

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

Written Agreement by and among)	
)	Docket Nos. 03-017-WA/RB-HC
BANKFIRST CORPORATION)	03-017-WA/RB-SM
Sioux Falls, South Dakota)	
)	
BANKFIRST)	
Sioux Falls, South Dakota)	
)	
and)	
)	
FEDERAL RESERVE BANK)	
OF MINNEAPOLIS)	
Minneapolis, Minnesota)	
)	

WHEREAS, BANKFIRST Corporation, Sioux Falls, South Dakota ("BANKFIRST"), a registered bank holding company, and its subsidiary bank, BANKFIRST, Sioux Falls, South Dakota (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, have taken steps and are continuing to take steps to address deficiencies identified by the Federal Reserve Bank of Minneapolis (the "Reserve Bank") with regard to banking practices relating to the Bank's credit card operations;

WHEREAS, BANKFIRST and the Bank have agreed to cooperate fully with the Reserve Bank in addressing all deficiencies and supervisory concerns; and

WHEREAS, on April 22nd, 2003 the boards of directors of BANKFIRST and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing M.A. Lund, to enter into this Written Agreement (the "Agreement") on behalf of BANKFIRST and the Bank, and consenting to compliance by BANKFIRST and 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)), with each and every applicable provision of this Agreement.

NOW, THEREFORE, BANKFIRST, the Bank, and the Reserve Bank hereby agree as follows:

New Accounts and Portfolio Growth

1. (a) (i) The Bank shall continue (A) not to open any new unsecured or partially secured credit card account for any new or existing customer having a Fair, Isaac & Company score ("FICO score") of less than 660; and (B) not to provide any new credit line increases on any credit card account for any customer having a FICO score of less than 660, provided, however, that the Bank may honor any contractual or legal obligation to open any credit card account or increase any credit line, if such obligation arose prior to the date of this Agreement.

(ii) The Bank shall not, without the prior written approval of the Reserve Bank, take any action that would result in an increase of the Bank's average total assets, as defined in the Instructions for the Preparation of Reports of Condition and Income (the "Instructions"), at any calendar quarter end more than 2 percent over average total assets at the end of the preceding calendar quarter.

(b) The restrictions of paragraph 1(a) of this Agreement shall not be lifted unless and until the Bank submits to the Reserve Bank a written plan to restrict the growth in the Bank's subprime credit card portfolio, and is notified in writing by the Reserve Bank that the plan is acceptable. For the purposes of this Agreement, subprime is defined as loans to borrowers with FICO scores of less than 660. The plan shall, at a minimum:

- (i) Segment the credit card portfolio by credit score, age of account, marketing initiatives, and other appropriate risk criteria;
- (ii) establish appropriate targets for the volume and proportion of receivables in each credit card portfolio segment;
- (iii) limit new account and credit line increases for each credit card portfolio segment; and
- (iv) preclude increasing the Bank's average total assets, as defined in the Instructions, at any calendar quarter end more than 2 percent over average total assets at the end of the preceding calendar quarter, until the Bank's board of directors has adopted the allowance for loan and lease losses ("ALLL") and earned fee reserve ("EFR") methodologies that are acceptable to the Reserve Bank, as described in paragraph 3 of this Agreement, and BANKFIRST's and the Bank's boards of directors have adopted a capital plan that is acceptable to the Reserve Bank, as described in paragraph 4 of this Agreement.

Contingency Plan

2. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable written plan to sell or liquidate the Bank's subprime credit card portfolio in the event that the Bank fails to fully comply, within the applicable timeframes, with the provisions of paragraphs 1, 3, 4, and 6 of this Agreement. The contingency plan shall include specific target dates for the completion of the sale or liquidation of the subprime credit card portfolio in a manner that will result in no loss or cost to the Bank Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC").

Allowance for Loan and Lease Losses and Earned Fee Reserve

3. (a) The Bank shall immediately and on an ongoing basis:

(i) charge-off all first payment default accounts that are past due 60 days or more;

(ii) charge-off all other credit card receivables that are past due 150 days or more; and

(iii) recognize losses on credit card receivables subject to settlement agreements at the time the settlement is reached.

(b) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank acceptable methodologies for maintaining an adequate ALLL and an adequate EFR for credit card receivables that are sufficient to absorb estimated credit losses for a 12-month period. The ALLL and EFR methodologies and supporting documentation shall be consistent with the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001, and all applicable guidance and regulations related to subprime lending and credit card account management practices issued by the Board of Governors of the Federal Reserve System (the “Board of Governors”) and the FDIC (the “Interagency Subprime Guidance”). In establishing the methodologies for an adequate ALLL and an adequate EFR, the Bank shall, at a minimum, address, consider, and provide for:

(i) Reserves for 12 months of expected losses for all principal loan balances, including non-delinquent accounts;

(ii) reserves for 12 months of expected losses of accrued interest and fees on all outstanding accounts, including non-delinquent accounts;

(iii) the Bank’s loan loss experience;

(iv) trends of delinquent, nonaccrual, over credit limit, and charged-off accounts;

(v) present and prospective economic conditions;

(vi) the Bank's best estimate, within a reasonable range, of probable losses; the best estimate shall be derived on a conservative and prudent basis, and shall include: (A) estimable losses from impaired credit card accounts, and (B) losses embedded in accounts that are not obviously impaired as of the balance sheet date but are reasonably expected to be manifested on a going concern basis within the next 12 months; and

(vii) the periodic review, on at least a quarterly basis, of the ALLL, including a comparison of actual credit card losses to previously projected charge-offs and prompt revisions to modeled assumptions whenever actual charge-offs in a rolling 12-month period exceed charge-offs projected for the same period by more than 5 percent, or more than 2.5 percent in two successive quarters.

(c) The Bank shall maintain for subsequent supervisory review documentation supporting the ALLL and EFR methodologies and loss estimates used, including, but not limited to:

(i) Loss forecasting techniques and assumptions employed;

(ii) rationale for adjustments to historical experience; and

(iii) a reconciliation of forecasted loss rates to actual loss rates, with significant variances explained.

(d) Within 60 days of this Agreement, the Bank shall achieve and thereafter maintain (i) an adequate ALLL, which shall be no less than the amount described in paragraph 3(b)(vi) of this Agreement, and (ii) an adequate EFR.

Capital

4. (a) Within 30 days of this Agreement, BANKFIRST and the Bank shall submit to the Reserve Bank an acceptable joint written plan that will, at a minimum, ensure that BANKFIRST, on a consolidated basis, and the Bank, as a separate legal entity on a stand-alone basis, each attains acceptable leverage, Tier I, and total risk-based capital ratios to support subprime lending activities. The plan shall, at a minimum, address, consider, and include:

(i) 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);

(ii) the Interagency Subprime Guidance;

(iii) risk-weighting unsecured and partially secured subprime assets at an average of 250 percent in calculating the risk-based capital ratios of BANKFIRST and the Bank, unless a different risk weighting is agreed to in writing by the Reserve Bank;

(iv) the Bank's concentration in credit card loans;

(v) current and prospective earnings;

(vi) the volume of volatile funds placed with the Bank that require the Bank to remain well capitalized;

(vii) the operational, legal, and reputational risks associated with new activities, including payment systems products and servicing activities performed for others; and

(viii) the source and timing of additional funds to fulfill the capital,

ALLL and EFR requirements of this Agreement.

(b) Notwithstanding any other provision of this Agreement, the Bank shall, by September 30, 2003, achieve and thereafter maintain a total risk-based capital ratio of at least

12 percent, after subprime assets are weighted on a basis consistent with the Interagency Subprime Guidance and paragraph 4(a)(iii) of this Agreement.

Account Management Program

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable account management program, which shall, at a minimum, address, consider, and include:

- (a) A prohibition on the systematic re-aging of accounts absent the demonstration of a customer's willingness and ability to repay;
- (b) controls to limit risks associated with multiple accounts, including suspension of authorizations on all related accounts when authorizations are denied for one account;
- (c) periodic testing to determine whether recoveries in excess of principal amounts charged-off are accounted for appropriately;
- (d) appropriate controls to restrict negative amortization and provide for over credit line fee practices that are consistent with the Interagency Guidance on Credit Card Account Management and Loss Allowance Practices, dated January 8, 2003; and
- (e) monitoring and periodic reporting to the board of directors of compliance with the account management program.

Insured Deposit Funding and Contingency Funding Plan

6. (a) Within 90 days of this Agreement, BANKFIRST and the Bank shall submit to the Reserve Bank an acceptable joint written plan to reduce the Bank's reliance on insured deposits as a funding source for subprime credit card receivables, in order to minimize the risk of exposure to the Bank Insurance Fund of the FDIC. The plan, at a minimum, shall

provide for the Bank's maintenance of Marketable Assets in an amount equal to or in excess of the Bank's insured deposits and shall include a method for determining the market value of such Assets.

(b) (i) For purposes of this paragraph, the term "Marketable Assets" shall include only unpledged and unencumbered:

- (A) cash balances;
- (B) investment securities as defined in 12 C.F.R. 1.2;
- (C) federal funds sold;
- (D) credit card receivables valued at the lower of net book value or fair market value (net book value is the result of gross credit card receivables less the ALLL associated with the principal, fees, and finance charges); and
- (E) other assets acceptable to the Reserve Bank.

(ii) For the purpose of calculating Marketable Assets, subprime credit card receivables shall not exceed 80 percent of the valuation of Marketable Assets used to cover insured deposits.

7. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable contingency funding plan that shall, at a minimum, address, consider, and include:

(a) Modeling the Bank's liquidity and funding positions through scenarios of increasing liquidity or funding duress;

(b) identification of potential funding sources;

(c) stress testing of credit card payment and utilization rates;

(d) contingencies related to the availability of Internet deposits or other funding sources; and

(e) covenants, triggers or conditions pertaining to any deposits or other funding sources currently used by the Bank.

8. The Bank shall not accept, renew, or roll over brokered deposits, except in accordance with the provisions of section 29 of the FDI Act (12 U.S.C. 1831f).

Internal Audit Program

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable revised internal audit program that shall, at a minimum, address, consider, and include:

(a) The communication of audit results directly from the Bank's internal auditors to the audit committee; and

(b) the selection of an internal audit firm that is consistent with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing, dated March 17, 2003.

Compensation

10. (a) BANKFIRST and the Bank shall not, directly or indirectly, increase the salaries or bonuses of or make any other payments, including, but not limited to, the payment of fees, reimbursement of expenses or payment of indebtedness, to or on behalf of any of BANKFIRST's or the Bank's officers without the prior written approval of the Reserve Bank.

(b) Notwithstanding the provisions of this paragraph, BANKFIRST and the Bank do not need to obtain the prior written approval of the Reserve Bank for the reimbursement of reasonable expenses that aggregate no more than \$500 per month for each officer, provided that such reasonable expenses are incurred in performing routine duties, which have been adequately documented and reported on BANKFIRST'S or the Bank's books and records.

(c) Within 45 days of this Agreement, the Bank's board of directors shall conduct a review of personnel costs to ensure that all salaries and bonuses paid to the Bank's officers are: (i) consistent with safe and sound banking practices and applicable law, regulations,

and guidelines; (ii) justified based on the Bank's performance, financial condition, and future prospects; (iii) related to the services actually rendered to the Bank; (iv) paid in accordance with the duties, responsibilities, and obligations of the Bank's officers; and (v) preapproved by the board of directors on a regular basis.

(d) Within 60 days of this Agreement, the board of directors shall submit to the Reserve Bank the findings and conclusions of the review required by this paragraph, along with any proposed written compensation policies and procedures that may be recommended as a result of the review.

Appointment of New Officers and Directors, and Severance and Indemnification Payments

11. During the term of this Agreement, or as otherwise required by law, BANKFIRST and 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 directors or the hiring of any senior executive officers as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215).

12. BANKFIRST 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 FDIC's regulations (12 C.F.R. Part 359).

Dividends, Interest, and Debt

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

(b) BANKFIRST shall not make any distributions of interest, principal, or other sums with respect to the subordinated debentures issued in connection with its trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(c) All requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, current and projected information on the Bank's earnings, cash flow, capital levels, asset quality, ALLL, and EFR.

14. (a) BANKFIRST shall not, directly or indirectly, incur any additional debt including, but not limited to, increasing the principal balance of any category of indebtedness for monies borrowed above the levels outstanding as of the date of this Agreement without the prior written approval of the Reserve Bank.

(b) BANKFIRST shall not, directly or indirectly, issue any additional trust preferred securities without the prior written approval of the Reserve Bank.

Strategic Plan and Budget

15. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank a written strategic plan and budget concerning the Bank's proposed business activities for the remainder of 2003. The plan and budget shall, at a minimum, include:

- (i) Limiting risks to the Bank Insurance Fund of the FDIC arising from credit card receivables;
- (ii) diversifying the Bank's earnings;
- (iii) the balance sheet composition and operating assumptions that form the bases for major projected income and expense components; and

(iv) detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets and income statements, that relate to specific goals for earnings, liquidity, and capital.

(b) During the term of this Agreement, the Bank shall submit to the Reserve Bank a strategic plan and budget for each calendar year subsequent to 2003 at least one month prior to the beginning of that calendar year.

Compliance Committee

16. (a) Within 5 days of this Agreement, the boards of directors of BANKFIRST and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate BANKFIRST's and the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall be comprised of three or more outside directors who are not officers or employees of BANKFIRST or the Bank or directly or indirectly own more than 10 percent of the outstanding shares of BANKFIRST or the Bank. At a minimum, the Compliance Committee shall keep detailed minutes of each meeting and shall report its findings to the board of directors on a monthly basis.

(b) Within 30 days after the end of each calendar quarter (June 30, September 30, December 31, and March 31) following the date of this Agreement, the boards of directors of BANKFIRST and the Bank shall submit to the Reserve Bank a joint written progress report detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof. Such reports may be discontinued when the Reserve Bank has, in writing, released BANKFIRST and the Bank from making further reports.

Miscellaneous

17. The written methodologies, plans, and programs required by paragraphs 2, 3(b), 4(a), 5, 6(a), 7, and 9 of this Agreement shall be submitted to the Reserve Bank for review and approval. Acceptable methodologies, plans, and programs shall be submitted within the time periods set forth in this Agreement. BANKFIRST and the Bank, as applicable, shall adopt the approved methodologies, plans, and programs within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Agreement, the approved methodologies, plans, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank.

18. 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. George Lund
Chairman and Chief Executive Officer
BANKFIRST
P.O. Box 89820
Sioux Falls, South Dakota 57105

19. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to BANKFIRST and the Bank to comply with any provision of this Agreement.

20. The provisions of this Agreement shall be binding on BANKFIRST and the Bank and each of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

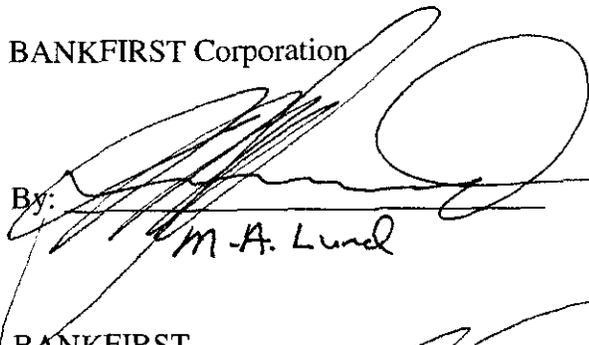
22. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting BANKFIRST, the Bank or any of their current or former institution-affiliated parties.

23. 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 22nd day of April, 2003.

BANKFIRST Corporation

Federal Reserve Bank of Minneapolis

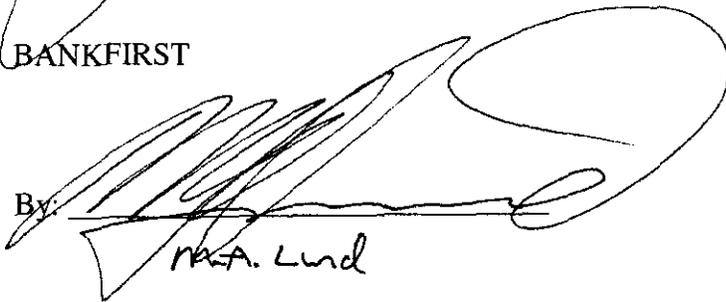
By: 

By: 

M.A. Lund

Niel Willardson
Senior Vice President

BANKFIRST

By: 

M.A. Lund