

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF INDIANA

DEPARTMENT OF FINANCIAL INSTITUTIONS

INDIANAPOLIS, INDIANA

	)	
In the Matter of	)	CONSENT ORDER
	)	
THE PEOPLES STATE BANK	)	FDIC-10-013b
ELLETTSVILLE, INDIANA	)	
	)	
(INDIANA CHARTERED	)	
INSURED NONMEMBER BANK)	)	
	)	

The People's State Bank, Ellettsville, Indiana ("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 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 Indiana Code §§ 28-11-4-1 through 28-11-4-12, regarding hearings before the Department of Financial Institutions for the State of Indiana ("DFI"), 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 DFI, dated March 18, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices and violations of law or regulation relating to weaknesses in capital, asset quality, and earnings, the Bank has consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the DFI.

The FDIC and the DFI 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 Indiana Code §§ 28-11-4-1 through 28-11-4-12 have been satisfied, the FDIC and the DFI 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 action 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 ("Board") or the employment of any individual as a senior executive officer, the Bank shall request and obtain the DFI's written approval. 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).

BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the Board 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; risk management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Bank's Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

3. (a) Within 90 days of the effective date of the ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 9.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12.0 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the Bank's

Board 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 David H. Mills, Director, Department of Financial Institutions for the State of Indiana, 30 South Meridian Street, Suite 300, Indianapolis, Indiana 46204, for their review. Any changes requested to be made in the materials by the FDIC or the DFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or

existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

LOSS CHARGE-OFF

4. As of the effective date of this ORDER the Bank shall charge off from its books and records any asset classified "Loss" in the Report of Examination of November 2, 2009 ("ROE").

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (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" or "Doubtful" in the

ROE, and is uncollected unless the Bank's Board 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 meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (a) Within 60 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 \$200,000 which is 90 days or more delinquent or classified "Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;

- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER; and
- (v) Provide for the submission of monthly written progress reports to the Bank's Board for review and notation in minutes of the meetings of the Board.

(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 DFI.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director of the FDIC's Chicago Region ("Regional Director") and the Director of the DFI ("Director").

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

LOAN POLICY

7. (a) Within 60 days from the date of this ORDER, the Bank shall revise, and implement revisions to, its loan policy in order to effectively manage and control risks in the loan portfolio. The revisions to the Bank's loan policy shall, at a minimum, incorporate the items discussed on page 12 of the ROE and shall include specific guidelines for capitalization of interest and other expenses and for obtaining real estate valuations for problem loans.

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

DIVIDEND RESTRICTION

8. 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 Director.

ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (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 Bank's Board 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 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 DFI.

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

PROFIT PLAN AND BUDGET

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2010 and 2011. 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, shall contain a description of the operating assumptions that form the basis for major projected income and expense components, and identify the major areas in, and means by which, earnings will be improved.

(b) 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 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 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 Director.

CONCENTRATIONS OF CREDIT

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate adopt and implement a written plan to manage each of the concentrations of credit identified on page 30 of the ROE in a safe and sound manner. At a minimum the plan must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, and a limit on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

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

INVESTMENT POLICY

12. Within 60 days from the effective date of this ORDER, and annually thereafter, the Board shall review the Bank's

Investment Policy for adequacy and shall make the necessary revisions that, at a minimum, establish appropriate limits and guidelines for managing structured credit products and address the exceptions noted on pages 16 through 17 of the ROE. The revisions shall be 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.

INTEREST RATE RISK

13. (a) Within 60 days of the effective date of this ORDER, the Bank shall have procedures for managing the Bank's sensitivity to interest rate risk, incorporating, at a minimum, the items discussed on pages 5 and 15 of the ROE. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

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

CORRECTION OF VIOLATIONS

14. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rules, and regulations listed on page 8 of the ROE.

NOTIFICATION TO SHAREHOLDER

15. 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

16. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Director written progress reports signed by each member of the Bank's Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.

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

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 DFI.

Issued Pursuant to Delegated Authority.

Dated: March 25, 2010.

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

_____/s/_____
David H. Mills
Director
Department of Financial
Institutions for the State
of Indiana