures shall be forwarded to the Director.

ARTICLE XVII

OTHER PROVISIONS

(1) Although the Bank is required by this Order to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Director, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's documents, books, and records.

(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 or its institution-affiliated parties (as defined by 12 U.S.C. § 1813(u)), nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) Each citation or referenced guidance included in this Order includes any subsequent guidance that replaces, supersedes, amends, or revised the cited law, regulation, or guidance.

(4) The provisions of this Order are effective upon issuance by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(6) If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Order, the Board shall submit a written request to the Director asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting

forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a timeframe within this Order.

(7) The Director's decision concerning a request submitted pursuant to paragraph (6) of this Article is final and not subject to further review.

(8) In each instance in this Order in which the Board or a Board committee 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) Ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Order, and that Bank management and personnel have sufficient training and authority to execute their duties under this Order;
- (b) 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 Order;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require that corrective action be taken of any non-compliance with such actions in a timely and appropriate manner.

(9) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(10) The Bank entered into a Formal Agreement dated June 26, 2008. This Order replaces and supersedes the Formal Agreement in its entirety and, therefore, the June 26, 2008 Formal Agreement is hereby terminated.

(11) All reports or plans that the Bank or Board has agreed to submit to the Director pursuant to this Order shall be forwarded, by overnight mail, or via email, to the following:

Director for Special Supervision
Comptroller of the Currency
400 7th Street, SW
Suite 3E-218, MS 8E-12
Washington, DC 20219

with a copy to:
Minneapolis Field Office
Comptroller of the Currency
222 South Ninth Street, Suite 800
Minneapolis, MN 55402

(12) The terms of this Order, 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.

IT IS SO ORDERED, this 21st day of November, 2013.

/Signed

James R. Moore
Director for Special Supervision

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:

Landmark Community Bank, National Association
Isanti, Minnesota

AA-EC-2013-102

**STIPULATION AND CONSENT TO THE ISSUANCE OF A
CONSENT ORDER**

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against Landmark Community Bank, National Association, Isanti, Minnesota (“Bank”) pursuant to 12 U.S.C. § 1818 through the issuance of a Notice of Charges, for unsafe or unsound banking practices relating to strategic planning, capital levels, management oversight, credit risk management, for violations of law and regulation, and for failure to comply with the Bank’s Formal Agreement with the Comptroller, dated June 26, 2008;

WHEREAS, the Bank, in the interest of compliance and cooperation consents to the issuance of a Consent Order, dated November 21, 2013 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order;

NOW THEREFORE, in consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I
JURISDICTION

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

ARTICLE II
AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i).

(3) 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(i), 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.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Order and/or execute the Order.

(5) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the Department of the Treasury, the Comptroller, or any other federal bank regulatory agency or entity, or an officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

(6) The terms and provisions of the Stipulation and the Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Order, express or implied, shall give to any person or entity, other than the parties hereto and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Order.

ARTICLE III

WAIVERS

(1) The Bank, by signing this Stipulation and Consent, hereby waives:

(a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);

(b) any and all procedural rights available in connection with the issuance of the Order;

(c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i) and 12 C.F.R. Part 19;

(d) all rights to seek any type of administrative or judicial review of the Order; and

(e) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

OTHER ACTIONS

(1) The provisions of this Stipulation and the Order shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank or its institution-affiliated parties (as defined by 12 U.S.C. § 1813(u)) if, at any time, the Comptroller deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

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

/Signed

James R. Moore
Director
Special Supervision Division

November 21, 2013

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/Signed _____ 11/21/2013
Craig Bjorklund

/Signed _____ 11/21/2013
David Johnson

/Signed _____ 11/21/2013
Kevin Johnson

/Signed _____ 11/21/2013
T. Ryan Johnson

/Signed _____ 11/21/2013
Valerian (Larry) Kuechle