

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
PEOPLES BANK	)	ORDER TO CEASE AND DESIST
ELKHORN, WISCONSIN	)	
	)	FDIC-08-144b
(Insured State Nonmember Bank)	)	

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Peoples Bank, Elkhorn, Wisconsin ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated September 9, 2008, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law or regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the

following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), successors, and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law or regulations:

A. Operating with management whose policies and practices in the area of consumer compliance are detrimental to the Bank.

B. Operating with a board of directors which has failed to provide adequate supervision over, and direction to, the active management of the Bank in the area of consumer compliance.

C. Failing to develop and administer an effective Compliance Management System, as described in Financial Institution Letter 10-2007, "Compliance Examination Handbook, Heading II, Compliance Examinations - Compliance Management System" ("Compliance Management System Guidance"), that ensures compliance with federal consumer protection laws, regulations, and policies ("Consumer Laws").

D. Violating Consumer Laws as set forth in the FDIC's Compliance Report of Examination of the Bank as of February 20, 2008 ("Compliance Report").

E. Failing to establish an effective process to monitor compliance with Consumer Laws.

F. Operating with ineffective policies and procedures.

G. Operating with an inadequate consumer compliance audit program.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, successors, and assigns, take affirmative action as follows:

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

(b) The qualifications of management shall be assessed on 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) develop, implement and administer a  
satisfactory Compliance Management System.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") in writing of any changes in any of the Bank's directors or senior executive officers. For

purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b), and includes any person identified by the FDIC, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(d) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100 - 303.104.

2. (a) Throughout the term of this Order, the Bank shall have and retain a full-time Compliance Officer and will be responsible for ensuring that this individual possesses the requisite knowledge and experience to administer an effective Compliance Management System.

(b) The responsibilities of the Compliance Officer shall, at a minimum, include:

(A) Developing compliance policies and procedures, and conducting regular reviews to ensure that updates are accomplished as necessary;

(B) Administering a compliance training

program and providing training in Consumer Laws to the Bank's board of directors, Bank management and employees on a continuing basis; and

(C) Coordinating responses to consumer complaints.

(c) The ongoing determination of whether the Bank has retained a qualified Compliance Officer within the meaning of this ORDER shall be based, in part, upon the continued effectiveness of the Bank in achieving compliance with the requirements of this ORDER and with the Consumer Laws.

3. (a) From the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives in the area of consumer compliance and for the supervision of all of the Bank's activities in this regard, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(b) Within 60 days from the effective date of this ORDER, the Bank's board of directors shall designate a committee ("Compliance Committee") comprised of at least 2 directors who are not active officers of the Bank and at least 1 member of senior management, plus the Compliance Officer retained pursuant to this ORDER. The Compliance Committee shall meet at least

monthly to discuss the Bank's Compliance Management System and shall maintain minutes of its meetings, which minutes shall be reviewed and approved by the Bank's board of directors at its monthly meetings.

(c) Establishment of the Compliance Committee in no way diminishes the responsibility of the entire board of directors for ensuring compliance with the provisions of this ORDER.

(d) The Bank's board of directors, in conjunction with the Compliance Committee, shall allocate resources to the compliance area that are:

- (i) Commensurate with the level of complexity of the Bank's operations to ensure the establishment and implementation of an adequate Compliance Management System, including procedures ensuring the Bank's compliance with Consumer Laws; and
- (ii) Sufficient to ensure the Bank's timely compliance with the provisions of this ORDER.

(e) The Bank's board of directors shall ensure that the Compliance Officer:

- (i) has and retains sufficient authority and independence to implement policies related to Consumer Laws and to institute corrective

action as needed. This authority shall include the ability to cross departmental lines, have access to all areas of the Bank's operations, and effectuate corrective action upon discovering deficiencies.

- (ii) receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's Compliance Management System.

(f) The Bank's board of directors, in conjunction with the Compliance Committee, shall:

- (i) Ensure that the duties and responsibilities of the Compliance Officer are clearly defined and provide for accessibility to both the board and senior management;
- (ii) Require the Compliance Officer to provide monthly written reports to the board or Compliance Committee;
- (iii) Require the Compliance Officer to review and respond promptly in writing to audit reports relating to all areas of the Bank's Compliance Management System; and
- (iv) Require the Compliance Officer to prepare a schedule of requirements for Consumer Laws

(such as the type and timing of disclosures), so that Bank employees will be informed of the requirements relating to their duties.

(g) Within 60 days from the effective date of this ORDER, the Bank's board of directors shall have in place a procedure that will provide for monitoring of the Bank's compliance with this ORDER.

(i) The procedure shall include, but not be limited to, meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: minutes of the Compliance Committee, Compliance Officer reports, Compliance Management Program audit reports, compliance program policies, and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(ii) All progress reports and other written responses to this ORDER shall be reviewed and signed by each member of the board, and such reviews shall be recorded in the minutes of the applicable meeting of the board of

directors. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has released, in writing, the Bank from making additional reports.

(h) The board shall ensure proper follow-up and resolution to audit and examination findings.

4. Within 120 days from the effective date of this ORDER, the Bank shall establish and implement an effective Compliance Management System.

5. Within 90 days from the effective date of this ORDER, the Bank shall ensure that effective compliance monitoring procedures are developed and incorporated into the normal activities of every department. The procedures required by this paragraph shall be acceptable to the Regional Director as determined at subsequent examinations or visitations of the Bank. At a minimum, monitoring procedures should include ongoing reviews of:

- (a) Applicable departments;
- (b) Disclosures and calculations for various loan and deposit products;
- (c) Document filing and retention procedures;
- (d) Marketing literature and advertising; and

(e) An internal compliance communication system that provides to Bank personnel appropriate updates resulting from revisions to Consumer Laws.

6. (a) Throughout the term of this Order, the Bank shall have and retain a qualified consultant with the requisite knowledge and experience to assist the Bank in developing an effective Compliance Management System and the policies and procedures to administer an effective Compliance Management System.

(b) The Bank shall provide the Regional Director with a copy of the engagement letter or contract with the consultant, which shall, at a minimum, include:

- (i) A description of the work to be performed under the contract or engagement letter;
- (ii) The responsibilities of the consultant;
- (iii) An identification of the professional standards covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) The qualifications of the employee(s) who are to perform the work;
- (vi) The time frame for completion of the work;

- (vii) Any restrictions on the use of the reported findings; and
- (viii) A provision for unrestricted examiner access to workpapers.

(c) At a minimum, the Compliance Management System developed with the assistance of the consultant shall address those items described in the Compliance Management System Guidance.

7. Within 90 days from the effective date of this ORDER, the Bank shall develop a training program, acceptable to the Regional Director as determined at subsequent examinations or visitations, related to Consumer Laws for all Bank personnel, including senior management and the directorate, commensurate with their individual job functions and duties.

8. Within 90 days from the effective date of this ORDER, the Bank shall develop and implement a Compliance Policy, acceptable to the Regional Director as determined at subsequent examinations or visitations. At a minimum, this Policy shall:

- (a) Require the adoption of a comprehensive compliance program, which will be reviewed and approved annually by the board; and

- (b) Require the development of internal monitoring procedures to ensure that:

- (i) The Bank's actual practices reflect the

Compliance Policy;

- (ii) All Consumer Laws are being followed; and
- (iii) Reviews are conducted on a regular basis, but no less than monthly, at the transactional level during the normal daily activities of employees in all operating units of the Bank.

9. (a) Within 120 days from the effective date of this ORDER, and quarterly thereafter, the Bank shall conduct or shall cause an external audit to be conducted to ensure compliance with Consumer Laws. Further, the audit will assess the Bank's Compliance Management System in conjunction with the Compliance Management System Guidelines, and at a minimum, shall:

- (i) Define a comprehensive scope;
- (ii) Identify the number of transactions sampled by category or product type;
- (iii) Identify deficiencies;
- (iv) Provide descriptions of or suggestions for corrective actions and time frames for correction; and
- (v) Establish follow-up procedures to verify that corrective actions were implemented and effective.

(b) Audit findings, deficiencies, and recommendations must be documented in a written report and provided to the board of

directors within 30 days after completion of the external audit.

(c) Within 30 days of receipt of the external auditor's written report, the Board shall take action to address the audit findings, correct any deficiencies noted, and implement any recommendations or explain in a writing signed by all Board members why a particular recommendation has not been implemented.

(d) The Bank shall provide the Regional Director with a copy of the proposed engagement letter with the external auditor for review and written non-objection before it is executed. The engagement letter, at a minimum, should include:

- (i) A description of the work to be performed under the engagement letter;
- (ii) The responsibilities of the external auditor;
- (iii) An identification of the professional standard covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) The qualifications of the employee(s) who are to perform the work;
- (vi) The time frame for completion of the work;
- (vii) Any restrictions on the use of the reported findings; and
- (viii) A provision for unrestricted examiner access to

work papers.

(e) The external auditor required by this paragraph must be independent from the consultant required by paragraph 6 of this order.

10. Within 30 days from the effective date of this ORDER, the Bank shall eliminate or correct all violations of Consumer Laws identified in the Compliance Report dated February 20, 2008. In addition, the Bank shall establish and implement procedures, acceptable to the Regional Director as determined at subsequent examinations or visitations, as part of its Compliance Policy to ensure future compliance with all Consumer Laws.

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure compliance with the Fair Credit Reporting Act 15 U.S.C. § 1681, et seq., the Equal Credit Opportunity Act, 15 U.S.C. §§ 1691-1691f, and Regulation B of the Board of Governors of the Federal Reserve System (Regulation B), 12 C.F.R. Part 202, with provisions requiring the Bank to: (i) develop internal standards and criteria for the denial of credit, including implementing procedures that require the Bank, where appropriate, to provide an applicant with an adverse action notice that is specific and indicates the principal reason(s) for the action; (ii) to notify an applicant of action taken on a credit application within prescribed time limits, as required by section 202.9 of

Regulation B; and (iii) where adverse action was taken on an application based on information contained in a consumer report from a consumer reporting agency, the information required by Section 615(a)(2) of the Fair Credit Reporting Act.

(b) Within 60 days from the effective date of this ORDER, the Bank shall review all credit applications denied from August 20, 2007 through February 20, 2008, and to the extent that the credit denial did not fully comply with the requirements of section 202.9 of Regulation B, send or re-send all adverse action notices, as appropriate.

(c) The Bank shall maintain a complete record of the adverse action notices that were sent or re-sent, including documentation reflecting any instances where it was determined that no further action was needed, for review at the FDIC's next compliance examination or visitation.

12. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure compliance with the Real Estate Settlement Procedures Act, 12 U.S.C. § 2601, et seq., ("RESPA"), its implementing regulations found at 24 C.F.R. Part 3500, and Mortgagee Letter 2008-14 issued by the United States Department of Housing and Urban Development relating to Home Equity Conversion Mortgage Program - non-FHA-Approved Mortgage Brokers.

(b) Within 60 days of the date of this ORDER, the Bank

shall review its agreements with any FHA-approved entity relating to home equity conversion mortgage products to ensure compliance with RESPA, its implementing regulations found at 24 C.F.R. Part 3500, and Mortgagee Letter 2008-14 issued by the United States Department of Housing and Urban Development relating to Home Equity Conversion Mortgage Program - non-FHA-Approved Mortgage Brokers.

13. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement systems and controls to ensure compliance with the Truth in Lending Act, 15 U.S.C. § 1601 *et seq.*, and Regulation Z of the Board of Governors of the Federal Reserve System ("Regulation Z"), 12 C.F.R. Part 226.

14. The Bank shall include the requirements of section 5 of the Federal Trade Commission Act and the requirements of the Truth in Savings Act in the training program established in paragraph 7 of this ORDER.

15. The Bank shall include compliance with the requirements of section 5 of the Federal Trade Commission Act and the requirements of the Truth in Savings Act in the audit required in paragraph 9 of this ORDER and the internal monitoring procedures established pursuant to paragraph 5 of this ORDER.

16. Within 30 days from the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each successive calendar quarter

thereafter, the Bank shall furnish written progress reports to the Regional Director detailing the form and manner of any action taken to secure compliance with this ORDER and the results thereof.

17. Following the effective date of this ORDER, the Bank shall send to its shareholders a description of this ORDER in conjunction with the Bank's next shareholder communication. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, notice, or statement shall be sent to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes required to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The effective date of this ORDER shall be ten calendar days after the date of its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, successors, and assigns.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated this 18<sup>th</sup> day of September, 2008.

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M. Anthony Lowe  
Regional Director  
Division of Supervision and  
Consumer Protection