

AGREEMENT BY AND BETWEEN
Huron National Bank
Rogers City, Michigan
and
The Comptroller of the Currency

Huron National Bank, Rogers City, Michigan (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) 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 found certain unsafe and unsound banking practices relating to staffing levels and credit administration at the Bank.

In consideration of the above premises, the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, do hereby agree 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)(7)(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) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(7), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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
Cleveland Field Office
200 Public Square, Suite 1610
Cleveland, Ohio 44114

ARTICLE II

COMPLIANCE COMMITTEE

(1) The Board shall appoint and maintain a Compliance Committee of at least three (3) directors, of which a majority shall not be employees, officers 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)). 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 promptly submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement. The Compliance Committee shall meet at least monthly and maintain minutes of its meetings.

(2) Within forty-five (45) days of the effective date of this Agreement, and thereafter within thirty (30) days of the end of each calendar quarter, or within such other time period as

required by the OCC in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail the actions taken to comply with each Article of this Agreement, and the results and status of those actions.

(3) The Board shall forward a copy of the Compliance Committee's report, with any additional written comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

ARTICLE III

STAFFING PLAN

(1) Within ninety (90) days, the Board shall hire or appoint a qualified individual with sufficient commercial lending expertise to manage credit underwriting and credit administration. If this position is a “senior executive officer,” as defined in 12 C.F.R. § 5.51, the Bank must submit notice, in accordance with 12 C.F.R. § 5.51, to the OCC prior to employing this individual.

(2) Within thirty (30) days, the Board shall develop a staffing plan that is consistent with the overall risk profile of the Bank to improve risk management. At a minimum, the staffing plan shall include:

- (a) identification of the skills and expertise needed to maintain an effective risk management program and to implement the goals and objectives outlined in the strategic plan;
- (b) identification of the skills and expertise of the Bank’s current staff;

- (c) comparison of the current staff's skills and expertise identified in Paragraph (2)(b) of this Article to the skills and expertise identified in Paragraph (2)(a) of this Article; and
- (d) specific actions the Bank will take, including but not limited to training, reassignment of duties, and/or hiring of additional personnel, to address any deficiencies noted in Paragraph (2)(c) and to ensure there is an appropriate complement of expertise and depth to address the new and repeat weaknesses noted in the January 3, 2017 Report of Examination. The Bank's actions must address how the Bank intends to satisfy Paragraph (1) of this Article.

(3) Upon adoption, the Board shall submit a copy of the staffing plan required by this Article, or any subsequent amendments or changes to that staffing plan, to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Within one-hundred and eighty (180) days of receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement the staffing plan and ensure all necessary actions identified pursuant to Paragraph (2)(d) are taken to provide the Bank with the skills and expertise identified in Paragraph (2) of this Article. Thereafter, the Board shall ensure that the Bank adheres to the staffing plan, and shall periodically review, reassess, and update the staffing plan to ensure staffing levels are sufficient.

ARTICLE IV

OVERDRAFT ACCOUNTS

(1) Effective immediately, overdraft extensions of credit in excess of a lender's authority shall not be approved until the Board has implemented policies and procedures that are consistent with this Article.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to policies and procedures for overdraft extensions of credit that limit the associated credit risk and ensure compliance with OCC Bulletin 2005-9: Joint Guidance on Overdraft Protection Programs. The policies and procedures shall include, at a minimum:

- (a) conditions and circumstances under which overdrafts will be paid, including dollar threshold limits for aggregate overdrafts, threshold limits for the number of overdrafts, and eligibility criteria for use of overdrafts;
- (b) restrictions on the use of overdrafts by Bank customers to finance business operations;
- (c) establishment of approval authority by lending officer, and process for obtaining approvals for overdrafts exceeding a lender's authority;
- (d) conditions and circumstances under which charges will be levied against a depositor who overdraws an account, the amount of such charges, and limits for charges associated with overdrafts;
- (e) a requirement that past-due overdrafts are charged off in accordance with OCC Bulletin 2005-9;

- (f) establishment of ongoing monitoring that enables management and the Board to identify, measure, and manage overdraft volume and credit risk; and
- (g) an audit that is sufficient to determine conformance with policies and procedures established pursuant to this Article and OCC Bulletin 2005-9, and occurs with the frequency established in the Bank's risk assessment.

(3) Upon adoption, the Board shall submit a copy of its overdraft policies and procedures to the Assistant Deputy Comptroller for review.

ARTICLE V

COMMERCIAL CREDIT UNDERWRITING AND LOAN ADMINISTRATION

(1) Within ninety (90) days, the Board shall adopt loan policies and procedures to improve the Bank's commercial credit underwriting and administration process, and reduce the associated credit risk. The revised loan policy and procedures shall include, at a minimum:

- (a) guidelines for analyzing and documenting current and satisfactory credit information for commercial loans to appropriately assess the borrower's cash flow and financial position, and where repayment is dependent in whole or in part on one or more guarantors, performing an appropriate analysis of the guarantors' financial position;
- (b) guidelines for structuring commercial loans such that terms are consistent with repayment source(s), loan purpose, and the useful life of the collateral;

- (c) guidelines to value non-real estate collateral securing a commercial extension of credit that considers the condition of the collateral and recent sales as well as addresses the acceptable sources and documentation for supporting the valuation;
- (d) procedures to ensure collateral for commercial loans is appropriately perfected and proper documentation is maintained;
- (e) a process to approve exceptions to the Bank's loan policy and supervisory loan to value limits; and
- (f) for all loans, the tracking and aggregated reporting to the Board on a quarterly basis of exceptions to the Bank's loan policy and supervisory loan to value limits.

(2) Upon adoption, the Board shall submit a copy of the policies and procedures required by this Article, or any subsequent amendments or changes to the policies and procedures, to the Assistant Deputy Comptroller for review and determination of no supervisory objection. Upon receiving a determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall implement and thereafter ensure adherence to the policies and procedures.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any commercial loan, commercial lease, or other commercial extension of credit¹ above seventy five thousand (\$75,000) only after:

¹ The term "extension of credit" or "extensions of credit" as used in this Article and throughout this Agreement includes overdraft extensions of credit.

- (a) analyzing and documenting current and satisfactory credit information to appropriately assess the borrower's cash flow and financial position, and where repayment is dependent in whole or in part on one or more guarantors, performing an appropriate analysis of the guarantors' current financial position; and
- (b) documenting the current value of collateral with adequate supporting material, in compliance with 12 C.F.R. Part 34, Subpart C where applicable, and documenting that the Bank's security interest has been properly perfected.

(4) Failure to analyze the information in Paragraph (3)(a) of this Article shall not constitute a violation of this Article if, prior to granting the extension of credit, a majority of the full Board (or a delegated committee thereof) reasonably determines that not obtaining and analyzing the information required in Paragraph (3)(a), would not be detrimental to the best interests of the Bank. Any such determination must be documented in a written certification that includes specific and adequate reasons for the Board's determination. A copy of the Board certification shall be maintained in the Bank's credit file for the respective borrower(s) for subsequent review by OCC examiners.

ARTICLE VI

APPRAISAL AND EVALUATION PROCESS

(1) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure adherence to policies and procedures for obtaining appraisals and evaluations and shall ensure

the Bank's compliance with 12 C.F.R. Part 34 and OCC Bulletin 2010-42: Interagency Appraisal and Evaluation Guidelines. The policies and procedures shall, at a minimum:

- (a) ensure that appraisals and evaluations are ordered in a timely manner, and meet the minimum requirements of 12 CFR 34.43 and OCC Bulletin 2010-42;
- (b) address the appropriateness of and criteria for using existing appraisals or evaluations to support subsequent transactions consistent with the guidelines set forth in OCC Bulletin 2010-42;
- (c) include criteria for developing an appropriate evaluation that is consistent with the guidelines set forth in OCC Bulletin 2010-42;
- (d) require a meaningful review of all appraisals and evaluations, independent of the lender, to be performed prior to any real estate-related financial transaction, as that term is defined in 12 C.F.R. Part 34;
- (e) ensure provision of both immediate, and ongoing training to any individuals designated with ensuring compliance with appraisal and evaluation regulations and guidelines; and
- (f) ensure that management resolves any deficiencies in appraisals or evaluations, including correcting any violation of 12 C.F.R. Part 34 cited in any ROE.

(2) Upon adoption, the Board shall submit a copy of the policies and procedures adopted pursuant to this Article to the Assistant Deputy Comptroller for review.

ARTICLE VII

COMMERCIAL RISK RATING SYSTEM

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure adherence to policies and procedures to ensure that the risk associated with the Bank's commercial loans and other commercial assets is properly reflected and accounted for on the Bank's books and records and the Bank properly recognizes income. The policies and procedures shall, at a minimum:

- (a) include a loan grading system that is consistent with the guidelines set forth in the "Rating Credit Risk" booklet of the *Comptroller's Handbook*, and revised as necessary to ensure compliance with any applicable successor regulation or guidance related to credit risk ratings as specified by the Comptroller;
- (b) ensure risk ratings are assigned on a timely basis and are accurate based on receipt and analysis of current and satisfactory financial and collateral information;
- (c) ensure the Bank's loans and other assets are placed on nonaccrual in a timely manner and in accordance with the FFIEC *Instructions for Consolidated Reports of Income and Condition* (FFIEC 031 and 041);
- (d) ensure that appropriate analysis and documentation is maintained in the credit files to support the current and previous risk rating and accrual determination for each credit relationship;
- (e) ensure that amounts deemed uncollectible are recognized as loss and promptly charged against the ALLL; and

(f) ensure appropriate personnel, including but not limited to loan officers, credit analysts, senior management, and the Board, receive immediate and ongoing training with respect to the application of this Article.

(2) Upon adoption, the Board shall submit a copy of its revised risk rating policies and procedures to the Assistant Deputy Comptroller for review.

ARTICLE VIII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in any Report of Examination (“ROE”), by internal or external loan review, or in any list provided to management by the OCC during any examination. The term “criticized” as used in this Article refers to assets rated the equivalent of “doubtful,” “substandard,” or “special mention” as defined in the “Rating Credit Risk” booklet of the *Comptroller’s Handbook*.

(2) For commercial assets, within one-hundred and twenty (120) days, the Board shall adopt, implement, and thereafter ensure adherence to policies and procedures that require workout plans designed to eliminate the basis of criticism of assets criticized in any ROE, by any internal or external loan review, or in any list provided to management by the OCC during any examination and whose aggregate loans or other extensions exceed one hundred thousand (\$100,000). The problem loan workout plans shall be consistent with the guidance set forth in OCC Bulletin 2009-32: Policy Statement on Prudent Commercial Real Estate Workouts, shall cover an entire credit relationship, and shall include, at a minimum:

- (a) an identification of the expected primary and secondary sources of repayment and an analysis of their adequacy;
- (b) detailed collateral information, including, as applicable, the current value of supporting collateral, the condition of the collateral, and the position of the Bank's lien on such collateral;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
- (d) results of any impairment analysis required ASC 310-10; and
- (e) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including, if appropriate, an exit strategy.

(3) The Board, or a designated committee thereof, shall conduct a documented review of workout plans for criticized commercial assets whose lending relationship totals one hundred thousand (\$100,000) or more, on at least a quarterly basis, to determine:

- (a) management's adherence to the individual problem loan workout plans adopted pursuant to this Article;
- (b) the status and effectiveness of the individual problem loan workout plans;
- (c) the need to revise the individual problem loan workout plan, or take alternative action; and
- (d) the effectiveness of the aggregate program on reducing criticized asset levels, and whether adjustments are necessary to ensure such reduction.

(4) A copy of each review conducted pursuant to Paragraph (3) of this Article shall be available for OCC inspection upon request.

(5) Effective as of the date of this Agreement, the Bank may extend credit, directly or indirectly, including renewals, extensions, overdraft extensions of credit, or capitalization of accrued interest, 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 during any examination and whose aggregate loans or other extensions exceed one hundred thousand (\$100,000) only if 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 full Board (or designated committee) approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written problem loan workout plan adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(6) A copy of the approval of the Board, or the designated committee thereof, required in item (5) shall be maintained in the file of the affected borrower.

(7) Upon adoption, the Board shall submit a copy of its policies and procedures adopted pursuant to this Article to the Assistant Deputy Comptroller for review.

ARTICLE IX

LOAN REVIEW

(1) Within one-hundred and eighty (180) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to policies and procedures providing for effective, independent, and on-going loan review to, at least semi-annually, review the Bank's loan and lease portfolios to ensure the overall quality of the Bank's commercial and consumer portfolios. The Bank's policies and procedures shall be consistent with OCC Bulletin 2006-47: Interagency Policy Statement on the Allowance for Loan and Lease Losses, Attachment 1. The Bank's policies and procedures shall provide for a written report to be filed with the Board after each review, which shall include, at a minimum:

- (a) the loan review scope and parameters;
- (b) an assessment of the adequacy of and adherence to the Bank's underwriting policies and procedures;
- (c) the identification, type, rating, and amount of problem loans and leases;
- (d) the accrual status and amount of impairment reserves, if necessary;
- (e) credit information and collateral documentation exceptions;
- (f) the identification of and corrective action for violations of law, rule or regulation; and
- (g) identification of loans and leases not in conformance with the Bank's lending and leasing policies.

(2) Within thirty (30) days of receipt, the Board shall evaluate the loan review reports and shall ensure that management (i) takes prompt, adequate, and continuing remedial action, if

appropriate, upon all findings noted in the report, and (ii) ensures that loan review workpaper documentation is sufficient to support the conclusions provided in the loan review reports.

(3) Upon adoption, the Board shall submit a copy of its loan review policies and procedures to the Assistant Deputy Comptroller for review.

ARTICLE X

ALLOWANCE FOR LOAN AND LEASE LOSSES METHODOLOGY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure adherence to revised policies and procedures to ensure it maintains an adequate Allowance for Loan and Lease Losses (“ALLL”) in accordance with U.S. generally accepted accounting principles (“GAAP”). The ALLL policies and procedures shall be consistent with the guidance set forth in the comments on maintaining a proper Allowance found in the “Allowance for Loan and Lease Losses” booklet of the *Comptroller’s Handbook* and OCC Bulletin 2006-47: Interagency Policy Statement on the ALLL for Loan and Lease Losses. At a minimum, the policies and procedures must be revised to:

- (a) ensure that all non-accrual loans are properly identified according to the guidelines stated in the FFIEC *Instructions for the Preparation of Consolidated Reports of Condition and Income* (FFIEC 031 and 041);
- (b) ensure impairment identification and calculations conform to GAAP and OCC Bulletin 2006-47, including:
 - (i) ensuring that all impaired loans are accurately identified;
 - (ii) ensuring that any loan deemed impaired will be evaluated for impairment and included within the Accounting Standards

Codification (“ASC”) 310-10 specific reserve analysis, while any loan not deemed impaired will be reserved within the ASC 450-20 historical loss pool; and

(iii) ensuring net present value impairment calculations are based on realistic future cash flow streams;

(c) ensure that all Troubled Debt Restructurings (“TDRs”) are accurately identified in accordance with GAAP and that the method used to calculate impairment will be consistent with the requirements set forth in OCC Bulletin 2013-26: Interagency Supervisory Guidance Addressing Certain Issues Related to TDRs;

(d) ensure audit is sufficient to determine conformance with GAAP and regulatory requirements;

(e) validate the ALLL methodology and reporting the findings to the Board; and

(f) ensure that all official and regulatory reports filed by the Bank accurately reflect an adequate ALLL balance as of the date that such reports are submitted. Any difference between the ALLL balance as determined by the analysis required by this Article and the Bank’s actual ALLL balance shall be remedied through appropriate account adjustments in the quarter it is discovered, prior to filing the Consolidated Reports of Condition and Income.

(2) Upon adoption, the Board shall submit a copy of its revised ALLL policies and procedures to the Assistant Deputy Comptroller for review.

ARTICLE XI

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule, or regulation cited in the most recent ROE, and in any subsequent ROE or OCC correspondence.

(2) Within one-hundred twenty (120) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within one-hundred twenty (120) days of receipt of any subsequent ROE which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

ARTICLE XII

CLOSING

(1) Although the Board has agreed to submit certain policies, procedures, 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/her 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) Each citation in this Agreement to a law, regulation, or other regulatory guidance includes any subsequent law, regulation, or guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(4) 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.

(5) 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.

(6) 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) ensure that the Bank has the processes, personnel, and control systems in place to ensure implementation of and adherence to the Agreement;
- (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 Agreement;

- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner of any non-compliance with such actions.

(7) 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/

Joseph P. Wachtel
Assistant Deputy Comptroller
Cleveland Field Office

6/29/2017

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.

<u>/s/</u> Dale L. Bauer	<u>6/29/2017</u> Date
<u>/s/</u> Marvin C. Beatty	<u>6/29/2017</u> Date
<u>/s/</u> Roger J. Brewbaker	<u>6/29/2017</u> Date
<u>/s/</u> Michael L. Cahoon	<u>6/29/2017</u> Date
<u>/s/</u> Lee J. Gapczynski	<u>6/29/2017</u> Date
<u>/s/</u> Jeffrey P. Hopp	<u>6/29/2017</u> Date
<u>/s/</u> Erik S. Nadolsky	<u>6/29/2017</u> Date
<u>/s/</u> Thomas J. Sobeck	<u>6/29/2017</u> Date
<u>/s/</u> John S. Tierney	<u>6/30/2017</u> Date