

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF MICHIGAN

OFFICE OF FINANCIAL AND INSURANCE REGULATION

_____)
In the Matter of) ORDER TO CEASE AND DESIST
)
CITIZENS STATE BANK) FDIC-09-391b
NEW BALTIMORE, MICHIGAN)
)
(STATE CHARTERED)
INSURED NONMEMBER BANK))
_____)

Citizens State Bank, New Baltimore, Michigan ("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 2304 of the Banking Code of 1999, Mich. Comp. Laws § 487.12304, regarding hearings before the Office of Financial and Insurance Regulation for the State of Michigan ("OFIR") 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 OFIR, dated October 9, 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 OFIR.

The FDIC and the OFIR considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices, a conclusion with the Bank's board of directors does not concur with. The FDIC and the OFIR, 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 an inadequate level of capital protection for the kind and quality of assets held.
- B. Engaging in hazardous lending and lax collection practices.

- 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 in a manner which has resulted inadequate earnings.
- F. Operating with an inadequate funds management policy.
- G. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.
- H. 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.

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 have and retain qualified management. At a minimum, such management shall include: a chief credit officer with proven ability in upgrading a low

quality loan portfolio and an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio; and, a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk 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 written approval of the Chief Deputy Commissioner of the OFIR ("Chief Deputy Commissioner"). 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).

CAPITAL

2. (a) Within 30 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 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) 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 Office of Financial and Insurance Regulation, 611 West Ottawa Street, Lansing, Michigan 48933, for their review. Any changes requested to be made in the materials by the FDIC or the OFIR 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

3. (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 May 11, 2009 Joint FDIC/OFIR Report of Examination ("ROE"), 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 ROE, 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

4. (a) Within 30 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 \$250,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the 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 OFIR.

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

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become more than

90 days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

TECHNICAL EXCEPTIONS

5. Within 60 days from the effective date of this ORDER, the Bank shall correct the technical or collateral documentation exceptions listed in the ROE.

ALLOWANCE FOR LOAN AND LEASE LOSSES

6. (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 OFIR.

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

LIQUIDITY PLAN

7. (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 in the ROE.

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

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

DIVIDEND RESTRICTION

8. 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 Chief Deputy Commissioner.

PROFIT PLAN AND BUDGET

9. (a) Within 30 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 the remainder of 2009 and calendar year 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 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 Chief Deputy Commissioner.

STRATEGIC PLAN

10. (a) Within 30 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 Chief Deputy Commissioner.

CONCENTRATIONS OF CREDIT

11. (a) Within 30 days, from the effective date of this Order the Bank will formulate, adopt and implement a written plan to reduce the loan concentrations of credit identified in the ROE. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each concentration; and
- (ii) Provision for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the board of directors' meetings.

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

INTEREST RATE RISK

12. (a) Within 60 days of the effective date of this Order the Bank shall address the recommendations in the ROE

regarding the management of the Bank's interest rate risk position. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(b) A copy of the policy revisions and procedures required by this paragraph shall be submitted to the Regional Director and the Chief Deputy Commissioner.

NOTIFICATION TO SHAREHOLDERS

13. 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.

MONITORING

14. 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.

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 Chief Deputy Commissioner 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 calendar days after the date of its issuance by the FDIC and the OFIR.

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 OFIR.

Pursuant to delegated authority.

Dated: October 15, 2009.

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

_____/s/_____
Stephen R. Hilker
Chief Deputy Commissioner
Office of Financial and
Insurance Regulation
State of Michigan