

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

STATE OF MICHIGAN
OFFICE OF FINANCIAL AND INSURANCE REGULATION

_____)	
In the Matter of)	
)	
OXFORD BANK)	
OXFORD, MICHIGAN)	ORDER TO CEASE AND DESIST
)	
(INSURED STATE NONMEMBER BANK))	FDIC-08-032b
_____)	

Oxford Bank, Oxford, Michigan ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violation[s] of law, rule, 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 under section 2304 of the Banking Code of 1999, Mich. Comp. Laws § 487.12304, regarding hearings before the Office of Financial and Insurance Regulation for the State of Michigan ("OFIR"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with

representatives of the Federal Deposit Insurance Corporation ("FDIC") and OFIR, dated May 9, 2008, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violation[s] of law, rule, or regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and OFIR.

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

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), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violation[s] of law, rule, or regulation:

- A) Engaging in unsatisfactory lending and collection practices;
- B) Operating with a large volume of poor quality loans;
- C) Operating in such a manner as to produce low earnings;

- D) Operating with an inadequate loan valuation reserve;
- E) Operating with an inadequate plan for addressing liquidity;
- F) Operating with inadequate loan review procedures;
- G) Operating with inadequate internal routine and controls policies;
- H) Operating with an inadequate internal system to ensure the accuracy of books and records;
- I) Inaccurately reporting the income, expenses and assets of the institution;
- J) Operating in violation of law, rule, or regulation as described on pages 15 and 16 of the Report of Examination dated September 10, 2007 ("Report of Examination");
- K) Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits; and
- L) Operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank.

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

1. **Management.** 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) restore all aspects of the Bank to a safe and sound condition, including asset quality, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Acting Chief Deputy Commissioner of the OFIR ("Commissioner") 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 and the OFIR, 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. Further, the Bank shall request and obtain the Commissioner's written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

2. MANAGEMENT STUDY.

(a) Within thirty (30) days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and Commissioner, who will develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and Commissioner with a copy of the proposed engagement letter or contract with the consultant for review. The contract or engagement letter, at a minimum should 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) The Management Study shall be developed within 90 days from the effective date of this ORDER. The Management Study shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank under adequate diversification of control;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties,

including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition;

- (iv) Evaluation of all Bank officers' compensation, including salaries, director fees, and other benefits.
- (v) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified by this paragraph of this ORDER.
- (vi) A plan to ensure the Bank has personnel available to competently perform temporarily in key management positions.

(d) Within thirty (30) days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study. The plan required by this subparagraph shall be acceptable to the Regional Director and Commissioner.

3. **Board of Directors.** 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 and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

4. **Executive Loan Committee.**

(a) Within thirty (30) days of the effective date of this ORDER, the board of directors shall establish an executive loan committee. The executive loan committee shall be comprised of at least five permanent members, the majority of whom shall be independent directors. For purposes of this ORDER, an independent director shall be any individual who is not an officer of the Bank, any subsidiary, or any of its affiliated organizations; who

does not own more than 10 percent of the Bank's outstanding shares and does not otherwise share a common financial interest with such officer, director or shareholder; who is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an independent director for purposes of this ORDER by the Regional Director and Commissioner.

(b) The executive loan committee shall meet on at least a monthly basis.

(c) The executive loan committee shall, at a minimum, perform the following functions;

- (i) Evaluate, grant and/or approve loans not in accordance with the Bank's loan policy. The executive loan committee shall provide a thorough written explanation of any deviations from the loan policy, which explanation shall address how said exceptions are in the Bank's best interest. The written explanation

shall be included in the minutes of the corresponding committee meeting.

- (ii) Review and monitor the status of repayment and collection of overdue and maturing loans with an outstanding balance exceeding \$250,000, as well as all loans classified "Substandard" or "Doubtful" in the Report of Examination, or that are included on the Bank's internal watch list.
- (iii) Review and give prior written approval for all advances, renewals, or extensions of credit to any borrower or the borrower's related interests when the aggregate volume of credit extended to the borrower or the borrowers related interests exceed \$500,000. For purposes of this ORDER, the term "related interest" is defined pursuant to section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n).

- (iv) Review all applications for new loans and renewals of existing loans to Bank directors, executive officers, their related interests, and prepare a written determination as to whether the credit is in conformance with the Bank's loan policy and all applicable laws, rules, and regulations. Such applications, renewals, and written opinions shall be referred to the Bank's board of directors for consideration.
- (v) Maintain written minutes of the committee meetings, including a record of the review and status of the aforementioned loans.

5. CAPITAL.

(a) The Bank shall have and maintain its Tier 1 capital as a percentage of its total assets ("capital ratio") at no less than 8%. For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) Any subsequent increase in Tier 1 capital may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325; or
- (ii) The elimination of all or part of the assets classified "Loss" in the Report of Examination, without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER; or
- (iii) The collection in cash of assets previously charged off; or
- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank; or
- (v) Any other means acceptable to the Regional Director and the Commissioner; or
- (vi) Any combination of the above means.

(c) If all or part of any subsequent increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the Commissioner, Office of Financial and Insurance Regulation, 611 West Ottawa Street, Lansing, Michigan 48933, for their review. Any changes requested to be made in the materials

by the FDIC or the Department shall be made prior to their dissemination.

(d) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

6. REDUCTION OF SUBSTANDARD ASSETS.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is classified "Substandard" or "Doubtful" in the Report of Examination. In developing such plan, the Bank shall, at a minimum:

- (i) Review the financial position of each such borrower, including source of

repayment, repayment ability, and alternative repayment sources; and

- (ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited

to:

- (i) Dollar levels to which the Bank shall reduce each asset within six months and twelve months from the effective date of this ORDER; and
- (ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(c) As used in this paragraph, "reduce" means to: (1) collect; (2) charge-off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC or OFIR.

(d) The plan shall be in a form and manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

7. **LOSS CHARGE-OFF.** Within ten (10) days from the effective date of this ORDER, 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 that have not been previously collected or charged-off. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

8. **LOAN REVIEW.**

(a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise its internal loan procedures to periodically review the Bank's loan portfolios and identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio. The loan review procedures shall, at a minimum:

- (i) Establish procedures to confirm the accuracy of all risk grades assigned by the Bank's loan officers;
- (ii) Establish procedures to address concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and

development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;

- (iii) Establish procedures to identify deteriorating loans which ensure the timely placement of credits on the watch list;
- (iv) Require for each loan identified as a watch list loan, a written statement maintained in the appropriate credit files of the reason(s) why such loan merits special attention;
- (v) Require monthly written reports to the Board of the status of each watch list loan and the action(s) taken by Bank management to improve the Bank's position on each watch list loan; and
- (vi) Establish procedures for charging off loans which, at a minimum, comply with the standards set forth in the FDIC's Uniform Retail Credit

Classification and Account Management
Policy.

(b) The Bank shall improve the administration and monitoring of residential and investor-owned real estate mortgage portfolios. The Bank shall review the financial position of each such borrower and obtain current financial information and other pertinent documentation to support repayment.

(c) The Bank shall reduce its concentration in, and improve the administration and monitoring of, its construction and land development lending as detailed in the Report of Examination.

(d) A copy of the reports submitted to the board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be kept with the minutes of the board of directors.

9. REPORTS.

(a) Within thirty (30) from the effective date of this ORDER, the Bank shall develop, adopt and implement a written plan to ensure that reports provided monthly to the board of directors are accurate, consistent, and adequately detailed to clearly define problem areas including, but not limited to, reports of delinquencies and

losses on loans secured by construction and land development properties.

(b) Within thirty (30) days from the effective date of this ORDER, the Bank shall file with the FDIC amended Consolidated Reports of Condition and Income which shall accurately reflect the financial condition of the Bank as of December 31, 2007. Thereafter, during the life of this ORDER, the Bank shall file with the FDIC Consolidated Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any OFIR or FDIC examination of the Bank during that reporting period.

10. Stratification Reports.

(a) Within ninety (90) days from the effective date of this ORDER, the Bank shall provide monthly reports to the board stratifying loans by credit score and other underwriting fundamentals appropriate to each type of portfolio.

(b) For the part of the stratification that includes the subprime range of scores (see the "Interagency Guidance on Subprime Lending" and the Interagency "Expanded Guidance for Subprime Lending Programs"), the report shall

include a list of the borrower's ratios for debt-to-income and, when appropriate, loan-to-value in order to support the degree to which the low credit score may be mitigated by other strengths in the credit decision.

11. ALLOWANCE FOR LOAN AND LEASE LOSSES.

(a) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's allowance for loan and lease losses ("ALLL"), provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or OFIR.

(b) Throughout the duration of this ORDER, the Bank shall maintain an ALLL in accordance with the Interagency Policy Statement on the Allowance for Loan and Lease Losses.

(c) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

12. PROFIT PLAN.

(a) Within ninety (90) days from the effective date of this ORDER, the Bank shall formulate, adopt and implement a written profit plan. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within thirty (30) days from the end of each calendar quarter following completion of the profit plan required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(c) The plan shall be in a form and manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

13. DIVIDEND RESTRICTION. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and Commissioner.

14. RECORDS. Within sixty (60) days from the effective date of this ORDER, the Bank shall differentiate and segregate its records from those of Oxford Bank Corporation, the holding company for the Bank, and from those of Oxford Bank Mortgage Services, the Bank's subsidiary.

15. CORRECTION OF VIOLATIONS.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of laws, rules, and regulations listed in the Report of Examination.

(b) Within 60 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

16. ASSET/LIABILITY MANAGEMENT.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written plan addressing liquidity, the Bank's relationship of volatile liabilities to temporary

investments, rate sensitivity objectives, and overall asset/liability management. Annually thereafter during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. The initial plan shall include, at a minimum, provisions:

- (i) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (ii) Requiring review of interest rate risk measurement and management reports by the board of directors on a quarterly basis;
- (iii) Establish an adequate model for managing and monitoring the Bank's interest rate risk utilizing reasonable assumptions;
- (iv) Requiring independent testing of the interest rate risk measurement and monitoring system on an annual basis;

- (v) Establishing reasonable policy limits for changes in interest rate risk exposures as estimated by the Bank's interest rate risk measurement system;
- (vi) Establishing procedures for managing the Bank's sensitivity to interest rate risk that comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998); and
- (vii) Requiring revising and approving investment and funds management policies at least annually.

(b) The plan shall be in a form and manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

17. PROGRESS REPORTS.

(a) Within 30 days from the end of each calendar quarter following the effective date of this ORDER and monthly thereafter, the Bank shall furnish to the Regional

Director and Commissioner written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof.

(b) Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and Commissioner have, in writing, released the Bank from making further reports.

18. SHAREHOLDER NOTIFICATION. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this 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 and to the OFIR, 611 West Ottawa Street, Lansing, Michigan 48933, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and the OFIR shall be made prior to dissemination of the description, communication, notice or statement.

The effective date of this ORDER shall be 10 calendar days after its issuance by the FDIC and OFIR.

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 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 FDIC and OFIR.

Pursuant to delegated authority.

Dated: May 15, 2008.

Sylvia H. Plunkett
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

Peggy L. Bryson
Acting Chief Deputy
Commissioner
Office of Financial and
Insurance
Regulation for the
State of Michigan