

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	
	)	CONSENT ORDER
Bancroft State Bank	)	
Bancroft, WISCONSIN	)	FDIC-10-936b
	)	
(Wisconsin Chartered	)	
Insured Nonmember Bank)	)	
_____	)	

Bancroft State Bank, Bancroft, 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 Wisconsin Department of Financial Institutions("WDFI"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the WDFI, dated

February 22, 2011, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to capital, asset quality, management, earnings, liquidity, and sensitivity to interest rate risk, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and WDFI.

The FDIC and the WDFI considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. 1818(b) and Section 220.04 of the Wisconsin Statutes, Wis. Stat. § 220.04 (9), have been satisfied, the FDIC and the WDFI HEREBY ORDER, 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, take affirmative actions 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 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, management effectiveness, earnings, 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 Administrator, Division of Banking of the WDFI ("Administrator"). For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the FDI 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).

#### MANAGEMENT STUDY

2. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director of the FDIC's Chicago Regional Office ("Regional Director") and the 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 one hundred twenty (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 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; and

(iv) Evaluation of all Bank officers' compensation, including salaries, director fees, and other benefits.

(d) Within 30 days after receipt of the Management Study, the Bank shall formulate a plan taking into consideration 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) 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.

(b) Within thirty (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) During the life 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 nine percent

(9.0%), and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of twelve percent (12%). 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 ratio is or falls below the minimum required by paragraph (a) above, the Bank shall immediately notify the Supervisory Authorities and within 30 days shall (1) increase capital in an amount sufficient to comply with paragraph (a), or (2) submit a written plan to the Supervisory Authorities, describing the primary means and timing by which the Bank shall increase its capital ratios up to or in excess of the minimum requirements set forth above, as well as contingency plans. Within 10 days of receipt of any comments from the Regional Director or Administrator, and after consideration of all such comments, the board shall approve the written plan, and record such approval in its minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

(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 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to Michael Mach, Administrator, Wisconsin Department of Financial Institutions, 345 W. 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 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.

(e) 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.

#### LOSS CHARGE-OFF

5. Within ten (10) days of the effective date of this ORDER, the Bank shall charge-off any loan classified "Loss" in the Report of Examination ("ROE") of September 7, 2010 that have not been previously charged-off or collected.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

6. (a) 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 Allowance for Loan and Lease Losses ("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 require the review to address the following factors: the results of internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure on significant credits, concentrations of credit, present and prospective economic conditions, frequency of review, and the prevailing Instructions for the Preparation of Reports of Condition and Income, as well as any analysis of the Bank's ALLL provided by the FDIC or the WDFI.

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

(c) Within thirty (30) days of the effective date of this ORDER, the Bank shall take all necessary steps to comply with the Interagency Policy Statement on the ALLL.

#### PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

7. (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 extension of credit (including any portion thereof) that has been charged off the books of the

Bank or classified "Loss," 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 listed for "Special Mention," 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 with their approval or disapproval noted thereon. A copy of the statement shall be placed in the appropriate loan file and shall be incorporated into the minutes of the applicable board of directors' meeting.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt, and implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is more than ninety (90) days delinquent, or is classified "Substandard" or "Doubtful" in the ROE, or internally by management. 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 six (6) and twelve (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) The plan required by this paragraph shall be submitted to the Regional Director and Administrator.

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

#### LENDING AND COLLECTION POLICIES

9. (a) Within 30 days from the effective date of this ORDER, the Bank shall adopt and implement revisions to its 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. The revised policies shall, at a minimum, establish realistic repayment terms and include provisions to address the issues identified in the ROE.

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

#### PROFIT PLAN AND BUDGET

10. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate, adopt, implement, and

adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2011 and within ninety (90) days from the effective date for calendar year 2012. 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, including projected growth in total assets;
- (ii) funding sources to support projected growth;
- (iii) anticipated use of funds and anticipated capital to assets ratio;
- (iv) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (v) identification of major areas in, and means by which, earnings will be improved; and
- (vi) 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, 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 Administrator.

#### RESTRICTION ON GROWTH

11. During the life of this ORDER, the Bank shall not increase its total assets by more than five (5%) percent during any consecutive three-month period without providing, at least thirty (30) days prior to its implementation, a growth plan to the Regional Director and the WDFI. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the Regional Director and the WDFI. For the purpose

of this paragraph, "total assets" shall be defined as in the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income.

#### INTEREST RATE RISK

12. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall have procedures for managing the Bank's sensitivity to interest rate risk. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk.

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

#### LIQUIDITY PLAN

13. (a) Within thirty (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 throughout the ROE.

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

DIVIDEND RESTRICTION

14. The Bank shall not pay or declare any dividends without the prior written consent of the Regional Director and the Administrator.

WRITTEN PROGRESS REPORTS

15. Within thirty (30) days following each calendar quarter following the effective date of this ORDER, the Bank shall furnish written progress reports to the Regional Director and the Administrator detailing the form and manner of any action taken to secure compliance with each provision of this ORDER and the results thereof. All progress reports and other written responses to this ORDER shall be reviewed by the board of directors of the Bank and made a part of the minutes of the board meeting.

NOTIFICATION TO SHAREHOLDER

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



CLOSING PARAGRAPHS

This ORDER shall be effective upon its issuance by the FDIC and the WDFI.

The provisions of this ORDER shall be binding upon the Bank and 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: March 1, 2011.

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

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