

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

STATE OF MONTANA  
DIVISION OF BANKING AND FINANCIAL INSTITUTIONS  
HELENA, MONTANA

Written Agreement by and among

GUARANTY DEVELOPMENT COMPANY  
Livingston, Montana

AMERICAN BANK  
Bozeman, Montana

FEDERAL RESERVE BANK OF MINNEAPOLIS  
Minneapolis, Minnesota

and

MONTANA DIVISION OF BANKING AND  
FINANCIAL INSTITUTIONS  
Helena, Montana

Docket Nos. 10-072-WA/RB-HC  
10-072-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Guaranty Development Company, Livingston, Montana (“Guaranty”), a registered bank holding company, and its subsidiary bank, American Bank, Bozeman, Montana (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, Guaranty, the Bank, the Federal Reserve Bank of Minneapolis (the “Reserve Bank”), and the Montana Division of Banking and Financial Institutions (the “Division”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 15, 2010, Guaranty's and the Bank's boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing Bruce Erickson to consent to this Agreement on behalf of Guaranty and the Bank, and consenting to compliance with each and every applicable provision of this Agreement by Guaranty, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Guaranty, the Bank, the Reserve Bank, and the Division agree as follows:

### **Credit Risk Management**

1. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

(a) The responsibility of the Bank's board of directors to establish appropriate risk tolerance guidelines and risk limits;

(b) procedures to periodically review and revise risk exposure limits to address changes in market conditions;

(c) strategies to minimize credit losses and reduce the level of problem assets;

(d) procedures to identify, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1); and

(e) a schedule for reducing and the means by which the Bank will reduce the level of commercial real estate concentrations, and timeframes for achieving the reduced levels.

## **Asset Improvement**

2. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of the examination of the Bank conducted by the Reserve Bank and the Division that commenced on May 11, 2009 and the report of the examination of the Bank conducted by the Reserve Bank that commenced on October 19, 2009 (the "Reports of Examination"), or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the

borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

3. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on other real estate owned ("OREO") and on each loan or other asset in excess of \$500,000 that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Reports of Examination. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the date that the Bank acquires OREO or that any additional loan or other asset in excess of \$500,000 becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Division to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection

of interest in the last quarter, and past due/non-accrual report. The board of directors shall review the progress reports before submission to the Reserve Bank and the Division and shall document the review in the minutes of the board of directors' meetings.

**Allowance for Loan and Lease Losses**

4. (a) The Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and the Division.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses ("ALLL") methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Reports of Examination, and submit a description of the revised methodology to the Reserve Bank and the Division. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectability.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as

appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Division, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Capital Plan**

5. Within 60 days of this Agreement, Guaranty and the Bank shall submit to the Reserve Bank and the Division an acceptable joint written 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 for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill Guaranty's and the Bank's future capital requirements; and

(d) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that Guaranty serve as a source of strength to the Bank.

6. Guaranty and the Bank shall notify the Reserve Bank and the Division, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, Guaranty and the Bank shall submit an acceptable written plan that details the steps Guaranty and the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

### **Strategic Plan and Budget**

7. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a strategic plan to improve the Bank's earnings and overall condition and a budget for the remainder of 2010 that shall, at a minimum, provide for or describe:

- (i) goals and strategies for improving the Bank's earnings;
- (ii) the responsibilities of the board of directors regarding the definition, approval, implementation, and monitoring of the strategic plan and budget;
- (iii) an identification of the major areas in, and means by which, the board of directors and management shall seek to improve the Bank's earnings and operating performance;
- (iv) a realistic and comprehensive budget for the remainder of 2010, that includes the operating assumptions that form the basis for, and adequately support major projected income, expense, and balance sheet components.

(b) A strategic plan and budget for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the Division at least 30 days prior to the beginning of that calendar year.

### **Liquidity/Funds Management**

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices that includes, but is not limited to, measures to reduce reliance on short-term wholesale funding.

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

### **Dividends and Distributions**

10. (a) Guaranty and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the "Director"), and, as to the Bank, the Division.

(b) Guaranty shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Guaranty and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum,

current and projected information, as appropriate, on Guaranty's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. Guaranty and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

### **Debt and Stock Redemption**

11. (a) Guaranty shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Guaranty shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Compliance with Laws and Regulations**

12. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Guaranty and the Bank shall comply with the notice 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. §§ 225.71 *et seq.*), and, as to the Bank, provide written notice to the Division.

(b) Guaranty and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

### **Compliance with the Agreement**

13. Within 30 days after the end of each calendar quarter following the date of this Agreement, the boards of directors of Guaranty and the Bank shall submit to the Reserve Bank and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

### **Approval and Implementation of Plans and Program**

14. (a) The Bank and, as applicable, Guaranty shall submit written plans and a program that are acceptable to the Reserve Bank and the Division within the applicable time periods set forth in paragraphs 1, 3, 4(c), 5, 6, 8, and 9 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Division, the Bank and, as applicable, Guaranty shall adopt the approved plans and program. Upon adoption, the Bank and, as applicable, Guaranty shall promptly implement the approved plans and program, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

## **Communications**

15. All communications regarding this Agreement shall be sent to:
  - (a) Ms. Diann G. Townsend  
Assistant Vice President  
Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
Minneapolis, Minnesota 5401-1804
  - (b) Ms. Annie Goodwin  
Commissioner  
State of Montana  
Division of Banking and Financial Institutions  
301 South Park, Suite 316  
Helena, Montana 59601
  - (c) Mr. Bruce Erickson  
Chairman of the Board of Directors  
Guaranty Development Co  
120 N 2<sup>nd</sup> St.  
Livingston, Montana 59047
  - (d) Mr. Bruce Erickson  
Chairman of the Board of Directors  
American Bank  
1632 West Main Street  
Bozeman, MT 59771-1970

## **Miscellaneous**

16. Notwithstanding any provision of this Agreement, the Reserve Bank and the Division may, in their sole discretion, grant written extensions of time to Guaranty and the Bank to comply with any provision of this Agreement.

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

18. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Division.

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

20. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors 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 3<sup>rd</sup> day of August, 2010.

GUARANTY DEVELOPMENT COMPANY

FEDERAL RESERVE BANK  
OF MINNEAPOLIS

By: /s/ Bruce Erickson  
Bruce Erickson  
Chairman of the Board of Directors

By: /s/ James M. Barnes  
James M. Barnes  
Vice President and  
Chief Examination Officer

AMERICAN BANK

STATE OF MONTANA  
DIVISION OF BANKING AND  
FINANCIAL INSTITUTIONS

By: /s/ Bruce Erickson  
Bruce Erickson  
Chairman of the Board of Directors

By: /s/ Annie Goodwin  
Annie Goodwin  
Commissioner