

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

AND

STATE OF OHIO  
DEPARTMENT OF COMMERCE  
DIVISION OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	ORDER TO CEASE AND DESIST
	)	
THE OHIO STATE BANK	)	FDIC-09-242b
MARION, OHIO	)	
	)	
(INSURED STATE NONMEMBER BANK	)	
	)	
_____	)	

The Ohio State Bank, Marion, Ohio, ("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 sections 1121.32 and 1121.38 of the Ohio Revised Code regarding its right to a notice of charges and a hearing before the Division of Financial Institutions for the State of Ohio ("Division"), 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 the

Division, dated August 7, 2009, whereby, solely for the purpose of this proceeding 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 the Division.

The FDIC and the Division considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking. The FDIC and the Division, 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), regulated persons, as that term is defined in Ohio Revised Code section 1121.01, 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 which has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe and unsound banking practices.

- C. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- D. Operating in a manner which has resulted in loss to the institution.
- E. Engaging in hazardous lending and lax collection practices.
- F. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.
- G. Operating with inadequate liquidity in light of the Bank's composition of assets and liabilities.
- H. Operating with an inadequate allowance for loan and lease losses ("ALLL").
- I. Operating with inadequate policies to monitor and control asset growth.

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

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall continue to have and retain qualified management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. 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, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, 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 request and obtain the FDIC and the Division's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

#### BOARD PARTICIPATION

2. (a) The board of directors shall participate in the affairs of the Bank and assume 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: new, overdue, renewal, insider, charged off, and recovered loans; adoption or modification of operating policies; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 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.

#### CAPITAL

3. (a) Within 180 days from the effective date of this ORDER, 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 6.5 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 10 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted

assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) Within 365 days from the effective date of this ORDER, the Bank shall have and maintain its capital ratio at a minimum of 8 percent and its total risk based capital ratio at a minimum of 11.5 percent.

(c) If, while this ORDER is in effect, the Bank increases capital 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 Ohio Department of Commerce, Division of Financial Institutions, 77 South High Street, 21st Floor, Columbus, Ohio 43215-6120, for their review. Any changes requested to be made in the materials by the FDIC or the Division 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.

#### DIVIDEND RESTRICTION

4. 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 the Division.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (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 extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the Report of Examination dated March 2, 2009 ("Joint Report"), 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", "Doubtful", or is listed for Special Mention in the "Joint Report", and is uncollected 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. A copy of the statement shall be signed by each Director, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.



REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (a) Within 90 days from the effective date of this ORDER, the Bank shall provide a written plan to reduce the Bank's risk position in each asset in excess of \$250,000 which is delinquent or classified "Substandard" or "Doubtful" in the "Joint Report". The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
  - (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
  - (iii) Delineate areas of responsibility for loan officers;
  - (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER;
- and

(v) 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 board of directors.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the Division.

(c) The plan required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division the Bank shall incorporate any changes required by the Regional Director or the Division and thereafter adopt, implement, and adhere to the plan.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

#### HAZARDOUS LENDING

7. As of the effective date of this ORDER, the Bank shall cease all hazardous lending practices identified in the "Joint Report".

CREDIT ADMINISTRATION AND RISK IDENTIFICATION

8. (a) Within 60 days of the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Division for review and comment a written plan to address all credit administration deficiencies identified in the "Joint Report".

(b) Within 30 days of the effective date of this ORDER, the Bank shall establish policies and procedures to address all risk identification deficiencies identified in the "Joint Report."

- (i) At a minimum, the policies and procedures required by this paragraph shall provide for:
  - a. Analysis of the repayment capacity of the borrower;
  - b. Identification, or grouping, of loans that warrant the special attention of management;
  - c. For each loan identified, a statement of the amount and an indication of the degree of risk that the loan will not be fully repaid according to its terms and

- the reason(s) why the particular loan merits special attention;
- d. The creation of a mechanism for reporting, no less than quarterly, to the board of directors on the status of each loan identified and the action(s) taken by management.
- (ii) Such policies and procedures shall be consistent with:
- a. Financial Institution Letter 9-2001 entitled Subprime Lending (FIL-9-2001); and
- b. Financial Institution Letter 90-2006 entitled Nontraditional Mortgage Products: Interagency Proposed Illustrations of Consumer Information for Nontraditional Mortgage Products (FIL-90-2006).
- (iii) Copies 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.

(c) Within 30 days of the effective date of this ORDER, the Bank shall establish accounting policies and procedures for troubled debt restructuring consistent with the guidance of Financial Accounting Standards Board Statement 15, "Accounting by Debtors and Creditors for Troubled Debt Restructurings" ("FAS 15") and Financial Accounting Standards Board Statement 114, "Accounting by Creditors for Impairment of a Loan" ("FAS 114").

CONCENTRATIONS OF CREDIT

9. 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 in the "Joint Report" 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, 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 consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or the Division.

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

#### STRATEGIC PLAN

11. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate a realistic, comprehensive written strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management;

- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and
- (iii) Identification and evaluation of alternative strategies, which may include, but are not limited to:
  - a. Continuing operation as a viable independent institution;
  - b. Developing a strategic alliance; or
  - c. Selling the Bank.

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

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting, and the Bank shall implement and adhere to the revised plan.

(d) The plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division the Bank shall incorporate any changes required by the Regional Director or the Division and thereafter adopt, implement, and adhere to the plan.

PROFIT PLAN AND BUDGET

12. (a) Within 90 days from the effective date of this ORDER, the Bank shall provide 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;
- (ii) A budget review process to monitor the income and expenses of the Bank to



compare actual figures with budgetary projections;

- (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 45 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 plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division

the Bank shall incorporate any changes required by the Regional Director or the Division and thereafter adopt, implement, and adhere to the plan and budget.

LIQUIDITY PLAN

13. (a) Within 30 days of the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions to address the issues identified on pages 12 through 14 of the "Joint Report".

(b) On the first business day of each week the Bank is open for business during the life of this ORDER the Bank shall submit to the Regional Director and Division a liquidity analysis report, in a format that is acceptable to the Regional Director and the Division.

(c) The plan required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division the Bank shall incorporate any changes required by the Regional

Director or the Division and thereafter adopt, implement, and adhere to the plan.

NOTIFICATION TO SHAREHOLDERS

14. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy 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.

PROGRESS REPORTS

15. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Division 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.

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

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 the Division.

Pursuant to delegated authority.

Dated: August 7, 2009.

Federal Deposit Insurance  
Corporation

State of Ohio  
Division of Financial  
Institutions

\_\_\_\_\_/s/\_\_\_\_\_  
M. Anthony Lowe  
Regional Director  
Chicago Regional Office

\_\_\_\_\_/s/\_\_\_\_\_  
John B. Reardon  
Superintendent

and

\_\_\_\_\_/s/\_\_\_\_\_  
Kenneth N. Koher  
Deputy Superintendent for Banks