

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS FOR THE STATE OF WISCONSIN

_____	)	
In the Matter of	)	
	)	CONSENT ORDER
ISB COMMUNITY BANK	)	
IXONIA, WISCONSIN	)	
	)	FDIC-10-344b
(STATE CHARTERED	)	
INSURED NONMEMBER BANK)	)	
_____	)	

ISB Community Bank, Ixonia, 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 September 7, 2010, 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, and Liquidity, 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 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 Regional Director of the FDIC's Chicago Regional Office ("Regional Director") and 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 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 PLAN

2. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director and 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, with specific consideration to staffing adequacy in loan review, credit analysis, and loan workouts.

(b) The Bank shall provide the Regional Director and Administrator with a copy of the proposed engagement letter or contract with the independent third party for their review and non-objection within thirty (30) days of receipt from the Bank .

(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) Evaluation of senior Bank officers as well as staff members in loan review, credit analysis, and loan workout areas 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;

(ii) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those positions identified by the Management Study.

(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 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) Within ninety (90) days of 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 eight (8%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of eleven (11%) 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) Within one hundred eighty (180) days of the effective date of this ORDER, the Bank shall increase and maintain its capital ratio to a minimum of nine (9%) percent and its total risk-based capital ratio at a minimum of twelve (12%) percent.

(c) In the event any ratio is or falls below the minimum required by the paragraphs above, the Bank shall

immediately notify the Regional Director and Administrator and within thirty (30) days shall (1) increase capital in an amount sufficient to comply with the respective paragraphs above, or (2) submit a written plan to the Regional Director and Administrator, 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 ten (10) days of receipt of any comments from the Regional Director or Administrator, and after consideration of all such comments, the Bank's board of directors shall approve the written plan, and record such approval in its minutes. Thereafter, the Bank shall implement and fully comply with the written plan.

(d) 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 twenty (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.

(e) 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 ten (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.

LOSS CHARGE-OFF

5. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss" in the Report of Examination dated January 25, 2010 ("ROE").

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 extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the 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

7. (a) Within ninety (90) 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 \$1,000,000 which is 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 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 loans over \$500,000 which become more than sixty (60) days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations or adversely classified internally by management.

#### LENDING AND COLLECTION POLICIES

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall revise, adopt, and implement its written lending and collection policies to provide effective guidance and control over the Bank's lending function, including specific guidelines for an effective real estate appraisal process and a satisfactory loan review program. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Documentation for all adversely classified real estate secured loans over \$1,000,000, shall include appraisals less than one year-old. For adversely classified real estate loans less than \$1,000,000, documentation shall include evaluations less than one year-old.

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

#### LIQUIDITY PLAN

9. (a) Within ninety (90) days of the effective date of this ORDER, the Bank shall revise its written contingency

funding plan ("Liquidity Plan"). 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) A copy of the revised plan required by this paragraph shall be submitted to the Regional Director and Administrator.

#### DIVIDEND RESTRICTION

10. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and Administrator.

#### ALLOWANCE FOR LOANS AND LEASE LOSSES

11. (a) Within thirty (30) days of the effective date of this ORDER the Bank shall increase its Allowance for Loan and Lease Losses ("ALLL") by the amount provided for in the ROE.

(b) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the

Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or WDFI.

PROFIT PLAN AND BUDGET

12. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise and update its written profit plan and budget for all categories of income and expense.

(b) At each monthly board meeting 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.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

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

STRATEGIC PLAN

13. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise, adopt, and implement its strategic plan consistent with the recommendations in the ROE

(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 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 Administrator.

#### CONCENTRATIONS OF CREDIT

14. (a) Within one-hundred-twenty (120) 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 unless the Bank's board of director's has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interests 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. Further, such plan 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 Administrator.

#### CORRECTION OF VIOLATIONS

15. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, regulations, and regulatory statements of policy cited in the ROE.

#### AUDIT PROGRAM

16. (a) The Board shall cause an audit of the bank's financial statements to be conducted annually, commencing with year-end 2010. Changes made by the Bank in its audit program as a result of complying with this paragraph shall be recorded in the applicable board of directors' minutes and forwarded to the Regional Director and Administrator.

(b) The Bank shall provide the Regional Director and

Administrator with a copy of all final external audit reports, management letters, and qualifications within ten (10) days of the Bank's receipt of such report(s). The board of directors shall address all findings of the external audit reports at its next regular meeting after receipt of the final reports. Any action or inaction taken as a result of addressing the reports shall be noted in the minutes of the board of directors' meeting with each individual member's vote recorded.

#### INTEREST RATE RISK

17. (a) Within ninety (90) days from the effective date of this ORDER, and annually thereafter, the Board shall review the Bank's interest rate risk program for adequacy and shall make the necessary revisions that, at a minimum, are consistent with the Federal Financial Institutions Examination Council's Instructions for Consolidated Reports of Condition and Income, generally accepted accounting principles, and the Bank's loan, liquidity and asset/liability management policies.

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

#### NOTIFICATION TO SHAREHOLDER

18. 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.

PROGRESS REPORTS

19. Within thirty (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 Administrator 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.

CLOSING PARAGRAPHS

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

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 WDFI.

Pursuant to delegated authority.

Dated: September 14, 2010.

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

/s/ \_\_\_\_\_  
Michael J. Mach  
Administrator  
Department of Financial  
Institutions for the State  
of Wisconsin