

**FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.**

**And**

**STATE OF SOUTH DAKOTA DIVISION OF BANKING  
PIERRE, SOUTH DAKOTA**

<b>In the Matter of</b>	)	
	)	
<b>Sunrise Bank Dakota</b>	)	<b>CONSENT ORDER</b>
<b>Onida, South Dakota</b>	)	
	)	<b>FDIC-18-0003b</b>
<b>(Insured State Nonmember Bank)</b>	)	
	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for the Sunrise Bank Dakota, Onida, South Dakota ("Bank"), under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q).

Based on the findings of the FDIC examination of the Bank as contained in the October 10, 2017, Report of Examination ("Report of Examination"), the FDIC and the State of South Dakota, Division of Banking (collectively "Supervisory Authorities"), determined that the requirements for an order under 12 U.S.C. § 1818(b) and South Dakota statutes have been satisfied.

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated March 30, 2018. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this Consent Order ("ORDER") by the Supervisory Authorities.

Based on the above, the Supervisory Authorities hereby order the following:

1. Qualified Management

(a) The Bank shall have and retain qualified management. Each member of management shall have the qualifications and experience commensurate with assigned duties and responsibilities at the Bank and shall be provided appropriate written authority from the Bank's Board to implement the provisions of this ORDER.

(b) Within 30 days of the effective date of this ORDER, the Board shall engage an independent third party ("Consultant") acceptable to the Supervisory Authorities and that possesses appropriate expertise and qualifications to analyze and assess the Bank's management and staffing needs, performance, and compensation, including, but not limited to its ability to: (i) comply with the requirements of this ORDER; (ii) operate the Bank in a safe and sound manner; (iii) comply with applicable laws and regulations; and (iv) restore all aspects of the Bank to a safe and sound condition, including, but not limited to, asset quality, capital adequacy, earnings, management effectiveness, risk management, liquidity, and sensitivity to market risk. Prior to execution, a copy of the Consultant's proposed engagement letter and a description of the Consultant's expertise and qualifications shall be provided to the Supervisory Authorities. The engagement shall require that the Consultant's analysis and assessment be summarized in a written report to the Board ("Management Study") within 90 days from the date of engagement.

(c) Within 30 days of the Board's receipt of the Management Study, the Board shall prepare an acceptable written Management Plan that among other things: (i) addresses the findings of the Management Study; (ii) presents a plan of action in response to each recommendation contained in the Management Study, and a time frame for completing each action; and (iii) establishes procedures to review and update the Management Plan at least annually from the effective date of this ORDER.

(d) A copy of the Management Study and Management Plan and any subsequent modifications thereto shall be submitted to the Supervisory Authorities for review and comment.

Within 30 days of receipt of any comment from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the Management Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank and its directors, officers, and employees shall implement and follow the Management Plan. It shall remain the responsibility of the Board to fully implement the Management Plan within the specified time frames. In the event the Management Plan, or any portion thereof, is not implemented, the Board shall immediately advise the Supervisory Authorities, in writing, of specific reasons for deviating from said plan.

## 2. Loan Review Program

(a) The Board shall develop an independent external loan review program that provides, at a minimum, for a review of all loans in the Bank's loan portfolio having a balance of \$250,000 or more. The program shall provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the program shall provide for:

- (i) Prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;
- (ii) a review of action plans to reduce the Bank's risk exposure from each identified relationship;
- (iii) prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related interests of such obligors, including the obligor of

record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;

- (iv) identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;
- (v) assessment of the overall quality of the loan portfolio;
- (vi) identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
- (vii) identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to address the identified violations;
- (viii) identification of loans that are not in conformance with the Bank's lending policy and an action plan to address the identified deficiencies;
- (ix) identification of loans to directors, officers, principal shareholders, and their related interests; and
- (x) a mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (ix) above to the Board.

The report should also describe the action(s) taken by management with respect to problem credits.

(b) The program shall be submitted with the next progress report for review and comment by the Supervisory Authorities. Within 30 days of receipt of any comment from the Supervisory Authorities and after due consideration of any recommended changes, the Bank shall approve the program, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the program.

(c) A copy of each report shall be submitted to the Board, as well as documentation of the actions taken by the Bank or recommendations to the Board that address identified

deficiencies in specific loan relationships or the Bank's policies, procedures, strategies, or other elements of the Bank's lending activities. Such reports and recommendations, as well as any resulting determinations, shall be recorded and retained in the minutes of the meeting of the Board.

3. Risk Reduction Plans

(a) Within 60 days of the effective date of this ORDER, the Board shall adopt plans to reduce the Bank's risk ("Risk Reduction Plans") in each asset or borrower with aggregate indebtedness equal to or exceeding \$100,000 classified Substandard or Doubtful in the Report of Examination or in future reports of examination. Progress toward meeting the Risk Reduction Plans shall be reported to the Board monthly. The Risk Reduction Plans shall, at a minimum, require the bank to:

- i. Include target dollar levels for each adversely classified asset within the next 6 and 12 months;
- ii. Review each borrower's current financial condition, alternative repayment sources, and ability to refinance;
- iii. Provide and document valuations on pledged collateral and establish repayment programs; and
- iv. Appraise and consider other action to improve the Bank's position.

As used in this paragraph, the term "reduce" means (1) to collect, (2) to charge off, or (3) to improve the quality of an asset to warrant removal of any adverse classification. A loan or extension of credit to the same borrower that is renewed is not considered collected.

(b) Within 60 days of the effective date of this ORDER, the Board shall also adopt plans to reduce the aggregate volume of assets classified Substandard or Doubtful in the Report ("Aggregate Volume Plan") to target dollar levels and target percentages of Tier 1 capital plus the allowance for loan and lease losses within the next 6 and 12 months.

(c) The Risk Reduction Plans and Aggregate Volume Plan, and any subsequent modifications thereto, shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with these plans. A copy of these plans, and any modifications thereto, shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(d) Thereafter, the Bank shall implement and fully comply with the Risk Reduction Plans and Aggregate Volume Plan.

4. Extensions of Credit to Adversely Classified Borrowers

- (a) Without prior Board approval, the Bank shall not extend, direct or indirectly, any additional credit to any borrower who has:
- i. Nonledger debt
  - ii. Any loan classified Substandard, Doubtful, or Loss which is uncollected.
  - iii. Any loan where the borrower has not provided current financial statements and/or adequate information concerning collateral protection so that the borrower's primary and/or secondary repayment ability cannot be properly assessed.

This paragraph does not prohibit the Bank from renewing, (after collecting in cash all interest and fees due from a borrower), any credit already extended to the borrower.

The Board first must determine that the extension or renewal is in the best interest of the Bank. The Board shall record the determination and approval in the borrower's credit file and the board minutes.

5. Correction of Technical Exceptions

- (a) Within 90 days of the effective date of this ORDER, and within 90 days after receipt of any future reports of examination of the Bank from either of the Supervisory

Authorities, the Bank shall correct the exceptions listed on the "Assets with Credit Data or Collateral Documentation Exceptions" pages of the Report of Examination and such future reports of examinations.

(b) Reports detailing each outstanding exception and the status of the Bank's corrective action shall be submitted to the Board for review during each regularly scheduled board meeting. The report shall be made part of, and the review noted in, the Board's minutes.

(c) For any exception that cannot be corrected, the Bank shall document the reason for such inability in the borrower's credit file, and the Board shall review and include a copy of the documentation in the board's minutes.

(d) While this ORDER is in effect, the Bank shall ensure that the necessary supporting documentation is obtained and evaluated before any credit or loan is extended.

6. Charge-off of Adversely Classified Assets

(a) Within 30 days of the effective date of this ORDER and within 30 days after the receipt of any future reports of examination of the Bank from either of the Supervisory Authorities, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report of Examination, and such future reports of examination that have not been previously collected or charged off.

(b) Elimination or reduction of assets through the proceeds of other loans or extensions of credit made by the Bank is not considered collection for purposes of this ORDER.

7. Allowance for Loan and Lease Losses (ALLL)

The Board shall review ALLL adequacy at least quarterly and make provisions sufficient to assure the ALLL is maintained at an adequate level. These reviews shall include consideration of the Federal Financial Institutions Examination Council's Instructions for the

Reports of Condition and Income, the Interagency Statement of Policy on the ALLL, and other applicable regulatory guidance addressing the adequacy of the Bank's ALLL.

8. Concentrations of Credit

(a) Within 90 days of the effective date of this ORDER, the Bank shall prepare a written plan to strengthen the Bank's management of concentrations of credit ("Concentration Plan"). The Concentration Plan shall include:

- (i) policies and procedures to identify, limit, and manage all concentrations of credit; and
- (ii) procedures for monitoring the Bank's compliance with the Concentration Plan.

(b) The Bank shall submit the Concentration Plan to the Supervisory Authorities for review and comment with the next due progress report required below under the terms of this ORDER. Within 30 days of receipt of any comments from the Supervisory Authorities, and after consideration of such comments, the Board shall approve the Concentration Plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Concentration Plan.

(c) The Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or such borrower's related interests or affiliates if such extension or commitment would result in the bank exceeding any limit in the Concentration Plan.

(d) Subparagraph (c) of this provision shall not apply if the Bank's failure to extend credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending credit pursuant to this subparagraph (d), whether in the form of a renewal, extension, or advance of funds, such credit shall be approved by the Board, who shall certify in writing as follows:



- (i) that the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with an explanation of why it would be detrimental; and
- (ii) that the extension of such credit would improve the Bank's position, with an explanatory statement of why the Bank's position would improve.

9. Correction of Weaknesses in Audit and Internal Controls

(a) Within 90 days of the effective date of this ORDER, the Bank shall develop a written plan to eliminate or address the weaknesses and/or deficiencies in the Bank's audit and internal controls and procedures set out in the Report of Examination as contraventions of Appendix A to Part 364 of the FDIC's Rules and Regulations ("Audit and Internal Controls Plan").

(b) The Audit and Internal Controls Plan shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Audit and Internal Control Plan. Progress toward meeting the Audit and Internal Controls Plan shall be reported to the Board monthly and recorded in the Board's minutes.

(c) Upon approval, a copy of the Audit and Internal Controls Plan shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

10. Elimination and/or Correction of Violation of Laws, Rules, and Regulations

(a) Within 90 days of the effective date of this ORDER, and within 90 days after receipt of any future report of examination of the Bank by either of the Supervisory Authorities, the Bank shall eliminate and/or correct all violations of laws and rules and regulations cited in the Report of Examination, or such future reports of examinations.

(b) For any violation that cannot be corrected, the Bank shall document the reason for such inability for review by the Board at its next monthly meeting. The Board's review, discussion and any action upon the uncorrected violation shall be recorded in its minutes. A copy of the minutes shall be provided to the Supervisory Authorities with the next due progress report required below under the term of this ORDER.

(c) Within 90 days of the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws and rules and regulations.

11. Business/Strategic Plan and Profit and Budget Plan

(a) Within 120 days of the effective date of this ORDER, and within 30 days from the first day in each calendar year thereafter, the Board shall develop a written three-year business/strategic plan and one-year profit and budget plan covering the overall operations of the Bank and its goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plan, policies, or other actions as required by this ORDER.

(b) The business/strategic plan shall provide specific objectives for asset growth, balance sheet composition, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The profit and budget plan shall include goals and strategies for improving the earnings of the Bank. The budget shall include a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(c) The business/strategic plan and the profit and budget plan, and any subsequent modification thereto, shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the plans. A copy of the business/strategic plan and profit and budget plan, and any modifications thereto, shall be

provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

(d) At the Board's first meeting following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plans required by this provision and shall record the results of that evaluation, and any responsive actions taken or to be taken by the Bank, in the Board's minutes.

## 12. Minimum Capital Requirements

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital ratios (as defined in Part 324 of the FDIC's Rules and Regulations), after establishing an appropriate ALLL:

- (i) "Leverage Ratio" at least equal to 9 percent; and
- (ii) "Total Capital Ratio" at least equal to 13 percent.

(b) In the event any ratio is or becomes less than the minimum required by subparagraph (a) of this provision, the Bank shall immediately notify the Supervisory Authorities and within 45 days shall: (1) increase capital in an amount sufficient to comply with subparagraph (a), or (2) submit a written plan to the Supervisory Authorities describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements of subparagraph (a) above, as well as a contingency plan in the event the primary sources of capital are not available. Within 30 days of receipt of any such comments from the Supervisory Authorities, and after consideration of all such comments, the Board shall approve the written plan, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 leverage capital necessary to meet the requirements of paragraph (a) of this provision may not be accomplished through a deduction from the ALLL without the prior written approval from the Supervisory Authorities.

13. Restriction on Certain Payments

While this ORDER is in effect, the Bank shall not declare or pay dividends, nor shall it incur or pay management fees and bonuses, without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received by the Supervisory Authorities at least 30 days prior to the proposed action, and each request shall contain an analysis and description of the impact such dividend, management fee, or bonus would have on the Bank's capital, income, and liquidity positions. Requests to incur or pay management fees or pay bonuses shall also describe the Bank's rationale for incurring and making such payments.

14. Liquidity and Funds Management

Within 60 days of the effective date of this ORDER, the Bank shall review its liquidity, contingency funding, and interest rate risk policies and plans ("Funding Policies") to address the concerns detailed in the Report of Examination. The Bank shall implement a sources and uses monitoring report and develop a comprehensive Contingency Funding Plan. The Funding Policies shall include consideration of the guidance contained in FDIC Financial Institution Letter 13-2010, dated April 5, 2010, entitled *Funding and Liquidity Risk Management*, and FDIC Financial Institution Letter FIL-2-2010, dated January 20, 2010, entitled *Financial Institution Management of Interest Rate Risk*. The Funding Policies and any subsequent modification thereto, shall be approved by the Board, which approval shall be recorded in the Board's minutes. Thereafter, the Bank shall implement and fully comply with the Funding Policies. A copy of the Funding Policies and any modifications thereto, shall be provided to the Supervisory Authorities with the next due progress report required below under the terms of this ORDER.

15. Brokered Deposit Restriction

Upon the issuance of this ORDER and so long as this ORDER is in effect, the Bank shall not accept, increase, renew, or rollover any "brokered deposits," as defined in 12 C.F.R. § 337.6(a)(2), without the prior written approval of the FDIC.

16. Disclosure of Order to Shareholder

Following the effective date of this ORDER, the Bank shall provide a copy of this ORDER or otherwise furnish a description of this ORDER to its sole shareholder, (i) in conjunction with the Bank's next shareholder communication, and (ii) its notice or proxy statement preceding the Bank's next shareholder meeting.

17. Progress Reports Detailing Compliance with ORDER

a) Within 30 days of the end of the first calendar quarter following the effective date of this ORDER, and within 30 days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. Such written progress reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER, including at a minimum:

- (i) descriptions of the identified weaknesses and deficiencies;
- (ii) provision(s) of the ORDER pertaining to each weakness or deficiency;
- (iii) actions taken or in-process for addressing each deficiency;
- (iv) results of the corrective actions taken;
- (v) the Bank's status of compliance with each provision of the ORDER; and
- (vi) appropriate supporting documentation.

(b) Progress reports may be discontinued when the Supervisory Authorities have, in writing, released the Bank from making additional reports.

18. Compliance with the ORDER

Within 60 days of the effective date of this ORDER, the Board shall have in place a program that shall provide the monitoring of compliance with this ORDER. Following the adoption of said program, the Board shall review compliance with this ORDER and record its review in the minutes of each regularly scheduled Board of Director's meeting.

**MISCELLANEOUS**

This ORDER shall be effective on the date of issuance. The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof. The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, the State of South Dakota Division of Banking, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER is issued and thus effective this 4<sup>th</sup> day of April, 2018.

SOUTH DAKOTA DIVISION OF BANKING FEDERAL DEPOSIT INSURANCE CORPORATION

\_\_\_\_\_/s/\_\_\_\_\_  
Bret Afdahl, Director

\_\_\_\_\_/s/\_\_\_\_\_  
John R. Jilovec  
Deputy Regional Director