

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

Written Agreement by and among

LAKE COUNTY BANK  
Saint Ignatius, Montana

FEDERAL RESERVE BANK OF  
MINNEAPOLIS  
Minneapolis, Minnesota

MONTANA DIVISION OF  
BANKING AND FINANCIAL  
INSTITUTIONS  
Helena, Montana

Docket No. 10-042-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Lake County Bank, Saint Ignatius, Montana (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, 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 April 13, 2010, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing

Fredrick B. Gariepy to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank, and its institution-affiliated parties, as defined in sections 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 Division agree as follows:

**Board Oversight**

1. Within 60 days of this Agreement, the board of directors shall submit to the Reserve Bank and the Division 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 senior management and major operations and activities, including but not limited to, lending, credit risk management, credit administration, capital, earnings, funds management, and internal audit;

(b) the responsibility of the board of directors to monitor management’s adherence to approved Bank policies and procedures, and to require management to document exceptions thereto;

(c) a description of the information, reports, and committee minutes that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s criticized assets,

credit administration, allowance for loan and lease losses (“ALLL”), capital, earnings, liquidity, and internal audit;

and

(d) the establishment of formal tracking and follow-up procedures to ensure corrective actions are taken to address audit and regulatory findings.

### **Credit Risk Management**

2. 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) Procedures to periodically review and revise individual and portfolio risk exposure limits to address changes in market conditions;
- (b) strategies to minimize credit losses; and
- (c) procedures to identify, limit, and manage concentrations of credit, including, but not limited to, establishment of concentration of credit risk tolerances or limits by types of loan products, geographic locations, and other common risk characteristics.

### **Lending and Credit Administration**

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

- (a) Underwriting standards that require documented analyses of:
  - (i) the borrower’s repayment sources, global cash flow, and overall debt service ability;
  - and (ii) the value of any collateral;

(b) standards for renewing, extending, or modifying existing loans, including, but not limited to, the capitalization of interest and approval and documentation requirements;

(c) procedures for the periodic analyses, during the term of the loan, of: (i) the borrower's repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(d) standards for interest-only loans;

(e) standards for the timely movement of loans to non-accrual status;

(f) enhancements to the appraisal policy that include, but are not limited to:

(i) specific guidelines on appraisal and evaluation requirements that are consistent with regulatory requirements;

(ii) written standards for when reappraisals and reevaluations must be conducted; and

(iii) revised appraisal review procedures to ensure the quality of appraisals; and

(g) requirements that an employee not participate in the underwriting, approval, renewal, or disbursement of any loan, the proceeds of which are directly disbursed to, transferred to, or used for the tangible economic benefit of such employee, the employee's immediate family members, as defined in section 225.41(a)(3) of Regulation Y, or any related interest thereof.

## **Loan Review Program**

4. Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written program for strengthening internal review and grading of the Bank's loan portfolio by a qualified independent party or by staff that is independent of the Bank's lending function. The program shall, at a minimum, address, consider, and include:

- (a) The scope and frequency of loan review;
- (b) enhancements to the internal loan grading system to timely and accurately identify individual problem credits;
- (c) application of loan grading standards and criteria to the loan portfolio, including procedures to re-evaluate loans in the event of material changes in the borrower's performance or value of the collateral; and
- (d) controls to ensure the consistent adherence to the loan grading standards and criteria and the revised review program.

## **Asset Improvement**

5. 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 of the Bank conducted by the Reserve Bank that commenced on June 8, 2009 (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)).

6. (a) 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 each loan or other asset in excess of \$150,000, including OREO, 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; (iii) was adversely classified in the Report of Examination; or (iv) is adversely

classified in any subsequent report of examination of the Bank. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division improvement plans for loans or other assets that are subject to this paragraph at the time of execution of this Agreement. The Bank shall prepare improvement plans for additional loans or other assets within 30 days of the loan or other asset becoming subject to the requirements of this paragraph and shall submit such additional plans to the Reserve Bank and the Division within 30 days after the end of the calendar quarter in which the loan or asset became subject to the requirements of this paragraph.

(b) The Bank shall submit written progress reports to the Reserve Bank and the Division within 30 days after the end of each calendar quarter to provide an update on the status and progress of each asset improvement plan required pursuant to paragraph 4(a). The asset improvement progress report shall include, at a minimum, the current book value of the loan or other asset, the payment status of each loan, and any changes in the nature and value of supporting collateral. In addition to the asset improvement progress report, the Bank shall submit to the Reserve Bank and Division a list of all loan renewals and extensions made without the full collection of interest in the last quarter, the Bank's current problem loan list, and the Bank's past due/non-accrual report.

#### **Allowance for Loan and Lease Losses**

7. (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 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 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 collectibility.

(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**

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank 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, including:

(a) The Bank's current and future capital needs, 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, projected retained earnings, and anticipated and contingent liquidity needs; and

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

9. 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, 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.

### **Earnings Plan and Budget**

10. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division a written business plan for 2010 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for calendar year 2010, including income statement and balance sheet projections;

and

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business 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 Management**

11. 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**

12. (a) 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, and the Division.

(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 Division 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.

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

13. The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

14. 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.*).

15. 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).

### **Progress Reports**

16. Within 30 days after the end of each calendar quarter following the date of this Agreement, 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 Programs**

17. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the Division within the applicable time periods set forth in paragraphs 2, 3, 4, 6(a), 6(b), 7(c), 8, 9, and 11 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Division, 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 Division.

### **Communications**

18. 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 55401-1804

(b) Ms. Annie M. Goodwin  
Commissioner  
Division of Banking and Financial Institutions  
301 South Park, Suite 316  
Helena, Montana 59601

- (c) Mr. Fredrick B. Gariepy  
Chairman of the Board  
Lake County Bank  
102 Crystal  
St. Ignatius, Montana 59865

**Miscellaneous**

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

20. 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.

22. 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.

22. 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 the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

22. 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 23<sup>rd</sup> day of April, 2010.

LAKE COUNTY BANK

By: /s/ Fredrick B. Gariepy  
Fredrick B. Gariepy  
Chairman of the Board

FEDERAL RESERVE BANK  
OF MINNEAPOLIS

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

MONTANA DIVISION OF  
BANKING AND FINANCIAL  
INSTITUTIONS

By: /s/ Annie M. Goodwin  
Annie M. Goodwin  
Commissioner