

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	
	)	CONSENT ORDER
SOUTHPORT BANK	)	
KENOSHA, WISCONSIN	)	FDIC-11-491b
	)	
(Wisconsin Chartered	)	
Insured Nonmember Bank)	)	
_____	)	

Southport Bank, Kenosha, 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

October 19, 2011, 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, rule or regulation 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: 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 FDIC and the Administrator of the 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 sixty (60) 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 ninety (90) 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; and
- (iv) Evaluation of all Bank officers' compensation, including salaries, director fees, and other benefits.

(d) Within thirty (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) 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 management's 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.

(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) 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. In addition, by December 31, 2011, the Board shall develop and submit to the FDIC and the WDFI a capital plan to ensure compliance with Paragraph 4(a). The capital plan shall include a contingency plan in the event that the Bank has:

- (i) Failed to maintain the minimum capital ratios required by this paragraph;
- (ii) Failed to submit an acceptable capital plan as required by this paragraph; or
- (iii) Has failed to implement or adhere to a capital plan to which the FDIC and WDFI have taken no written objection pursuant to this Paragraph. Said contingency plan shall include a plan to sell or merge the Bank. The Bank shall implement the contingency plan upon written notice from the FDIC and WDFI.

(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.



ALLOWANCE FOR LOAN AND LEASE LOSSES

5. (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 Federal Financial Institutions Examination Council's ("FFIEC") 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

6. (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" 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 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

7. (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 \$500,000 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) A copy of 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 visitations or examinations.

#### LENDING AND COLLECTION POLICIES

8. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall 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 Administrator.

PROFIT PLAN AND BUDGET

9. (a) By December 31, 2011, 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 year 2012. The plan 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) During each monthly meeting of the Bank's board of directors 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 and shall be completed at least thirty (30) days prior to the beginning of the applicable calendar year.

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

#### CONCENTRATIONS OF CREDIT

10. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall 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 for 12 and 24 month intervals and the methods by which the target levels will be attained; 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 meetings.

(b) A copy of the plan 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 percent (5%) 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 Administrator. 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. In no event shall the Bank increase its total assets by more than five percent (5%) during any consecutive twelve (12) month period. For the purpose of this paragraph, "total assets" shall be

defined as in the FFIEC 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 implement revisions to its 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.

STRATEGIC PLAN

13. (a) By December 31, 2011, the Bank shall revise and implement a comprehensive strategic plan. The plan required by this Paragraph shall contain an assessment of the Bank's current financial condition and market area, a description of the operating assumptions that form the basis for major projected income and expense components, and realistic strategies for restoring the viability of the Bank. The written strategic plan shall address, at a minimum:

- (i) Strategies for reducing existing risk exposures, increasing the level of liquid assets, establishing meaningful limits on participation loans and non-core funding sources, and improving



capital monitoring, credit underwriting, loan portfolio management, and credit administration practices; and

(ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within thirty (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 thirty (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 the revised plan;

(d) The plan and revisions thereto required by this Paragraph shall be submitted to the Regional Director and the Administrator.

(e) The Bank shall operate within the parameters of its strategic plan. The Bank shall submit any proposed major deviations or material changes from the strategic plan

(including changes resulting from decisions made by the holding company) to the FDIC and the WDFI for non-objection, a minimum of sixty (60) days before the proposed change is to be implemented.

#### LIQUIDITY PLAN

14. (a) Within thirty (30) days of the effective date of this ORDER, the Bank shall implement revisions and adhere to 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, as supplemented by FIL-13-2010, 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

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

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.

WRITTEN PROGRESS REPORTS

17. Within forty five (45) 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.

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: November 4, 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