FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF MICHIGAN

OFFICE OF FINANCIAL AND INSURANCE SERVICES

In the Matter of 1st STATE BANK SAGINAW, MICHIGAN (Insured State Nonmember Bank)	ORDER TO CEASE AND DESIST FDIC-07-180b

1st State Bank, Saginaw, Michigan, (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, rule, or regulation 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 Services for the State of Michigan ("OFIS"), 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

OFIS, dated September 27, 2007, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices [and violation[s] of law, rule, or regulation], the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and OFIS.

The FDIC and OFIS considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The FDIC and OFIS, 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 and violations of law, rule, or regulation:

A. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- The failure to obtain proper loan documentation;
- The failure to obtain adequate collateral;
- The failure to establish and monitor collateral margins of secured borrowers;

- The failure to establish and enforce adequate loan repayment programs;
- The failure to obtain current and complete financial information;
- Extending credit with inadequate diversification of risk;
- Other poor credit administration practices as described on pages 14 through 16 of the Joint Report of Examination of the Bank as of April 2, 2007 (“Joint Report”).

B. Violating law, rule, or regulation, including:

- The prior approval requirements for loans to bank insiders as set forth in section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”) 12 C.F.R. § 215.4(b).
- The overdraft restrictions of section 215.4(e) of Regulation O of the Board of Governors of the Federal Reserve System (“Regulation O”), 12 C.F.R. § 215.4(e).
- The appraisal requirements of sections 323.3 and 323.5 of the FDIC Rules and Regulations, 12 C.F.R. §§ 323.3 & 323.5.

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

D. Operating in such a manner as to generate inadequate earnings to support asset growth.

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

F. Operating with inadequate internal routines and controls.

G. Operating with an inadequate loan policy.

H. Operating with an inadequate audit program.

I. Operating with excessive sensitivity to interest rate risk.

J. Operating with an inadequate asset/liability management policy.

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

L. 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 or unsound banking practices and violations of law, rule, or regulation.

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

1. (a) Within 30 days from the last day of each calendar quarter following the effective date of this ORDER, the Bank shall determine from its Report of Condition and Income its level of Tier 1 capital as a percentage of its total assets ("capital ratio") for that calendar quarter. If the capital ratio is less than 8.0% percent, the Bank shall, within 60 days of the date of the required determination, increase its capital ratio to not less than 8.0% percent calculated as of the end of that preceding quarterly period. For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) Any such increase in Tier 1 capital may be accomplished by the following:

(i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325; or

(ii) The elimination of all or part of the assets classified "Loss" or "one-half of Doubtful" as of April 2, 2007, without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER; or

(iii) The collection in cash of assets previously charged off; or

(iv) The direct contribution of cash by the directors and/or the shareholders of the Bank; or

(v) Any other means acceptable to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Acting Chief Deputy Commissioner of OFIS ("Acting Chief Deputy Commissioner"); or

(vi) Any combination of the above means.

(c) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of 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 Peggy L. Bryson, Acting Chief Deputy Commissioner, Office of Financial and Insurance Services, 611 Ottawa Street, Lansing, Michigan, 48909, for their review. Any changes requested to be made in the materials by the FDIC or OFIS 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.

2. 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 Acting Chief Deputy Commissioner.

3. (a) During the life of this ORDER, the Bank shall have and thereafter retain qualified management. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. 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, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, the Bank shall notify the Regional Director and the Acting Chief Deputy Commissioner in writing of any changes in any of the Bank’s directors or senior executive officers. 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), and includes any person identified by the FDIC and OFIS, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

4. (a) Within 15 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and Acting Chief Deputy Commissioner. The consultant shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and Acting Chief Deputy Commissioner with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

(i) A description of the work to be performed under the contract or engagement letter;

(ii) The responsibilities of the consultant;

(iii) Identification of the specific procedures to be used when carrying out the work to be performed;

(iv) The qualifications of the employee(s) who are to perform the work;

(v) The time frame for completion of the work;

(vi) Any restrictions on the use of the reported findings; and

(vii) A provision for unrestricted examiner access to workpapers.

(c) The Management Plan shall be developed within 60 days from the effective date of this ORDER. The Management Plan shall include, at a minimum:

(i) Identification of both the type and number of officer and staff positions needed to properly manage and supervise the affairs of the bank;

(ii) Identification and establishment of such Bank committees or a provision for more frequent meetings of the full board 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) 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 60 days of the effective date of this ORDER, the Management Plan shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner for review and comment. Within 15 days of receipt of any comments, or confirmation that there will be no comments, and after consideration of any recommended changes, the board of directors shall approve the Management Plan, with its approval recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and adhere to the Management Plan. A copy of the adopted Management Plan shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner upon board approval.

5. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written profit plan

and a realistic, comprehensive budget for all categories of income and expense for calendar years 2007 through 2010, which plans and budgets shall be acceptable to the Regional Director and the Acting Chief Deputy Commissioner. 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, including net interest income, 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) Products, pricing, and projected revenue of products including funding costs and overhead expenses;

(ii) Methods to increase the net interest margin, and specifically methods to increase the yield on loans;

(iii) Specific strategies to decrease the bank's cost of funds;

(iv) Specific strategies to reduce the bank's overhead expenses; and

(v) A description of the operating assumptions that form the basis for and support major projected income and expense components.

(c) Within 90 days of the effective date of this ORDER, the written profit plan and budget shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner for review and comment. Within 15 days of receipt of any comments, or confirmation that there will be no comments, and after consideration of any comments, the board of directors shall approve the Management Plan, with its approval recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and adhere to the written profit plan. A copy of the adopted written profit plan and budget shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner upon board approval.

(d) 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.

(e) A written profit plan and budget which are acceptable to the Regional Director and the Acting Chief Deputy Commissioner shall be prepared, implemented, and adhered to for each calendar year for which this ORDER is in effect.

6. (a) Within 60 days of the effective date of this ORDER, and annually thereafter, the Bank shall have an independent review performed of the interest rate risk management process. The review shall comply with the requirements of the Joint Agency Policy Statement on Interest Rate Risk.

(b) Within 90 days of the effective date of the ORDER, the Bank shall adopt, implement, and adhere to a plan to secure accurate interest rate sensitivity reports. The plan shall document all significant assumptions, and shall be tailored to the Bank's specific risk characteristics.

(c) Within 45 days from the effective date of this ORDER, the Bank shall amend its interest rate risk policy in a manner acceptable to the Regional Director and Acting Chief Deputy Commissioner. The amendments shall address, at a minimum, the following:

(i) Formulating and implementing strategies to reduce the inherent level of interest rate risk;

(ii) Interest rate risk components (repricing, basis, yield curve, option, and price risks);

(iii) Appropriate risk limits for the effect of interest rate shifts on net income and capital;

(iv) Permissible activities to mitigate risk; and

(v) A program to plan for an annual independent review on an ongoing basis, including procedures for verifying the accuracy of all key assumptions in interest rate risk modeling.

(d) Within 45 days from the effective date of this ORDER, the revised policy shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner for review and comment. Within 15 days of receipt of any comments, or confirmation that there will be no comments, and after consideration of any recommended changes, the board of directors shall approve the revised policy, with its approval recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and adhere to the revised policy. A copy of the adopted revised policy shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner upon board approval.

7. (a) Within 45 days from the effective date of this ORDER, the Bank shall revise its written funds management policy in a manner acceptable to the Regional Director and the Acting Chief Deputy Commissioner. Annually thereafter, while this ORDER is in effect, the Bank shall review this policy for adequacy and, based upon such review, shall make appropriate revisions to the policy that are necessary to maintain adequate provisions to meet the Bank’s liquidity needs. The initial revisions shall include, at a minimum, provisions:

(i) Establishing the membership of the Bank’s Asset and Liability Committee, and the responsibilities of the members, including the frequency with which the committee shall meet and assignment of authority to make funds management decisions, including but not limited to the authority to set pricing of loan products;

(ii) Requiring periodic review of deposit structure, including: volume and trend to total deposits; maturity distribution of time deposits; rates being paid on each type of deposit in comparison to competitors in the Bank’s trade area; and limits on large time deposits, public funds and out-of-area deposits;

(iii) Establishing limits on concentrations in or excessive reliance upon any single source or type of funding, such as brokered funds, internet deposits, or other similar rate sensitive or credit sensitive deposits;

(iv) Establishing methodologies for computing the cost of funds and analyzing marginal funding costs, and incorporating those results into the ALCO committee decisions and written profit plan strategies;

(v) Establishing acceptable risk tolerance levels, such as individual and aggregate limits on borrowed funds by type and source, or a minimum limit on the amount of short-term investments;

(vi) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;

(vii) Addressing the proper use of borrowings (i.e., seasonal credit needs, match funding of loans, etc.); the manner in which the borrowing strategy will be approved and documented; the means by which the Bank will avoid concentration of funding sources; and pricing and collateral requirements with specific allowable funding channels identified (i.e., internet deposits, Fed funds purchased and other correspondent borrowings);

(viii) Requiring Bank management or the asset and liability committee to make written monthly reports detailing the Bank's liquidity position, including the Bank's net non-core funding ratio and liquidity ratio, to the Bank's board of directors; and any action taken as a result of the reports shall be recorded in the minutes of the meeting to the board;

(ix) Requiring periodic independent review of asset and liability management and compliance with established policies and procedures;

(x) Revise the net interest income, economic value of equity, and gap model policy limits to reduce the allowable exposure; and

(xi) Formulate a written liquidity contingency plan including identification of possible sources of funds, and priority for their implementation, prior to utilizing these funds.

(b) Within 45 days of the effective date of this ORDER, the funds management policy shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner for review and comment. Within 15 days of receipt of any comments, or confirmation that there will be no comments, and after consideration of any recommended changes, the board of directors shall approve the funds management policy, with its approval recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and adhere to the funds management policy. A copy of the adopted funds management policy shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner upon board approval.

8. (a) Within 45 days from the effective date of this ORDER, the Bank shall adopt a written plan which is acceptable to the Regional Director and the Acting Chief Deputy Commissioner to reduce the Bank's risk position in each asset in excess of $100,000 which is classified "Substandard" or "Doubtful" in the Joint Report. In developing such plan, the Bank shall, at a minimum:

(i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each asset within six and twelve months from the effective date of this ORDER; and

(ii) Provisions 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.

(c) As used in this paragraph, “reduce” means to: (1) collect; (2) charge off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and OFIS.

(d) Within 45 days of the effective date of this ORDER, the Asset Risk Reduction Plan shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner for review and comment. Within 15 days of receipt of any comments, or confirmation that there will be no comments, and after consideration of any recommended changes, the board of directors shall approve the Asset Risk Reduction Plan, with its approval recorded in the minutes of the board of directors meeting. Thereafter, the Bank shall implement and adhere to the Asset Risk Reduction Plan. A copy of the adopted Asset Risk Reduction Plan shall be submitted to the Regional Director and the Acting Chief Deputy Commissioner upon board approval.

9. As of the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” and 50 percent of all assets classified “Doubtful” in the Joint Report that have not been previously collected or charged off. Any such charged-off asset shall not be rebooked without the prior written consent of the Regional Director and Acting Chief Deputy Commissioner. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph, unless any such extension of credit is made to a creditworthy borrower other than the initial obligor and is otherwise made in conformity with the Bank’s loan policy for the amount and type of credit, including applicable collateral requirements.

10. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for “Special Mention” in the Joint Report.

11. Within 90 days from the effective date of this ORDER, the Bank shall revise its credit administration practices to address the concerns identified in the Joint Report. At a minimum, the revisions in credit administration and loan review functions shall include:

(a) Policies and procedures for obtaining and analyzing financial statements and calculating cash flow and debt service ability;

(b) Requirements for loan officers to prepare file memoranda detailing their underwriting analyses prior to extending credit to a borrower;

(c) Policies and procedures to ensure quality control in the Bank's mortgage banking operations, addressing specifically the issues identified in those operations in the Joint Report;

(d) Obtaining management information systems reports on Bank loans being serviced by any external servicing company. The reports shall be sufficiently detailed for the Bank to evaluate the condition of such loans, and shall specifically include delinquency reports for loans less than 30 days past due;

(e) Implementation of loan review policies and procedures which are adequate to identify loans for placement on the Bank's watch list, under the criteria established in the Bank's loan policy;

(f) A loan grading system which accurately reflects the condition of each loan;

(g) Policies and procedures to address the deficiencies in the indirect lending portfolio, including verification of employment and/or income, loan to value calculations and proof of insurance;

(h) Policies and procedures to address the deficiencies in the bank’s floor plan lending portfolio, including curtailment requirements, obtaining financial information and conducting floor plan inventory inspections;

(i) Policies and procedures to identify and monitor the Bank’s volume of, and risks associated with, subprime assets in conformance with all outstanding interagency guidance on subprime lending.

12. 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 consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank’s ALLL provided by the FDIC or OFIS. ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

13. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate or correct all violations of law, rule, and regulation listed in the Joint Report.

(b) Within 30 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

14. Within 60 days from the effective date of this ORDER, the Bank’s board of directors shall adopt, implement, and adhere to a comprehensive written audit program. At a minimum, the audit program shall:

(a) Address all of the concerns identified in the Joint Report regarding the Bank’s internal and external auditing;

(b) Provide for review of the Bank's performance under the requirement of the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330 & 12 U.S.C. §§ 1818(s), 1829(b), & 1951-1959;

(c) Provide for review of the Bank's information technology systems and procedures;

(d) Provide for review of any new lending products or activities prior to their implementation; and

(e) Provide that the internal auditor or chair of the Bank's audit committee make written monthly reports of audit findings, including the status of corrective actions previously adopted by the Bank's board of directors. The reports and any action taken by the board as a result of the findings shall be recorded in the minutes of the meetings of the board.

15. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and

any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section 550 17^{th} Street, N.W., Washington, D.C. 20429 and to OFIS, 611 Ottawa Street, Lansing, Michigan 48909, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and OFIS shall be made prior to dissemination of the description, communication, notice or statement.

16. (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) Following the required date of compliance with subparagraph (a) of this paragraph, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled board of directors' meeting.

17. 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 Acting 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. Such reports may be discontinued when

the corrections required by this ORDER have been accomplished and the Regional Director and Acting Chief Deputy Commissioner have, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be upon its issuance by the FDIC and OFIS.

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 OFIS.

Pursuant to delegated authority.

Dated: October 5th , 2007.

__________________________	__________________________
Sylvia H. Plunkett Regional Director Chicago Regional Office Federal Deposit Insurance Corporation	Peggy L. Bryson Acting Chief Deputy Commissioner Office of Financial and Insurance Services for the State of Michigan