FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF INDIANA

DEPARTMENT OF FINANCIAL INSTITUTIONS FOR THE STATE OF INDIANA

In the Matter of	ORDER TO CEASE AND DESIST
ELKHART COMMUNITY BANK ELKHART, INDIANA	FDIC-09-297b
(Insured State Nonmember Bank)	

Elkhart Community Bank, Elkhart, Indiana ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law 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 Indiana Code §§ 28-11-4-1 through 28-11-4-12, regarding hearings before the Department of Financial Institutions for the State of Indiana ("DFI"), 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 DFI, dated September 17, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the DFI.

The FDIC and the DFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices, and violations of law. The FDIC and the DFI, 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. Engaging in hazardous lending and lax collection practices.

B. Operating with an inadequate level of capital protection for the kind and quality of assets held.

C. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.

D. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

E. Operating with inadequate asset/liability policies and practices.

F. Operating in such a manner as to generate inadequate earnings.

G. Operating with an inadequate allowance for loan and lease losses for the volume, kind, and quality of loans and leases held.

H. Operating with an excessive concentration of credit in commercial real estate loans.

I. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

J. Operating with a board of directors and committees which have failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices and violations of law.

K. Violating Section 23B of the Federal Reserve Act, 12 U.S.C. § 371c, and Indiana Code 28-1-18.2-5(b).

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

MANAGEMENT

1. (a) Within 60 days from the effective date of this ORDER, the Bank shall retain qualified management. Additionally, 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 asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(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 written approval of the FDIC and the DFI. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the 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).

BOARD PARTICIPATION

2. (a) As of 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; individual committee reports; audit reports; internal control reviews including managements responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

<u>CAPITAL</u>

3. (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 9.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets (“total risk based capital ratio”) at a minimum of 12.5 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) 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 DFI, 30 S. Meridian Street, Suite 300, Indianapolis, Indiana 46204, for their review. Any changes requested to be made in the materials by the FDIC or the DFI shall be made prior to their dissemination.

(c) 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.

(d) The capital ratio analysis 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.

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 of FDIC (Regional Director) and Director of the DFI (Director).

ALLOWANCE FOR LOAN AND LEASE LOSSES

5. 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 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 DFI.

PROFIT PLAN AND BUDGET

6. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare 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 bank shall prepare, implement, and adhere to a written profit plan and budget for each calendar year for which this ORDER is in effect.

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

Within 30 days of receipt of any comments from the Regional Director or Director the Bank shall incorporate any changes required by the Regional Director or Director and thereafter adopt, implement, and adhere to the plan.

LIQUIDITY AND FUNDS MANAGEMENT

7. (a) Within 30 days of the effective date of this ORDER, the Bank shall adopt a written liquidity and funds management policy which shall address specific contingency plans that detail actions to be implemented under various liquidity scenarios. Such policy shall include specific provisions to provide for a minimum primary liquidity ratio (net cash, short-term, and marketable assets divided by net deposits and short-term liabilities) of at least 15 percent. In addition, the policy 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 policy shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008.

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

(c) Within 30 days from the effective date of this ORDER, the Bank shall submit to the Regional Director and Director a liquidity and funds management plan to reduce the Bank's reliance on non-core funding sources, including brokered deposits and borrowings, and reduce the bank's Non-Core Funding Dependency ratio. The plan shall be acceptable to the Regional Director and the Director.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

8. (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 $500,000, which is delinquent more than 90 days or classified "Substandard" in the Report. The plan shall include, but not be limited to, provisions which:

(i) Prohibit any new direct or indirect extensions of credit for, or for the benefit of, borrowers classified Substandard, including extensions for the payment of interest, unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the

(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

(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 DFI.

(c) The plan required by this paragraph shall be submitted to the Regional Director and Director. Within 30 days of receipt of any comments from the Regional Director or Director the Bank shall incorporate the suggest changes 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 more than 90 days after the effective date of this ORDER or are classified Substandard or Doubtful at any subsequent examinations.

LOSS CHARGE-OFF

9. As of the effective date of this Order the Bank shall charge off from its books and records any asset classified “Loss” in the Report.

LOAN UNDERWRITING AND CREDIT ADMINISTRATION

10. Within 90 days from the effective date of this ORDER, the Bank will implement a system to ensure that loan

underwriting and credit administration deficiencies detailed in the Report are corrected. In addition, the Bank will obtain re-appraisals or re-evaluations of real estate collateral securing adversely classified and delinquent loans, consistent with the collateral monitoring requirements of Appendix A to Part 365, Appendix A to Part 364, and the Interagency Policy Statement on Appraisal and Evaluation Guidelines

CONCENTRATION OF CREDIT

11. 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 13 and 31 of the 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. This plan shall be submitted to the Regional Director and Director. Within 30 days of receipt of comments from the Regional Director or Director the bank shall incorporate the suggested changes and thereafter, adopt, implement and adhere to the plan.

CORRECTION OF VIOLATIONS

12. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed on pages 17 and 18 of the ROE.

SHAREHOLDER COMMUNICATION

13. Within 30 days from 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

14. (a) 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.

(b) Within 30 days of the last day of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Director 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. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and Director have, in writing, released the Bank from making further reports.

This ORDER is effective upon its issuance by the FDIC and the DFI.

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 DFI.

Pursuant to delegated authority.

Dated: October 2, 2009.

________/s/_______________	_______/s/______________
M. Anthony Lowe	David Mills
Regional Director	Director
Chicago Regional Office	Indiana Department of
Federal Deposit Insurance Corporation	Financial Institutions