

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

and

SOUTH DAKOTA DIVISION OF BANKING  
PIERRE, SOUTH DAKOTA

In the Matter of	)	
	)	
SECURITY STATE BANK	)	CONSENT ORDER
ALEXANDRIA, SOUTH DAKOTA	)	
	)	FDIC-25-0070b
(Insured State Nonmember Bank)	)	SDDDB-2025-01
	)	

The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for the Security State Bank, Alexandria, South Dakota (Bank), under 12 U.S.C. § 1813(q). The South Dakota Division of Banking is the State supervisor for the Bank under South Dakota Codified Law § 51A-2-1.

Based on the findings of the FDIC examination of the Bank as contained in the March 24, 2025, Report of Examination (Report of Examination), the FDIC and the South Dakota Division of Banking (collectively, Supervisory Authorities) determined that the Bank engaged in unsafe or unsound banking practices and violated laws or regulations.

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of a Consent Order (Consent Agreement), dated August 6, 2025, that is accepted by the Supervisory Authorities. With the Consent Agreement, 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.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and South Dakota Codified Laws § 51A-2-25 and 51A-2-26, have been satisfied, the Supervisory Authorities hereby order that:

The Bank must cease and desist from engaging in unsafe or unsound practices or violations of laws or regulations.

The Supervisory Authorities further order that the Bank take the following actions:

**1. Board Oversight.**

The Board must monitor and confirm the completion of actions taken by management to comply with the terms of this Order. All actions taken by the Board pursuant to this Order must be noted in the minutes of its meetings. The Board must ensure that the Bank has sufficient processes, personnel, resources, and systems to effectively implement and adhere to all provisions of this Order.

**2. Minimum Capital Requirements.**

(a) While this Order is in effect, the Bank must have and maintain the following minimum capital ratios (as defined in 12 C.F.R. § 324), after establishing an appropriate ACL:

- (i) "Leverage Ratio" at least equal to 9 percent; and
- (ii) "Total Capital Ratio" at least equal to 12 percent.

(b) Should any capital ratio drop below the minimum required by paragraph (a) of this provision, the Bank must immediately notify the Supervisory Authorities and within 30 days:

- (i) Increase capital in an amount sufficient to comply with paragraph (a) of this provision; or

(ii) Submit a written plan to the Supervisory Authorities, describing the primary means and timing by which the Bank will increase its capital ratios up to or in excess of the minimum requirements of paragraph (a) above, as well as a contingency plan, including the possible sale or merger of the Bank, in the event the primary sources of capital are not available (Capital Plan). Within 30 days of receipt of any comments on the Capital Plan from the Supervisory Authorities, and after consideration of all such comments, the Board must approve the Capital Plan and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Capital Plan.

(c) Any increase in Tier 1 Capital, as defined in 12 C.F.R. § 324.2, necessary to meet the requirements of paragraph (a) of this provision may not be accomplished through a deduction from the ACL without prior written approval from the Supervisory Authorities.

**3. Restriction on Certain Payments.**

While this Order is in effect, the Bank is not permitted to declare or pay dividends, nor is it allowed to incur or pay management fees or bonuses, without the prior written approval of the Supervisory Authorities. The Supervisory Authorities must receive all requests for prior approval at least 30 days prior to the proposed action, and each request must 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 declare or pay bonuses, must also describe the Bank's rationale for incurring and making such payments.

**4. Restriction on Overdrafts.**

(a) Effective immediately, the Bank must cease its use of overdrafts as a customer financing method.

(b) Within 30 days of the effective date of this Order, the Board must review and revise the Bank's written overdraft policy (Overdraft Policy) to address deficiencies detailed in the Report of Examination.

(c) By the next progress report due date, the Board must submit the Overdraft Policy to the Supervisory Authorities for non-objection or comment.

(d) Effective immediately, the Bank will not permit payment of any demand items on any customer account that, when aggregated with all other overdrafts to that customer, exceeds or would exceed, directly or indirectly, \$2,000, without the Board's prior approval. The Board must record the determination and approval in its minutes.

**5. Elimination or Correction of Violations of Laws, Rules and Regulations.**

(a) Within 180 days of the effective date of this Order, the Bank must eliminate or correct all violations of laws and rules and regulations cited in the Report of Examination.

(b) The Bank must eliminate or correct all violations of laws and rules and regulations cited in future reports of examination issued by the Supervisory Authorities or identified in an internal or independent external review within 90 days of receipt of such reports.

(c) For any violation that cannot be corrected, the Bank must 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 must be recorded in its minutes. A

copy of the minutes must be provided to the Supervisory Authorities with the next due progress report required below under the terms of this Order.

(d) Within 180 days of the effective date of this Order, the Bank must adopt and implement appropriate procedures to ensure future compliance with all applicable laws, rules, and regulations.

**6. Charge-off of Adversely Classified Items.**

(a) As of the effective date of this Order, all items classified “Loss” in the Report of Examination must be collected or charged off and recognized in the Bank’s books.

(b) Within 30 days of the receipt of any future reports of examination issued by either of the Supervisory Authorities or any internal or independent external review, all items classified “Loss” must be charged off or collected and recognized in the Bank’s books.

(c) For the purposes of this Order, collection is not achieved by the elimination or reduction of items from Bank credit extension proceeds.

**7. Reduction of Adversely Classified Items.**

(a) The Bank must prepare written plans to reduce exposure to items classified “Substandard” or “Doubtful” for each asset or borrower with aggregate indebtedness equal to or exceeding \$250,000 in the Report of Examination or in future reports of examination or if any internal or independent external review identifies the credit downgrade (collectively, Reduction Plans).

(i) Reduction Plans must be prepared within 60 days of:

1. This Order;

2. The receipt of future reports of examination from either of the Supervisory Authorities; and
  3. Any internal or independent external review that identifies the credit downgrade.
- (ii) “Reduction” may be accomplished by:
1. Charge-off;
  2. Collection; or
  3. Sufficient improvement in the quality of the asset that warrants removal from adverse classification, as determined by either of the Supervisory Authorities.
- (b) The Reduction Plans must, at a minimum, review, analyze, and document:
- (i) The financial condition of each borrowing relationship, including sources and ability to repay;
  - (ii) The value and accessibility of any pledged or assigned collateral; and
  - (iii) Any actions being considered to improve collateral protection.
- (c) The Reduction Plans must be reviewed by the Board monthly, with the review noted in its minutes.
- (d) By the next progress report due date, the Board-reviewed Reduction Plans and any modifications must be submitted to the Supervisory Authorities for review and comment.
- (e) Within 30 days from receiving a response from the Supervisory Authorities, and after consideration of any comments received, the Board must approve the Reduction Plans and

any modifications. Thereafter, the Bank must implement and fully comply with the Reduction Plans.

**8. Restrictions on Advances, Renewals, and Extensions to Adversely Classified Borrowing Relationships.**

(a) While this Order is in effect, the Bank must not, without prior Board approval, renew or extend existing extensions of credit, directly or indirectly, or advance any additional credit to, or for the benefit of, any borrower who has an obligation with the Bank that has been, in whole or in part, charged off or adversely classified “Substandard” or “Doubtful” either internally, by independent external review, or by either of the Supervisory Authorities in the most recent report of examination.

(b) Prior to the renewal, extension, or advancement of any additional credit pursuant to this provision, the Board must approve the additional credit and document in both the Board’s minutes and in the credit file, the following:

- (i) Why the failure of the Bank to renew, extend, or advance such credit would be detrimental to the best interest of the Bank;
- (ii) An explanatory statement of how the Bank’s position would be improved by renewal, extension, or advancement of the additional credit;
- (iii) That an appropriate workout reduction plan has been developed and will be implemented in conjunction with, or furthered by, the additional credit to be extended; and
- (iv) That the extension or renewal conforms to South Dakota’s lending limit law set forth in South Dakota Codified Law § 51A-12-2.

**9. Loan Policy and Credit Administration.**

(a) The Board must review and revise its written loan policy and credit administration procedures (Revised Loan Policies) to address the deficiencies and recommendations in the Report of Examination.

(b) By the next progress report due date, a copy of the Revised Loan Policies, with all modifications and changes highlighted, must be provided to the Supervisory Authorities for review and comment. Within 30 days of receiving and after consideration of the Supervisory Authorities' comments, the Board must approve the Revised Loan Policies, along with subsequent modifications, and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Revised Loan Policies.

(c) In the event that the Bank considers making a loan that would not conform with the Revised Loan Policies, the Board must review and approve the loan before it is made. The review, the approval, and the reason(s) why the approval is in the Bank's best interest must each be documented in both the Board's minutes and in the credit file.

**10. Correction of Credit and Collateral Documentation Exceptions.**

(a) Exceptions listed on the "Assets with Credit Data or Collateral Documentation Exceptions" pages of the Report of Examination must be corrected within 90 days of this Order's effective date and within 90 days of receipt of any future reports of examination issued by either of the Supervisory Authorities or by an internal or independent external review.

(b) Reports detailing each outstanding exception and corresponding corrective action status must be submitted to the Board for review during each regularly scheduled Board meeting. Both the report and the review must be discussed and noted in the Board's minutes.



(c) For uncorrectable exceptions, explanation(s) should be documented in the borrower's credit file. The Board must review uncorrected items and note such review in its minutes.

(d) While this Order is in effect, supporting credit and collateral documentation for loan decisions must be obtained and evaluated before extending credit.

**11. Independent Loan Review Program.**

(a) Within 90 days from the effective date of this Order, the Board must develop a written loan review program (Loan Review Program) that provides for a periodic and independent external review of the loan portfolio, credit risk management practices, and the accuracy of loan risk ratings. The Loan Review Program must require written reports to the Board after each review.

(b) The Loan Review Program must be submitted to the Supervisory Authorities for review and comment with the next due progress report. Within 30 days from receipt and after consideration of any comment from the Supervisory Authorities, the Board must approve the Loan Review Program and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Loan Review Program.

(c) The Board's minutes must include a copy of each Loan Review Program written report submitted to the Board, documentation of the Bank's actions, recommendations that address identified deficiencies, and any resulting determinations.

**12. Maintenance of the Allowance for Credit Losses (ACL).**

(a) Within 10 days of the effective date of this Order, the Board must replenish the ACL to an appropriate level.

(b) After the effective date of this Order and prior to filing any future Reports of Condition and Income (Call Reports), the Board must review the Bank's ACL and ensure that it is appropriately funded and accurately reported in the Bank's quarterly Call Reports.

**13. Call Report Corrections.**

By the time the September 30, 2025, Call Report is filed, the Call Report amendments identified in the Report of Examination must be completed.

**14. Liquidity Funds Management and Contingency Funding Plan.**

(a) Within 90 days of the effective date of this Order, the Board must revise written liquidity and contingency funding policies and plans (Liquidity Policies and Plans) to address the comments and criticisms on the Bank's liquidity in the Report of Examination.

(b) The Bank must submit the Liquidity Policies and Plans 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 from receipt and after consideration of any comment from the Supervisory Authorities, the Board must approve the Liquidity Policies and Plans and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Liquidity Policies and Plans.

**15. Strategic Plan.**

(a) Within 90 days of the effective date of this Order, the Bank must develop and the Board must approve a comprehensive strategic plan (Strategic Plan). The Strategic Plan must

contain an assessment of the Bank's current financial condition and provide specific objectives for asset growth, balance sheet composition, loan portfolio mix, market focus, earnings projections, capital needs, and liquidity position. The Strategic Plan must be revised, and approved by the Board, 30 days prior to the end of each calendar year for which this Order is in effect. The Bank must implement and operate in accordance with the Strategic Plan.

(b) By the next progress report due date, the Board-approved Strategic Plan must be submitted to the Supervisory Authorities for review and comment. Within 30 days from receipt and after consideration of any comment from the Supervisory Authorities, the Board must approve the Strategic Plan and record the approval in its minutes.

**16. Internal Routines and Controls/Audit.**

(a) Within 60 days of the effective date of this Order, the Bank must contract with a third-party consulting firm, considered acceptable to the Supervisory Authorities, to perform an Internal Routines and Controls (IRC) review. A copy of the IRC review scope must be submitted to the Supervisory Authorities for review and comment prior to the commencement of the review. In the event the Supervisory Authorities provides comments to the scope of the review, the Board must review the comments and take steps for adoption or document why it chooses not to adopt the Supervisory Authorities' comments. The IRC review must be completed within 180 days of this Order's effective date.

(b) Within 30 days of completion of the IRC review, the Bank must develop, adopt, implement, and adhere to a written plan to strengthen the audit function (Audit Plan). The Audit Plan must incorporate the recommendations from the IRC review and, at a minimum, establish:

- (i) Criteria for an independent external review of the integrity of the Bank's operational and accounting systems;
- (ii) Procedures to ensure sufficient depth of the scope and frequency of audits;
- (iii) Processes for completing and reviewing audits in a timely manner;
- (iv) Systems for monitoring, tracking, and correcting audit findings; and
- (v) Processes to independently validate corrective actions taken to address audit findings.

**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 must 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 must 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. Disclosure of Order to Shareholders.**

Following the Order's effective date, the Bank must provide a copy or otherwise furnish a description of this Order to its shareholders: (i) in conjunction with the Bank's next shareholder communication if sent within 90 days of the effective date of this Order or by special mailing if no other shareholder communication is sent within 90 days after the Order's effective date, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. Any description must fully describe the Order in all material respects.

**19. Binding Effect.**


This Order will be effective on the date of issuance. The provisions of this Order will be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof, unless the Bank has been acquired by another insured depository institution or bank holding company, after proper regulatory approval, and the Bank is merged out of existence.

The provisions of this Order will not bar, estop, or otherwise prevent the FDIC, the 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.


The provisions of this Order will remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the Supervisory Authorities.

This Order is issued and effective this 7<sup>th</sup> day of August, 2025.

FEDERAL DEPOSIT INSURANCE CORPORATION  
Issued Pursuant to Delegated Authority

By:   
John R. Jilovec  
Deputy Regional Director  
Federal Deposit Insurance Corporation  
Kansas City Regional Office

STATE OF SOUTH DAKOTA  
DIVISION OF BANKING

By:   
Bret Afdahl  
Director