

UNITED STATES OF AMERICA  
BEFORE  
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

STATE OF SOUTH DAKOTA  
DIVISION OF BANKING  
PIERRE, SOUTH DAKOTA

_____ )	
Written Agreement by and among )	
)	
FIRST STATE BANK OF WARNER )	Docket No. 01-021-WA/RB-SM
Warner, South Dakota )	
)	
FEDERAL RESERVE BANK )	
OF MINNEAPOLIS )	
Minneapolis, Minnesota )	
)	
and )	
)	
STATE OF SOUTH DAKOTA )	
DIVISION OF BANKING )	
Pierre, South Dakota )	
_____ )	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of the First State Bank of Warner, Warner, South Dakota (the "Bank"), a State chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota (the "Reserve Bank"), and the Director of the Division of Banking for the State of South Dakota, Pierre, South Dakota (the "Director") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on December 11, 2001, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Grant M. Seaman to enter into this Agreement on behalf of the Bank and consented to compliance with each and

every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813(u)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the Director agree as follows:

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Director acceptable written revisions to the loan policy and procedures that address the deficiencies noted in the examination of the Bank conducted by the Reserve Bank in July 2001 (the "Report of Examination"). At a minimum, the revised loan policy and procedures shall consider and include:

- (a) Procedures for the origination, renewal, and approval of loans, including the establishment of threshold amounts for approval by the loan committee and the board of directors;
- (b) guidelines for renewing watch list and past due loans;
- (c) a requirement that all loans, including loan renewals, be supported by current and complete financial data, a clearly defined purpose, an analysis of the borrower's repayment capacity and the identification of the repayment sources, and where applicable, a written cash flow analysis and complete collateral valuation and documentation;

- (d) standards for placing loans on nonaccrual status consistent with the instructions for reporting loans in the Consolidated Reports of Condition and Income;
- (e) the treatment of past due consumer loans and loans secured by 1-4 family residential properties consistent with the Interagency Policy Statement on Uniform Retail Credit Classifications and Account Management, dated June 6, 2000; and
- (f) procedures for exceptions to the Bank's loan policy, including required documentation by the account officer and the approval of the board of directors that the exception to the loan policy is in the best interest of the Bank.

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Director acceptable loan review policies and procedures that address the deficiencies noted in the Report of Examination. At a minimum, the loan review policies shall consider and include: (a) the sampling of loans under \$80,000 for grading and compliance with the Bank's loan policy; and (b) requiring account officers to respond in writing to exceptions identified in the loan reviews.

3. Within 90 days of this Agreement, the Bank shall review the loans originated at the Aberdeen branch office to determine the risk inherent in each credit due to the loan's structure and collateral protection, and the borrower's performance and credit history. For installment loans with a balance less than \$15,000, only past-due loans must be reviewed. A

copy of the results of this review shall be submitted to the Reserve Bank and the Director within the 90-day period.

4. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" and one-half of assets or portions of assets classified as "doubtful" in the Report of Examination that have not been previously collected in full or charged-off. Thereafter, the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge-off all assets or portions of assets classified as "loss" and one-half of assets or portions of assets classified as "doubtful", unless otherwise approved in writing by the Reserve Bank and the Director.

(b) Within 30 days of this Agreement, the Bank shall achieve and, thereafter, maintain, through charges to current operating income, an adequate valuation reserve for loan losses. The adequacy of the reserve shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, and the requirements of the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 22, 1993 and July 2, 2001. A written record shall be maintained indicating the methodology used in determining the amount of reserve needed to cover total loans and documentation shall be maintained to support the methodology. The reserve methodology shall be submitted to the Reserve Bank and the Director within 60 days of this Agreement. Thereafter, at a minimum on calendar quarterly basis, the Bank shall conduct an

assessment of its loan loss reserve and its non-performing loans and shall submit documentation of each quarterly assessment to the Reserve Bank and the Director within 30 days of the end of each calendar quarter.

5. The Bank shall not make or renew any extension of credit to any borrower, including any related interest of the borrower, while the borrower has outstanding at the Bank any loan that is adversely classified in the Report of Examination or any subsequent federal or state report of examination or visitation, without the prior approval of the board of directors, which shall document the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit or renewal is necessary to protect the Bank's interest in the ultimate collection of the credit already granted or (ii) the extension of credit or renewal is in full compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit or renewal will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank for subsequent supervisory review.

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Director an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral or other means on each loan

or other asset in excess of \$30,000, including other real estate, that was past due as to principal or interest in excess of 90 days as of the date of this Agreement, is on the Bank's problem loan watch list, or was adversely classified or listed as special mention in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$30,000 becomes past due as to principal or interest for more than 90 days, is placed on the Bank's watch list, or is adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank, the Bank shall submit to the Reserve Bank and the Director an acceptable written plan to improve the Bank's position on such loan or other asset.

(c) The plan for each loan or other asset shall be formally approved by the Bank's loan committee and shall, at a minimum, include:

- (i) A description of the current status of the loan or other asset, including book and nonbook carrying value, and the nature and value of supporting collateral;
- (ii) proposed actions to improve, reduce, or eliminate the loan or other asset, time frames for such actions, and the projected balance owing and value of anticipated collateral; and
- (iii) where appropriate, the borrower's acknowledgement of and response to the plan.

(d) Within 30 days of the end of each quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Director a written progress report on the loans or other assets described in this paragraph, which shall include, at a minimum, the carrying value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list.

7. (a) Within 60 days of this Agreement, the board of directors shall conduct and complete a review of all Bank management, personnel, and outside consultants involved in the Bank's lending operations and shall forward to the Reserve Bank and the Director written findings and conclusions of the review along with a plan for implementing any changes that may be proposed as a result of the review. The review shall focus on an assessment of the duties performed by each officer, employee, and outside consultant involved in the Bank's lending operations and on the ability of that person to perform competently his or her assigned duties. The primary purpose of this review shall be to aid in the maintenance of a management structure suitable to the Bank's needs that is adequately staffed by qualified and trained personnel.

(b) Within 90 days of this Agreement, the board of directors shall submit to the Reserve Bank and the Director a plan for strengthening board of directors' oversight of the lending function. The plan shall, at a minimum, address, consider, and include:

- (i) Loan review, including loan quality and compliance with the Bank's lending policies;
- (ii) management information systems;
- (iii) monitoring new loan and renewal activity; and
- (iv) monitoring collection efforts for past due, nonaccrual, classified, and criticized loans.

(c) During the term of this Agreement, or as otherwise required by law, the Bank shall comply with the provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart H) with respect to the appointment of any new director or the hiring or promotion of any senior executive officer, as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215).

8. Within 60 days of this Agreement, Bank shall submit to the Reserve Bank and the Director an acceptable liquidity plan that identifies sources of liquidity and funding for the Bank during periods of adverse market conditions. The plan shall, at a minimum, address, consider, and include: (a) an assessment of the Bank's ability to sell assets without significant loss; (b) identification of assets available for pledging as collateral, and (c) funding alternatives.

9. The Bank shall not accept brokered deposits except in compliance with the provisions of section 29 of the FDI Act (12 U.S.C. 1831f). The Bank shall notify the Reserve Bank and the Director if the Bank requests any waiver of the restrictions imposed by section 29 from the Federal Deposit Insurance Corporation (the "FDIC") and shall notify the Reserve Bank and the Director of the FDIC's disposition of any requests for such a waiver.

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Director an acceptable plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) any planned asset growth;

(c) the volume of adversely classified assets;

(d) the anticipated level of retained earnings; and

(e) the source and timing of additional funds to fulfill the future capital and allowance for loan and lease loss needs of the Bank.

11. The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director, and the Director of the Division of Banking Supervision and Regulation of the Board of Governors. Requests for approval shall be received by the Reserve Bank and the Director at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital levels, and asset quality of the Bank.

12. (a) Within 30 days after the end of each calendar quarter following the date of this Agreement (December 31, March 31, June 30, and September 30), the board of directors shall submit a written progress report to the Reserve Bank and the Director detailing all actions taken to secure compliance with each provision of this Agreement and the results of those actions. The board of directors shall certify that each director has reviewed each quarterly progress report. Such reports may be discontinued when the Reserve Bank and Director, in writing, have released the Bank from making further reports.

(b) Within 30 days of this Agreement, and within 15 days of the end of each succeeding month, the Bank shall provide the Reserve Bank and the Director a copy of its report of past-due and nonaccrual loans.

13. The Bank shall submit the policies, plans, and procedures required by paragraphs 1, 2, 6, 8, and 10 that are acceptable to the Reserve Bank and Director within the time periods set forth in this Agreement. The Bank shall adopt all policies, plans, and procedures that are approved by the Reserve Bank and the Director within 10 days of approval and then shall fully comply with them. During the term of this Agreement, the Bank shall not amend or rescind

the approved policies, plans, and procedures without the prior written approval of the Reserve Bank and the Director.

14. All communications regarding this Agreement shall be sent to:

- (a) Ms. Jacquelyn K. Brunmeier  
Assistant Vice President  
Banking Supervision Department  
Federal Reserve Bank of Minneapolis  
Minneapolis, Minnesota 55480
- (b) Mr. Richard A. Duncan  
Director of the Division of Banking for the State of South Dakota  
State Capitol  
500 East Capitol Avenue  
Pierre, South Dakota 57501-5070
- (c) Mr. Grant M. Seaman  
President  
First State Bank of Warner  
P.O. Box 5057  
Warner, South Dakota 57006

15. Notwithstanding any provisions of this Agreement to the contrary, the Reserve Bank and the Director may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of the Agreement.

16. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Reserve Bank and the Director.

17. The provisions of this Agreement shall be binding upon the Bank and all of its institution-affiliated parties, in their capacities as such, and their successors and assigns.

18. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors or the Director or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

19. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued under, section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 11<sup>th</sup> day of December, 2001.

First State Bank of Warner

By: Grant M. Seaman  
Grant M. Seaman  
President

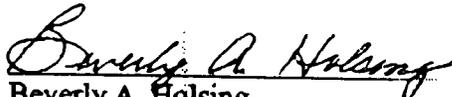
Federal Reserve Bank of Minneapolis

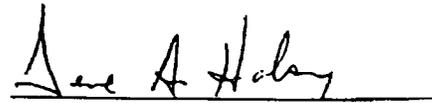
By: Jacquelyn K. Brunmeier  
Jacquelyn K. Brunmeier  
Assistant Vice President  
December 17, 2001

State of South Dakota

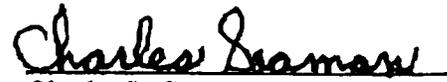
By: Richard A. Duncan  
Richard A. Duncan  
Director of the Division of Banking  
for the State of South Dakota

The undersigned directors of the Bank individually acknowledge having read the foregoing Agreement and approve of the consent thereto by the Bank.

  
Beverly A. Holsing

  
Gene A. Holsing

  
Bradley C. Seaman

  
Charles L. Seaman

  
Darilyn D. Seaman

  
Grant M. Seaman