

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

---

)  
)  
In the Matter of )  
) ORDER TO CEASE AND DESIST  
CITIZENS STATE BANK )  
HUDSON, WISCONSIN ) FDIC-09-261b  
)  
(Insured State Nonmember Bank) )  
)

---

Citizens State Bank, Hudson, 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 its right to a hearing on those 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") dated July 21, 2009, with counsel for the Federal Deposit Insurance Corporation ("FDIC"), whereby, solely for the purpose of this proceeding and without admitting or denying any unsafe or unsound banking practices, the Bank consented to the issuance of the following ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it has reason to believe that the Bank has engaged in unsafe and

unsound banking practices. The FDIC, therefore, accepts the CONSENT AGREEMENT and issues 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), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices:

A. Operating with management whose policies and practices were detrimental to the Bank and jeopardized the safety of its deposits.

B. Operating with a board of directors that had not provided adequate supervision over and direction to the management of the Bank.

C. Operating with inadequate capital for the volume, kind, and quality of assets held.

D. Operating with inadequate policies to monitor and control asset growth.

E. Operating with an excessive level of adversely classified loans or assets, and/or delinquent loans and/or nonaccrual loans.

F. Operating with excessive concentrations of credit in certain industries and to individual borrowers.

G. Operating with inadequate 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. **Independent Assessment of Management.**

(a) While this ORDER is in effect, the Bank shall take action to ensure it is operating with qualified management.

(b) Within 30 days from the effective date of this ORDER, the board of directors shall engage an independent third party acceptable to the Regional Director of the FDIC's Kansas City Regional Office ("Regional Director") and to the Administrator, State of Wisconsin Department of Financial Institutions, Division of Banking ("collectively the Supervisory Authorities"), that possesses appropriate expertise and qualifications to analyze and assess the Bank's management and staffing performance and needs. The Bank shall provide the Supervisory Authorities with a copy of the proposed engagement letter or contract with the third party for review and comment before it is executed. The Regional Director will provide comment, if any, within 10 business days after receipt of the proposed engagement letter. Any such comment provided by the

Regional Director shall be duly considered by the Bank's board of directors prior to the execution of the contract. The engagement shall require that the analysis and assessment be summarized in a written report ("Management Report") to the board of directors within 60 days of appointment. Within 10 days of receipt of the Management Report, the board will conduct a full complete review of the Management Report, which review shall be recorded in its minutes.

(c) Within 30 days of receipt of the Management Report, the board will develop a written Management Plan that incorporates the findings of the Management Report, a plan of action in response to each recommendation contained in the Management Report, and a time frame for completing each action. At a minimum, the Management Plan shall:

(i) Contain a recitation of the recommendations made in the Management Report or otherwise communicated to the Bank, along with a copy of any report(s) prepared by the outside consultant(s);

(ii) Identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detailing any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank;

(iii) Identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;

(iv) Present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;

(v) Identify and confirm establishment of Bank committees needed to provide guidance and oversight to management;

(vi) Establish procedures for the periodic review and update of the Management Plan, as well as for the periodic review and assessment of the performance of all officers and staff; and

(vii) Contain the current management succession plan.

(d) A copy of the Management Report and Management Plan and any subsequent modification thereto shall be submitted to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Regional Director, and after consideration of such comment, the board of directors shall approve the Management Plan which approval shall be recorded in its minutes. Thereafter, the Bank and its directors, officers and employees shall implement and follow the Management Plan and any modifications thereto. It shall remain

the responsibility of the board to fully implement the plan within the specified time frames. In the event the plan, or any portion thereof, is not implemented, the board shall immediately advise the Supervisory Authorities, in writing, of the specific reasons it was necessary to deviate from the Management Plan.

**2. Minimum Capital Requirements.**

(a) While this ORDER is in effect, the Bank shall have and maintain the following minimum capital levels (as defined in Part 325 of the FDIC's Rules and Regulations), after establishing an appropriate allowance for loan and lease losses:

(i) Tier 1 capital at least equal to 8 percent of total assets;

(ii) Total risk-based capital at least equal to 11 percent of total risk-weighted assets.

(b) In the event any ratio is or falls below the minimum required by paragraph (a) above, the Bank shall immediately notify the Supervisory Authorities and within 30 days shall (i) increase capital in an amount sufficient to comply with paragraph (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 set forth above, as well as contingency plans. Within 10 days of receipt of any comments

from the Regional Director, and after consideration of all such comments, the board shall approve the written plan, and record such approval in its minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

(c) Any increase in Tier 1 capital necessary to meet the requirements of this section may not be accomplished through a deduction from the allowance for loan and lease losses.

**3. Dividend Restriction.**

While this ORDER is in effect, the Bank shall not declare or pay any cash dividends without the prior written approval of the Supervisory Authorities.

**4. Reduction of Adversely Classified Assets.**

(a) Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan to reduce the Bank's risk exposure in each asset in excess of \$250,000 classified "Substandard" in the March 16, 2009 FDIC Report of Examination ("Report of Examination").

(i) For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset to warrant its removal from adverse classification.

(ii) In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to

each adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) Within 30 days of the effective date of this ORDER, the Bank shall submit the plans to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the board shall approve the plans and record such approval in its minutes.

**5. Restrictions on Advances to Adversely Classified Borrowers.**

(a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit or obligation with the Bank that has been, in whole or in part, charged off or adversely classified "Substandard" or "Doubtful," either internally or by either of the Supervisory Authorities in a Report of Examination in the last 18 months and is uncollected, or classified "Substandard" or "Doubtful" in any future Reports of Examination from either of the Supervisory Authorities and remains uncollected. The requirements of this



paragraph shall 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.

(b) Paragraph (a) of this provision shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to extending additional credit pursuant to this paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Bank's board of directors, or a designated committee thereof, who shall conclude:

(i) the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank, with an explanation of why the failure to extend such credit would be detrimental;

(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; and

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(c) The conclusions and approval of the board of directors shall be made a part of the minutes of the board, or designated committee, with a copy retained in the borrower's credit file.

**6. Concentrations of Credit.**

(a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit a written plan to the Supervisory Authorities for systematically reducing and monitoring the Bank's portfolio of loans or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of any borrowers (the "concentration plan") as listed in the Concentrations section of the Report of Examination, to an amount which is commensurate with the Bank's business strategy, management expertise, size, and location. At a minimum, the plan shall include:

(i) dollar levels and percent of capital to which the Bank shall reduce each concentration;

(ii) timeframes for achieving the reduction in dollar levels identified in response to (i) above;

(iii) procedures for ensuring the Bank avoids future concentrations of credit;

(iv) provisions for the submission of monthly written progress reports to the board for review and notation in minutes of the meetings of the board of directors; and

(v) procedures for monitoring the Bank's compliance with the plan.

(b) The Bank shall submit the concentration plan to the Supervisory Authorities. Within 10 days of receipt of any comments from the Regional Director, and after consideration of all such comments, the board shall approve the revised plan, and record such approval in its minutes. Thereafter, the Bank shall implement and fully comply with the concentration plan.

**7. Charge-off of "Loss".**

(a) Within 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.

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

**8. Maintenance of Allowance for Loan and Lease Losses.**

(a) Within 10 days from the effective date of this ORDER, the board shall establish a comprehensive policy and methodology for determining the ALLL. The policy shall provide for a review of the ALLL at least once each calendar quarter in order that the findings may be properly reported in the Bank's Call Reports. Such reviews shall, at a minimum, be made in

accordance with the Call Report Instructions, the Interagency Statement of Policy on the Allowance for Loan and Lease Losses, other applicable regulatory guidance that addresses the appropriateness of the Bank's ALLL, and any analysis of the Bank's ALLL provided by either of the Supervisory Authorities.

(b) A deficiency in the Bank's ALLL shall be remedied in the calendar quarter in which it is discovered by a charge to current operating earnings prior to any Tier 1 capital determinations required by this ORDER and prior to the Bank's submission of its Call Report. The board of directors shall thereafter maintain an appropriate ALLL.

(c) The Bank shall submit the policy and ALLL methodology to the Supervisory Authorities for review and comment. Within 30 days from receipt of any comment from the Regional Director, and after due consideration of any recommended changes, the board shall approve the policy and record such approval in its minutes. Thereafter, the Bank shall implement and fully comply with the policy.

**9. Funds Management Policies and Plans.**

(a) Within 60 days from the effective date of this ORDER, the Bank shall review its written funds management policies and plans, and amend each as necessary.

(b) Within 60 days from the effective date of this ORDER, the board shall revise its written contingency funding plan ("plan"). The plan shall be updated on a regular basis and should, at a minimum, help management to monitor liquidity risk, ensure that an appropriate amount of liquid assets is maintained, measure and project funding requirements during various scenarios, and manage access to funding sources. Specifically, the plan should address the tightening of access to, or the imposition of additional requirements on, established credit lines as a result of the deteriorating asset quality.

(c) The Bank shall submit the policies and plans required by this provision 9, and any future modifications, to the Supervisory Authorities for review and comment. Within 30 days of the receipt of any comments from the Regional Director, and after consideration of all such comments, the board shall approve the plans and policies, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and follow the plans and policies.

#### 10. Brokered Deposits.

(a) Upon issuance of this ORDER and so long as this ORDER is in effect, the Bank shall not accept, increase, renew, or

rollover brokered deposits without the prior written approval of the Supervisory Authorities.

(b) Within 60 days of the effective date of this ORDER, the Bank shall submit a written plan for reducing its reliance on brokered deposits ("brokered deposit plan") to the Supervisory Authorities. The brokered deposit plan shall detail the current composition of the Bank's brokered deposits by maturity and explain the means by which such deposits will be paid. The Bank shall submit the brokered deposit plan to the Supervisory Authorities for review and comment. For purposes of this ORDER, brokered deposits are defined in section 337.6(a)(2) of the FDIC Rules and Regulations to include any deposits funded by third-party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance. Within 10 days of receipt of all such comments from the Regional Director, and after consideration of all such comments, the board shall approve the brokered deposit plan, which approval shall be recorded in its minutes. Thereafter, the Bank shall implement and fully comply with the brokered deposit plan.

**11. Profit and Budget Plan.**

(a) Within 60 days from the effective date of this ORDER,

and within the first 30 days of each calendar year thereafter, the board of directors shall develop and fully implement a written profit plan for the calendar year, consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this Order.

(b) The written profit plan shall include, at a minimum:

(i) identification of the major areas in and means by which the board of directors will seek to improve the Bank's operating performance;

(ii) projections and plans for limiting growth, including proposed changes in the Bank's asset composition;

(iii) specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings, as well as maintain adequate provisions to the allowance for loan and lease losses;

(iv) a description of the operating assumptions that form the basis for, and adequately support, material projected revenue and expense components;

(v) coordination of the Bank's loan, investment, funds management, and operating policies, strategic plan, and allowance for loan and lease loss methodology with the profit and budget planning;

(vi) a no less than quarterly budget review process to

monitor the revenue and expenses of the Bank by comparing actual performance against budgetary projections, the results of the evaluation and any actions taken by the board to be reflected in the minutes of the meeting at which the evaluation is undertaken; and

(vii) individual(s) responsible for implementing each of the goals and strategies of the profit plan.

(c) The profit plan and any subsequent modification thereto shall be submitted to the Supervisory Authorities for review and comment. No more than 30 days after the receipt of any comment from the Regional Director, and after consideration of any recommended changes, the board shall approve the profit plan and record such approval in its minutes. Thereafter, the Bank, shall fully implement and follow the profit plan and any subsequently approved modification.

## **12. Disclosure of Order to Shareholders.**

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



material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Room F-6066, Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

**13. Progress Reports Detailing Compliance with ORDER.**

(a) Within 30 days of the end of the first quarter following the effective date of this ORDER, and within 30 days of the end of each 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.

(b) Progress reports may be discontinued when the Regional Director has, in writing, released the Bank from making additional reports.

**14. Miscellaneous.**

The provisions of this ORDER shall not bar, estop or otherwise prevent either of the Supervisory Authorities or any other federal or state agency or department from taking any

action against the Bank, any of the Bank's current or former institution-affiliated parties, or agents for violations of any law or regulations, or engaging in unsafe or unsound banking practices. The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof. This ORDER shall be effective on the date of issuance. 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.

Issued Pursuant to Delegated Authority.

Dated: July 24, 2009\_\_\_\_\_

By:

\_\_\_\_\_  
/s/  
Mark S. Moylan  
Deputy Regional Director  
Kansas City Regional Office