

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

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In the Matter of	)	ORDER TO CEASE AND DESIST
	)	
BADGER STATE BANK	)	FDIC-09-077b
CASSVILLE, WISCONSIN	)	
	)	
(Wisconsin Chartered	)	
Insured Nonmember Bank)	)	
_____	)	

Badger State Bank, Cassville, Wisconsin ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices 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 220.04(9) of the Wisconsin Statutes, Wis. Stat. § 220.04(9), regarding hearings before the Department of Financial Institutions for the State of Wisconsin ("WDFI"), 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 WDFI, dated April 21, 2009, whereby, solely for the purpose of this proceeding and in cooperation with the FDIC and the WDFI and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and WDFI.

The FDIC and the WDFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the WDFI, 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:

- A. Operating with management whose policies and practices are inadequate and could jeopardize the safety and soundness of the Bank.
- B. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank.
- C. Operating with an excessive level of adversely classified assets.

- D. Engaging in hazardous lending and lax collection practices.
- E. Operating with an inadequate allowance for loan and lease losses for the volume, kind, and quality of loans and leases held.
- F. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- G. Operating in such a manner as to produce low earnings.
- H. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

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

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Each member of management shall have the 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; and

- (ii) Operate the Bank in a safe and sound manner; and
- (iii) Comply with applicable laws and regulations, and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, and management effectiveness.

(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 Administrator, Division of Banking of the WDFI ("Administrator") in writing of any changes in the Bank's directors or senior executive officers. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the FDI 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 or the WDFI, 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 Administrator'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. (a) Within 45 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and Administrator, 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 Administrator with a copy of the proposed engagement letter or contract with the consultant for review.

(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;
- (ii) Identification and establishment of such Bank committees as are needed to provide

guidance and oversight to active management; and

- (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; and
- (iv) Evaluation of all Bank officer's 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.

(d) Within 30 days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study.

(e) The plan required by this paragraph shall be submitted to the Regional Director and Administrator for review.

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 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, individual committee reports, audit reports, internal control reviews including managements responses, reports on concentrations for out of area participation loans, and compliance with this Order. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

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

4. (a) Within 120 days from the effective date of this Order, the Bank shall increase the authorized size of its board of directors to permit the addition of 2 independent directors. In the event the Bank can not add such independent directors within 120 days it shall, within that timeframe, provide a written report to the Regional Director and the Administrator describing what actions it has taken to identify and retain additional Board members. Every 90 days thereafter the Bank shall submit a similar report to the Regional Director and Administrator until such time as it has complied with this paragraph.

(b) The addition of any new Bank directors required by this paragraph may be accomplished, to the extent permissible by state statute or the Bank's by-laws, by means of appointment or election at a regular or special meeting of the Bank's shareholders. 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 5% percent of the outstanding shares of the Bank; who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 5% 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, or who is deemed to be an independent director by the Regional Director and Administrator.

5. (a) As of June 30, 2009, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 7.5%. As of September 30, 2009 the Bank shall have and maintain its capital ratio at a minimum of 7.75%. As of December 31, 2009 the Bank shall have and maintain its capital ratio at a minimum of 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) The level of Tier 1 Capital to be maintained during the life of this Order pursuant to this paragraph shall be in addition to a fully-funded allowance for lease and loan losses, the adequacy of which shall be satisfactory to the Regional Director and Administrator, as determined at subsequent examinations.

(c) If all or part of the 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 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to WDFI, 345 West Washington Avenue, 4<sup>th</sup> Floor, P.O. Box 7876, Madison, Wisconsin 53707-7876. Any changes requested to be made in the materials by the FDIC or WDFI 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.

(e) The capital ratio required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

6. Within 10 days of the effective date of this Order the Bank shall charge off its books all assets classified "Loss" in the Report of Examination as of June 30, 2008, ("ROE").

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement, a written plan to reduce the Bank's risk position in each asset in excess of \$200,000 which is classified "Substandard", "Doubtful", or "Special Mention" in the ROE. 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 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:
  - (i) (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 and the WDFI.

(d) The plan shall be forwarded to the Regional Director and Administrator for review.

(e) While this Order remains in effect, the plan shall be revised to include assets adversely classified and asset listed for Special Mention at each subsequent examination.

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt and implement the revisions to, its lending policy. The revised policy shall include at a

minimum the items discussed on page 9 of the ROE under the headings "Loan Administration" and "Loan Policy" as well as the following:

- (i) Requirements and procedures for board prior-approval of loans made outside of policy guidelines, and;
- (ii) Procedures for enforcing loan policy standards and for identifying and correcting existing loan policy exceptions.

(b) The policy shall be forwarded to the Regional Director and Administrator for review.

9. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (including any portion thereof) originated by the Bank (except loan participations, which are subject to the requirements of paragraph 9(b)) that has been charged-off the books of the Bank or classified "Loss" within the past 12 months so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other

credit has been classified "Substandard" or "Doubtful" and is uncollected, or any loan participation that has been charged off the books of the Bank or classified "Loss" unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. The statement shall be signed by each Director with their approval or disapproval noted thereon. A copy of the statement shall be placed in the appropriate loan file and shall be incorporated into the minutes of the applicable board of directors' meeting.

(c) The Bank shall not accrue interest on any loan that is, or becomes, ninety (90) days or more delinquent as to principal or interest, and the Bank shall reverse on its books all previously accrued but uncollected interest on any loan that has ceased to accrue interest, as instructed by WDFI Banking Letter #40, dated May 8, 1985.

10. (a) Within 30 days from the effective date of this Order the Bank shall have and thereafter maintain an adequate allowance for loan and lease losses ("ALLL").

(b) 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 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 require the review to address the following factors: the results of internal loan review, loan loss experience, trends of delinquent and non accrual loans, an estimate of potential loss exposure on significant credits, concentrations of credit, present and prospective economic conditions, frequency of review, and the prevailing Instructions for the Preparation of Reports of Condition and Income, as well as any analysis of the Bank's ALLL provided by the FDIC or the WDFI.

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

11. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2009 and 2010. The plans 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) The written profit plan shall address, at a minimum:

- (i) Realistic and comprehensive budgets; and
- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections; and
- (iii) Identification of major areas in, and means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, 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.



(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(e) The profit plans and budgets required by this paragraph shall be forwarded to the Regional Director and Administrator for review.

12. The Bank shall not pay or declare any dividends without the prior written consent of the Regional Director and Administrator.

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall improve its policies and practices with respect to liquidity and funds management. At a minimum, the Bank shall:

- (i) Establish guidelines for the calculation of the liquidity ratio;
- (ii) Establish guideline for the calculation of the dependency ratio;
- (iii) Revise the Asset Liability Management Policy to include a standard of risk for non-core funding dependency, and;
- (iv) Develop a plan to reduce liquidity risk ("Liquidity Plan"). The Liquidity Plan shall include contingency options for dealing with unexpected liquidity events.

(b) The Liquidity Plan shall be submitted to the Regional Director and Administrator for review.

14. Within 60 days from the effective date of this ORDER, the Bank shall formulate adopt and implement a written plan to manage each of the concentrations of credit identified on pages 32-33 of the ROE in a safe and sound manner. At a minimum the plan must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, and a limit on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank. The Plan required by this paragraph shall be submitted to the Regional Director and Administrator for review.

15. Within 60 days from the effective date of this ORDER, and, thereafter, within 30 days from the end of each calendar quarter, the Bank shall furnish written progress reports to the Regional Director and Administrator detailing the form and manner of any action taken to secure compliance with this ORDER and the results thereof. In addition, the Bank shall furnish such other reports as reasonably requested by the Regional Director and Administrator. All progress reports and other written responses to this ORDER shall be reviewed by the board of directors of the Bank and made a part of the minutes of the board meeting.

16. 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; or (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 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to WDFI, 345 W. Washington Avenue, 4<sup>th</sup> Floor, P.O. Box 7876, Madison, Wisconsin 53707-7876, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and WDFI shall be made prior to dissemination of the description, communication, notice or statement.

The effective date of this ORDER shall be ten (10) calendar days from the date of its issuance by FDIC and WDFI.

The provisions of this ORDER shall be binding upon the Bank and 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 the WDFI.

Pursuant to delegated authority.

Dated: April 30, 2009.

\_\_\_\_\_/s/\_\_\_\_\_  
M. Anthony Lowe  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance  
Corporation

\_\_\_\_\_/s/\_\_\_\_\_  
Michael J. Mach  
Administrator  
Division of Banking  
Department of Financial  
Institutions  
State of Wisconsin