

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

SUPERINTENDENT OF BANKING OF THE STATE OF IOWA
DES MOINES, IOWA

Written Agreement by and among

COLUMBUS JUNCTION STATE
BANK
Columbus Junction, Iowa

Docket No. 14-013-WA/RB-SM

FEDERAL RESERVE BANK OF
CHICAGO
Chicago, Illinois

SUPERINTENDENT OF BANKING
OF THE STATE OF IOWA
Des Moines, Iowa

WHEREAS, in recognition of their common goal to maintain the financial soundness of Columbus Junction State Bank, Columbus Junction, Iowa (the "Bank"), a state-chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Chicago (the "Reserve Bank"), and the Iowa Superintendent of Banking (the "Superintendent") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on May 21, 2014, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Daniel J. Wilson, to

enter into this Agreement on behalf of the Bank, and consenting to compliance 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)), with each and every provision of this Agreement.

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

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Superintendent a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s major operations and activities, including but not limited to, credit risk management, lending and credit administration, asset quality, capital, and earnings;

(b) the responsibility of the board of directors to monitor management’s adherence to approved policies and procedures, and applicable laws and regulations and to monitor exceptions to approved policies and procedures;

(c) actions the board of directors will take to develop a management succession plan in order to attract and retain qualified senior management at the Bank;

(d) a description of the information and reports that will be regularly reviewed by the board of directors and its committees in their oversight of the operations and management of the Bank, including information on the Bank’s credit risk

management, lending and credit administration, adversely classified assets, allowance for loan and lease losses (“ALLL”), capital, audit, and earnings; and

(e) the maintenance of adequate and complete minutes of all board and committee meetings, approval of such minutes, and their retention for supervisory review.

Management Review

2. (a) Within 60 days of this Agreement, the board of directors shall submit to the Reserve Bank and the Superintendent a written management plan that fully addresses the findings and recommendations in the recently completed independent assessment of the Bank’s management and staffing needs (the “Report”). The written plan shall describe the specific actions that the board of directors will take to strengthen the Bank’s management, and to hire, as necessary, additional or replacement officers or staff to properly manage and operate the Bank. The Bank shall submit a copy of the Report with the plan.

(b) Periodically, but not less frequently than annually, the Bank’s board of directors shall reassess management on its ability to:

(i) comply with the requirements of this Agreement; all applicable Federal and state laws and regulations; regulatory policy statements and guidelines; and the Bank’s approved policies and procedures; and

(ii) restore and thereafter maintain the Bank in a safe and sound condition, including, but not limited to, capital adequacy, asset quality and diversification, earnings, management effectiveness, liquidity, and sensitivity to market risks.

Credit Risk Management

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent 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 board of directors to establish appropriate risk tolerance guidelines and risk limits;
- (b) the actions that the board of directors will take to improve internal controls and oversight of the Bank's lending function;
- (c) strategies to minimize credit losses and reduce the level of problem assets; and
- (d) measures to ensure appropriate collections procedures.

Lending and Credit Administration

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written lending and credit administration program that shall, at a minimum, address, consider, and include:

- (a) Loan underwriting and credit administration procedures that include and provide for, at a minimum, documented analysis at underwriting and periodic updating of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;
- (b) procedures to ensure that appraisals conform to accepted appraisal standards, as defined in the Uniform Standards of Professional Appraisal Practice, and comply with the requirements of Subpart G of Regulation Y of the Board of Governors

(12 C.F.R. Part 225, Subpart G) made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. § 208.50), and the Interagency Appraisal and Evaluation Guidelines, dated December 2, 2010 (SR 10-16);

(c) steps to ensure compliance with loan documentation and collateral requirements to minimize exceptions;

(d) procedures to ensure that each loan file contains complete and accurate information regarding the purpose of that loan;

(e) standards for the appropriate usage of interest reserves and capitalizing interest; and

(f) standards for the timely movement of loans to non-accrual status, and supporting documentation for loans identified as problem loans that have not been moved to non-accrual status by the Bank.

5. Within 60 days of this Agreement, the Bank shall take all steps necessary to correct the documentation and credit information deficiencies in the Bank's loan files identified in the report of the examination conducted by the Iowa Division of Banking that commenced on September 9, 2013 (the "Report of Examination"). In all cases where the Bank is unable to obtain needed documentation or credit information, the Bank shall document the actions taken to secure the information and the reasons the information could not be obtained. The Bank shall maintain this documentation in the related credit file for supervisory review.

Loan Review

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written program for the effective, ongoing

review of the Bank's loan portfolio by a qualified independent external party. The program shall provide for policies and procedures for the timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading process. The program shall, at a minimum, address, consider, and include:

- (a) The scope, depth, and frequency of the independent loan review;
- (b) clearly defined responsibilities for the loan review function; and
- (c) an objective and timely assessment of the overall quality of the

loan portfolio and the accuracy of assigned loan grades.

7. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure that management takes prompt action to address findings noted in the report(s).

Asset Improvement

8. 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 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)).

9. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$50,000, including other real estate owned ("OREO"), that is past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank's problem loan list, or was adversely classified in the Report of Examination.

(b) Within 60 days of the date that any additional loan, relationship, or other asset in excess of \$50,000, including OREO, 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 Superintendent an acceptable written plan to improve the Bank's position on such loan, relationship, or asset.

(c) Within 60 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Superintendent 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 Superintendent and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

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

(b) Within 60 days of this Agreement, the Bank shall review and revise its 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 Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Superintendent.

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 collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent 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 Superintendent, 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

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, to include:

(a) 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 assets, concentrations of credit, the adequacy of the ALLL, current and projected asset growth, projected earnings, and anticipated and contingency funding needs; and

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

12. The Bank shall notify the Reserve Bank and the Superintendent, in writing, no more than 30 days after the end of any calendar 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, the Bank shall submit an acceptable written plan that details the steps the Bank will take to increase the Bank's capital ratios to or above the approved capital plan's minimums.

Dividends and Distributions

13. (a) The Bank shall not declare or pay any dividends or any other form of payment representing a reduction in capital without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Superintendent.

(b) Any request to declare or pay dividends must be 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). All requests for prior approval shall be received by the Reserve Bank and the Superintendent at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank, as well as the source of funding for the proposed dividend.

Business Plan and Budget

14. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent a written business plan and a budget for the remainder of 2014 to improve the Bank's earnings and overall condition. The plan shall, at a minimum, include, provide for, or describe:

(i) an assessment of the Bank's current financial condition, product lines, and market area, and a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;

- (ii) a realistic and comprehensive budget for the remainder of 2014, including income statement and balance sheet projections; and
- (iii) a budget review process that analyzes and reports budgeted versus actual income and expense performance.

(b) A business plan and budget for each calendar year subsequent to 2014 shall be submitted to the Reserve Bank and the Superintendent at least 30 days prior to the beginning of that calendar year.

Conflicts of Interest Policy

15. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent an enhanced written code of ethics and conflicts of interest policy that applies to all directors, officers, and employees of the Bank. The enhanced code of ethics and conflicts of interests policy shall address, at a minimum, the fiduciary duties of all directors, officers, and employees of the Bank and the avoidance of conflicts of interest, in particular in the administration of loans to officers, directors, employees, principal shareholders, and their immediate families, as defined in section 225.41(b)(3) of Regulation Y of the Board of Governors of the Federal Reserve System (12 C.F.R. § 225.41(b)(3)), and any transaction from which any such individual may derive personal benefit.

16. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent an acceptable written plan to improve compliance with the code of ethics and conflicts of interest policy by all directors, officers, and employees of the Bank. The plan shall provide, at a minimum, for:

(a) Policies and procedures to require the written disclosure to the board of directors of the Bank of any actual or potential conflict of interest of any Bank officer, director, employee, or principal shareholder;

(b) internal controls that monitor compliance with the code of ethics and conflicts of interest policy and report any noncompliance or exceptions to the approved policy to the board of directors of the Bank; and

(c) training for all directors, officers, and employees of the Bank provided on a regular basis regarding the enhanced code of ethics and conflicts of interest policy of the Bank.

Interaction With Regulatory Authorities

17. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Superintendent acceptable written policies and procedures that govern the conduct of Bank personnel in all supervisory and regulatory matters, including, but not limited to, interaction with and requests for information by Reserve Bank examiners, the Superintendent's examiners, and other bank regulators. The policies and procedures shall, at a minimum, ensure that Bank personnel provide prompt, complete, and accurate information to bank regulators.

Compliance with Laws and Regulations

18. (a) The Bank shall take the necessary steps, consistent with sound banking practices, to correct all violations of law and regulation set forth in the Report of Examination and to ensure the Bank's future compliance with all applicable laws and regulations.

(b) The Bank shall not engage, directly or indirectly, in any violation of Regulation O of the Board of Governors (12 C.F.R. Part 215), including, but not

limited to, the extensions of credit to or for the tangible economic benefit of executive officers, directors, principal shareholders, or their related interests.

(c) Within 10 days of this Agreement, the Bank shall submit to the Reserve Bank an acceptable program to ensure compliance with the provisions of Regulation O. At a minimum, the program shall require:

(i) the directors and management of the Bank, as well as all personnel responsible for the administration of extensions of credit to executive officers, directors, principal shareholders, or their related interests, to familiarize themselves with the provisions of Regulation O;

(ii) the amendment of the Bank's loan policies and procedures to ensure that extensions of credit to or for the tangible economic benefit of executive officers, directors, principal shareholders, or their related interests, are in compliance with the restrictions and limitations of Regulation O; and

(iii) appropriate reporting to the Bank's board of directors and its audit committee concerning any extensions of credit to or for the tangible economic benefit of executive officers, directors, principal shareholders, or their related interests; and

(iv) other appropriate measures to ensure compliance by the Bank and its institution-affiliated parties with the requirements of Regulation O.

(d) 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, 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.*). The Bank shall not appoint any individual to the Bank's board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Superintendent notifies the Bank of disapproval.

(e) The Bank shall notify the Superintendent, in writing, of any resignations or terminations of any members of its board of directors or any of its senior executive officers within 15 days of the event.

(f) 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

19. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Superintendent 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, Programs, Policies, and Procedures

20. (a) The Bank shall submit written plans, programs, policies, and procedures that are acceptable to the Reserve Bank and the Superintendent within the applicable time periods set forth in paragraphs 3, 4, 6, 9(a), 10(c), 11, 16, 17, and 18(c) of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Superintendent, the Bank shall adopt the approved plans and programs. Upon adoption,

the Bank shall promptly implement the approved plans and programs and thereafter fully comply with them.

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

Communications

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

- (a) Mr. Richard C. Brunsell
Assistant Vice President
Supervision and Regulation Department
Federal Reserve Bank of Chicago
230 S. LaSalle Street
Chicago, Illinois 60604
- (b) Mr. Michael R. Stamper
Bank Analyst
Iowa Division of Banking
200 East Grand Avenue, Suite 300
Des Moines, Iowa 50309
- (c) Mr. Daniel J. Wilson
Director
Columbus Junction State Bank
134 Main Street, P.O. Box 271
Columbus Junction, Iowa 52738

Miscellaneous

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

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

24. This Agreement supersedes the Order to Cease and Desist issued by the Superintendent on December 17, 2013 against the Bank (“C&D Order”), except for the provisions of section 3 of the C&D Order regarding Minimum Capital Requirements, which continue to apply as an effective order of the Superintendent.

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

26. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Superintendent, 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.

27. 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) and by the Superintendent pursuant to Iowa Code Sections 524.223 and 524.228.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 22nd day of May, 2014.

COLUMBUS JUNCTION STATE BANK

FEDERAL RESERVE BANK
OF CHICAGO

By: /s/ Daniel J. Wilson
Daniel J. Wilson
Director

By: /s/ Julie A. Williams
Julie A. Williams
Senior Vice President

SUPERINTENDENT OF
BANKING FOR THE STATE OF
IOWA

By: /s/ James M. Schipper
James M. Schipper