

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

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In the Matter of )  
FOX RIVER STATE BANK ) ORDER TO CEASE AND DESIST  
BURLINGTON, WISCONSIN ) FDIC-09-226b  
(STATE CHARTERED )  
INSURED NONMEMBER BANK )

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Fox River State Bank, Burlington, 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 the WDFI, dated September 8, 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 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 detrimental to 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 to prevent unsafe and unsound banking practices.

- C. Operating with inadequate capital in light of the kind and quality of assets held.
- D. Operating in such a manner as to produce low earnings.
- 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 asset and liability mix.
- H. Operating with an inadequate allowance for loan and lease losses ("ALLL").
- I. Operating with an inadequate loan policy.
- J. Operating with inadequate internal routines and controls.
- K. Operating with an inadequate funds management policy.
- L. Failing to comply with sections of Part 323 of the FDIC's Rules 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) During the life of this ORDER, the Bank shall 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 WDFI'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).

MANAGEMENT PLAN

2. (a) Within 90 days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director of the Chicago Region of the FDIC ("Regional Director") and the Administrator of the Division of Banking of the WDFI ("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 the Administrator with a copy of the proposed engagement letter or contract with the independent third party for review.

(c) The Management Study shall be developed within 120 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;
- (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 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) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Administrator.

#### BOARD PARTICIPATION

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; adoption or modification of operating policies; internal control reviews including management's responses; 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

4. (a) Within 90 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 8 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12 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) In the event any of the foregoing ratios fall below the established minimum in this paragraph and Part 325 of the FDIC's Rules and Regulations, the Bank shall notify the Director and the WDFI and shall increase capital in an amount sufficient to comply with this provision within sixty (60) days.

(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 Wisconsin Department of Financial Institutions, 345 West Washington Avenue, 4<sup>th</sup> Floor, P.O. Box 7876, Madison, Wisconsin 53707-7876, for their review. Any changes requested to be made in the materials by the FDIC or the 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.

LOSS CHARGE-OFF

5. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss" in the ROE.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$200,000 which is, more than 90 days delinquent or classified "Substandard" in the Report of Examination dated March 9, 2009 ("ROE"). 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 WDFI.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Administrator.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become 90 or more days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

LENDING AND COLLECTION POLICIES

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio.

(b) The revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall incorporate the items discussed on pages 44 through 49 of the ROE.

(c) Copies of the policies and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Administrator.

#### LIQUIDITY PLAN

8. (a) Within 60 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 2,3 and 13 of the ROE.

(b) During the life of this ORDER the Bank shall submit to the Regional Director and the Administrator weekly liquidity analysis reports, in a format that is acceptable to the Regional Director and the Administrator.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Administrator.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

9. Upon the effective date of this ORDER, and prior to submission or publication 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 WDFI.

PROFIT PLAN AND BUDGET

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to 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) A budget review process to monitor the income and expenses of the Bank to

compare actual figures with budgetary projections; and

(ii) Identification of major areas in, and means by which, earnings will be improved.

(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) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the WDFI.

#### STRATEGIC PLAN

11. (a) Within 120 days from the effective date of this ORDER, the Bank shall formulate adopt, and implement a realistic, comprehensive 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; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(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) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Administrator.

CONCENTRATIONS OF CREDIT

12. 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 39 through 41 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.

(b) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Administrator.

INTERNAL ROUTINE AND CONTROLS

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a policy for the operation of the Bank in such a manner as to provide adequate internal routine and controls, particularly in the loan operations area, consistent with safe and sound banking practices.

(b) A copy of the policy required by this paragraph shall be submitted to the Regional Director and the Administrator.

CORRECTION OF VIOLATIONS

14. Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of regulations listed on pages 18 and 19 of the ROE. In the event the Bank cannot eliminate and/or correct a violation, it will notify the Regional Director and the WDFI what steps it has taken and why it is unable to eliminate or correct the violation.

NOTIFICATION TO SHAREHOLDER

15. 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

16. 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 Administrator 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 WDFI.

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 WDFI.

Pursuant to delegated authority.

Dated: September 11, 2009.

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

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