

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	ORDER TO CEASE AND DESIST
	)	
	)	
BORDER TRUST COMPANY	)	
AUGUSTA, MAINE	)	FDIC 09-285b
	)	
	)	
(Insured State Nonmember Bank)	)	
_____	)	

Border Trust Company, Augusta, Maine (“Bank”), through its board of directors, having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged 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 August 11, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, 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 they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the

following:

### **ORDER TO CEASE AND DESIST**

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

1. Operating the Bank with management whose policies and practices are detrimental to the Bank.
2. Operating the Bank with an inadequate level of capital protection for the kind and quality of assets held by the Bank.
3. Operating the Bank with an excessive level of adversely classified loans or assets.
4. Operating the Bank with an excessive level of delinquent loans.
5. Operating with an inadequate Allowance for Loan and Lease Losses for the volume, type and quality of loans and leases held.
6. Operating the Bank with inadequate written loan policies and procedures.
7. Operating the Bank with inadequate earnings to fund growth, support dividend payments and augment capital.
8. Operating the Bank without adequate liquidity or proper regard for funds management in light of the Bank's asset and liability mix.
9. Operating the Bank in violation of applicable laws and regulations.

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

**MANAGEMENT**

1. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) Comply with the requirements of the ORDER;
- (2) Operate the Bank in a safe and sound manner;
- (3) Comply with applicable laws and regulations; and
- (4) Restore all aspects of the Bank to a safe and sound condition, including improve the Bank's asset quality, capital adequacy, earnings, management effectiveness, liquidity, and its sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Area Director of the FDIC's Boston Area Office ("Area Director") and the Superintendent of the State of Maine Bureau of Financial Institutions ("Superintendent") in writing of any changes in management. The notification must include the name(s) and background(s) of any replacement personnel and must be provided thirty (30) days prior to the individual(s) assuming the new position(s).

**CAPITAL INCREASE AND MAINTENANCE**

2. (a) By September 30, 2009, the Bank shall increase its Tier 1 Capital by no

less than \$750,000.

(b) By September 30, 2009, the Bank shall submit a plan to the Area Director and the Superintendent to further increase its Tier 1 Capital by no less than \$1 million (in addition to the increase specified in paragraph 2(a)) within one hundred eighty (180) days after the effective date of this ORDER. Until the Tier 1 Capital of not less than \$1 million (in addition to the increase specified in paragraph 2(a)) is raised, the Bank shall maintain total assets, as defined under FFIEC Report of Condition and Income instructions, at or below that amount as reported on its June 30, 2009 Report of Condition and Income.

(c) While this ORDER is in effect, after establishing an adequate Allowance for Loan and Lease Losses, the Bank shall have on the following dates:

On September 30, 2009

Tier 1 Leverage Capital in a ratio equal to or greater than six percent (6%) of the Bank's Average Total Assets; shall maintain its Tier 1 Risk-Based Capital ratio equal to or greater than eight percent (8%) of the Bank's Total Risk-Weighted Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than ten percent (10%) of the Bank's Total Risk-Weighted Assets;

On December 31, 2009

Tier 1 Leverage Capital in a ratio equal to or greater than six percent (6%) of the Bank's Average Total Assets (unless the increase specified in paragraph 2(b) has been made, in which case the Tier 1 Leverage Capital shall be in a ratio equal to or greater than eight percent (8%) of the Bank's Average Total Assets); shall maintain its Tier 1 Risk-Based Capital ratio

equal to or greater than eight percent (8%) of the Bank's Total Risk-Weighted Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than ten percent (10%) of the Bank's Total Risk-Weighted Assets; and

On March 31, 2010

Tier 1 Leverage Capital in a ratio equal to or greater than eight percent (8%) of the Bank's Average Total Assets; shall maintain its Tier 1 Risk-Based Capital ratio equal to or greater than eight percent (8%) of the Bank's Total Risk-Weighted Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than ten percent (10%) of the Bank's Total Risk-Weighted Assets.

Any increase in the Bank's Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities that qualify as Tier 1 capital; or
- (2) The direct contribution of cash subsequent to May 04, 2009, by the directors and shareholders of the Bank or by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization of a bona fide tax refund certified as being accurate by a certified public accounting firm subsequent to May 04, 2009; or
- (4) Any other method approved in advance and in writing by the Area Director and the Superintendent.

(d) If any such capital ratios are less than the percentages required by this ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the State of Maine Bureau of Financial Institutions (“State”), the Bank shall, within thirty (30) days after receipt of a written notice of the capital deficiency from the Area Director and the Superintendent, present to the Area Director and the Superintendent a plan to increase the Bank’s Tier 1 Capital or to take other measures to bring all the capital ratios to the percentages required by this ORDER. After the Area Director and the Superintendent respond to the plan, the Bank’s board of directors shall adopt the plan, including any modifications or amendments requested by the Area Director and the Superintendent.

(e) Thereafter, the Bank shall immediately initiate measures detailed in the plan, to the extent such measures have not previously been initiated, to increase the Bank’s Tier 1 Capital by an amount sufficient to bring all the capital ratios to the percentages required by this ORDER within thirty (30) days after the Area Director and the Superintendent respond to the plan.

(f) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank’s board of directors shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank’s securities (including a distribution limited only to the Bank’s existing shareholders), the Bank shall prepare 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 any other material disclosures necessary to comply with Federal securities laws. Prior to the

implementation of the plan, and in any event, not less than twenty (20) days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, and to the Superintendent for review. Any changes requested to be made in the plan or the materials by the FDIC or the Superintendent shall be made prior to their dissemination. If the increase in Tier 1 Capital is to be provided by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented to the Area Director and the Superintendent for prior approval.

(g) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within ten (10) days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(h) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(i) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

### **CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

3. (a) Within ten (10) days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the State as a result of its examination of the Bank as of May 04, 2009. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within thirty (30) days after the effective date of this ORDER, the Bank shall submit a written plan to the Area Director and the Superintendent to reduce the remaining assets classified Doubtful and Substandard as of May 04, 2009. The plan shall address each asset so classified with a balance of \$500,000 or greater and provide the following:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Timeframes for accomplishing the proposed actions.

The plan shall also include, at a minimum:

- (1) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and



- (2) A valuation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the plan shall contain a provision requiring the submission of monthly progress reports to the Bank's board of directors and a provision mandating a review by the Bank's board of directors.

- (c) The Bank shall present the plan to the Area Director and the Superintendent for review. Within thirty (30) days after the Area Director's and the Superintendent's response, the plan, including any requested modifications or amendments, shall be adopted by the Bank's board of directors, which approval shall be recorded in the minutes of the meeting of the Bank's board of directors. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

### **REDUCTION OF DELINQUENCIES**

4. (a) Within thirty (30) days after the effective date of this ORDER, the Bank shall formulate and submit to the Area Director and the Superintendent for review and comment a written plan for the reduction and collection of delinquent loans. Such plan shall include, but not be limited to, provisions which:

- (1) Prohibit the extension of credit for the payment of interest, unless the extension is well supported by collateral and repayment capacity of the borrower;

- (2) Delineate areas of responsibility for implementing and monitoring the Bank's collection policies;
- (3) Establish specific collection procedures to be instituted at various stages of a borrower's delinquency;
- (4) Establish dollar levels to which the Bank shall reduce delinquencies within ninety (90) days of the implementation of the plan; and
- (5) Provide 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 Bank's board of directors.

(b) For purposes of the plan, "reduce" means to:

- (1) Charge-off; or
- (2) Collect.

(c) After the Area Director and the Superintendent have responded to the plan, the Bank's board of directors shall adopt the plan, including any requested modifications or amendments, which approval shall be recorded in the minutes of a board of directors' meeting. . The Bank shall then immediately implement the plan, to the extent that the provisions of the plan are not already in effect at the Bank.

**ALLOWANCE FOR LOAN AND LEASE LOSSES  
AND  
AMENDED CALL REPORTS**

5. (a) Within fifteen (15) days after the effective date of this ORDER, the Bank shall make provisions to its Allowance for Loan and Lease Losses ("ALLL") by a minimum of

\$780,000. The ALLL should be funded by charges to current operating income and should be calculated in accordance with generally accepted accounting standards and ALLL supervisory guidance. After the initial provision is made, the Bank shall thereafter maintain a reasonable ALLL in accordance with State and FDIC supervisory guidance and generally accepted accounting principles as contemplated by Financial Accounting Statements 5 and 114. Prior to the end of each calendar quarter, the Bank's board of directors shall review the adequacy of the Bank's ALLL. Such reviews, which shall be documented in the Bank's board minutes, shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and nonaccrual loans and prevailing and prospective economic conditions. The minutes of the Bank's board of directors' meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended changes in the ALLL.

(b) Within fifteen (15) days after the effective date of this ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the FDIC on or after March 31, 2009 and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain a reasonable ALLL. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

### **CREDIT RISK MANAGEMENT**

6. (a) Within thirty (30) days after the effective date of this ORDER, the Bank shall formulate and submit to the Area Director and the Superintendent for review and comment a written plan to address the credit risk management deficiencies noted in the May 04, 2009

Report of Examination. Such plan shall include, but not be limited to, provisions which:

- (1) Implement procedures to ensure timely receipt and accurate monitoring and tracking of borrower financial information and other credit file documentation;
- (2) Ensure accurate and timely loan risk rating and recognition of charge-offs;
- (3) Ensure accurate monitoring and tracking of loan covenants and related defaults; and
- (4) Establish and implement nonaccrual policies and procedures commensurate with generally accepted accounting standards and principles and call report requirements.

(b) Within thirty (30) days after the Area Director's and the Superintendent's response, the plan, including any requested modifications or amendments, shall be adopted by the Bank's board of directors, which approval shall be recorded in the minutes of the meeting of the Bank's board of directors. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

#### **BUDGET AND PROFIT PLAN**

7. (a) Within sixty (60) days after the effective date of this ORDER, the Bank shall formulate and submit to the Area Director and the Superintendent for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2009. The plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, reduce discretionary expenses,

improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components. Within thirty (30) days after receipt of comments from the Area Director and the Superintendent, the profit plan, including any requested modifications or amendments, shall be adopted by the Bank's board of directors, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

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

- (1) An analysis of the Bank's pricing structure;
- (2) Strategies for improving the Bank's Net Interest Margin; and
- (3) Opportunities for reducing non-interest expenses (overhead).

(c) Within thirty (30) days after the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the written profit 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 when such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year in which this ORDER is in effect and shall be submitted to the Area Director and the Superintendent for review and comment at least thirty (30) days prior to the end of the current year. Within thirty (30) days after receipt of all such comments from the Area Director and the Superintendent, the Bank shall approve the written profit plan and budget, including any requested modifications or amendments, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

### **DIVIDEND RESTRICTION**

8. As of the effective date of this ORDER, the Bank shall pay no cash dividends which would result in a Tier 1 Leverage Capital ratio of less than eight percent (8%), Tier 1 Risk-based Capital ratio of less than eight percent (8%), or Total Risk-based Capital ratio of less than ten percent (10%) without the prior written consent of the Area Director and the Superintendent. However, the Area Director and the Superintendent reserve the right to restrict dividend payment, even if the resultant capital levels are higher than the ratios stated above.

### **LIQUIDITY**

9. While this Order is in effect, the Bank shall provide to the Area Director and Superintendent the following:
- a. A weekly liquidity report no later than Wednesday with data as of close of business the previous Friday in a form prescribed by Area Director and the Superintendent; and
  - b. A monthly rolling cash flow forecast no later than the tenth (10<sup>th</sup>) of each month for the ninety (90) days beginning the first (1<sup>st</sup>) of the month in a form prescribed by the Area Director and the Superintendent.

### **CORRECTION OF VIOLATIONS**

10. (a) Within sixty (60) days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and contraventions of regulation noted in the Report of Examination.

(b) Within thirty (30) days after the effective date of this ORDER, the Bank

shall implement procedures to ensure future compliance with all applicable laws and regulations.

11. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. Any description shall fully describe the ORDER in all material respects. Any description and any accompanying communication, statement, or notice to this ORDER or the description shall be sent to the FDIC Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, for review at least twenty (20) days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

12. Within thirty (30) days after the end of the first calendar quarter following the effective date of this ORDER, and within thirty (30) days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Area Director and the Superintendent detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by the ORDER have been accomplished and the Area Director has released the Bank in writing from making additional reports.

13. This ORDER shall be binding upon the Bank, its successors and assigns, and all institution-affiliated parties of the Bank. 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, superseded, or set aside by the FDIC.

14. This ORDER shall not bar, estop, or otherwise prevent the FDIC, the State, or any other federal or state agency or department from taking any action against the Bank, the Bank's current or former institution-affiliated parties, or any of their respective directors, officers, employees, and agents.

15. Nothing herein shall prevent the FDIC or the State from conducting on-site reviews or examinations of the Bank, its affiliates, agents, service providers or other institution-affiliated parties at any time to monitor compliance with this ORDER.

This ORDER will become effective upon its issuance by the FDIC.

Pursuant to delegated authority.

Dated this 12th day of August, 2009.

/s/  
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Daniel E. Frye  
Area Director  
Boston Area Office  
Division of Supervision and Consumer Protection  
Federal Deposit Insurance Corporation