

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF WISCONSIN

DEPARTMENT OF FINANCIAL INSTITUTIONS

_____	)	
In the Matter of	)	
	)	CONSENT ORDER
COMMUNITY STATE BANK	)	
NORWALK, WISCONSIN	)	FDIC-12-230b
	)	
(Wisconsin Chartered	)	
Insured Nonmember Bank)	)	
_____	)	

Community State Bank, Norwalk, 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 20, 2012, whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices relating to weaknesses in Capital, Management, and Earnings, the Bank has consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the 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(9) 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 action as follows:

QUALIFIED MANAGEMENT

1. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include: (i) a chief executive officer with proven ability in managing a bank of comparable size and condition; (ii) a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio; and (iii) an officer with the knowledge and

ability to appropriately oversee the bank's Information Technology functions. 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.

(b) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the WDFI 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 WDFI, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(c) During the life of this ORDER, prior to the addition of any individual to the Bank's board of directors ("Board") or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104, and request and obtain the WDFI's written approval.

#### BOARD COMPOSITION AND PARTICIPATION

2. (a) Within ninety (90) days of the effective date of this ORDER, the Bank shall add to its board of directors one (1) additional director.

(b) As of the effective date of this ORDER, the Bank's 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 and functions, consistent with the role and expertise commonly expected of directors of Banks of comparable size and similar banking activities.

(c) Within sixty (60) days from the effective date of this ORDER, the Bank's board of directors shall develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

3. (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 eight (8.0%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk-based capital ratio") at a minimum of twelve (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) Any increase in Tier 1 capital required by this ORDER 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 23, 2012, 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 and the WDFI; or

(vi) Any combination of the above means.

(c) If all or part of any increase in capital required by this paragraph is to be accomplished by the sale of new securities issued by the Bank, 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 WDFI, 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.

(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 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.

(d) Should the Bank be unable to maintain the required capital levels specified in subparagraph (a) above, then within thirty (30) days of receipt of written direction

from the Regional Director and the WDFI, the Bank shall develop, adopt, and implement a written plan to sell or merge itself into another federally insured financial institution or otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. A copy of the plan required by this paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the WDFI.

#### LOSS CHARGE-OFF

4. Within ten (10) days of the effective date of this ORDER, the Bank shall charge off from its books and records any loan, asset, or portions of assets classified "Loss" in the Joint Report of Examination dated April 23, 2012 ("ROE").

#### DIVIDEND RESTRICTION

5. During the life of this ORDER, the Bank shall not pay or declare any dividends without the prior written consent of the Regional Director and the WDFI.

#### CORRECTION OF VIOLATIONS

6. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation cited in the ROE. To the extent the Bank believes a specific violation cannot be eliminated or corrected, the Bank shall provide a detailed

written statement, acceptable to the Regional Director and the WDFI, explaining precisely why it is believed the specific violation cannot be corrected or eliminated.

#### INTERNAL AUDITS

7. Within ninety (90) days from the effective date of this ORDER, the Bank's Board shall adopt and implement a comprehensive, written internal audit program. At a minimum, the audit program shall comply with the Interagency Policy Statement on Internal Audit Function and its Outsourcing, and shall adequately address all audit weaknesses identified in the ROE.

#### PROFIT PLAN AND BUDGET

8. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the WDFI, for review and comment, a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2012 and 2013. 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) an identification of the major areas in, and means by which, the board will seek to improve the Bank's operating performance;
- (ii) realistic and comprehensive budgets;
- (iii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components; and
- (v) periodic salary review.

(c) Within thirty (30) days from the end of each calendar quarter following completion of the profit plan 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.

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

effect and shall be submitted to the Regional Director and the WDFI for review and comment within thirty (30) days of the end of each year.

(e) Copies of the plan and budgets required by this paragraph shall be submitted to the Regional Director and the WDFI for review and comment. Within thirty (30) days of receipt of all such comments from the Regional Director and the WDFI, and after adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

INFORMATION SYSTEMS (IS) ASSESSMENT

9. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall prepare a written assessment of its information systems activities. This assessment shall adequately address all IS deficiencies noted in the ROE and shall specifically include the Bank's proposed corrective measures for each.

(b) Within ten (10) days from completion of the written assessment, the Bank's Board shall review, approve, and submit its written assessment to the Regional Director and the WDFI for review and comment.

(c) Within thirty (30) days from receipt of any comments from the Regional Director and/or the WDFI, and after adoption of any recommended changes to the written assessment, the Bank shall adopt and implement all corrective measures detailed in the IS Assessment.

WRITTEN BSA COMPLIANCE PROGRAM

10. Within sixty (60) days of the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised written BSA compliance program, which fully meets all applicable requirements of section 326.8 of the FDIC's Rules and Regulations ("FDIC Rules"), 12 C.F.R. § 326.8, and which is designed to, among other things, assure and maintain full compliance by the Bank with the BSA and all implementing rules and regulations issued pursuant thereto.

(a) At a minimum, the program shall:

- i. Require the Bank to develop and implement a system of internal controls and policies to ensure full compliance with the BSA and all implementing rules and regulations, including policies and procedures related to shell banks, foreign banks, and customers with high-risk activities;

- ii. Provide for comprehensive independent testing of compliance with all applicable rules and regulations related to the BSA, annually. All Audits should be fully documented, require a comprehensive scope, and be conducted with the appropriate segregation of duties by a qualified and independent third party. Written findings of each audit shall be presented to the Bank's Board and noted in the minutes of the Board meeting at which received;
  
- iii. Establish due diligence practices and written guidelines for all customers that are commensurate with the level of BSA and money laundering risk posed by each customer; and
  
- iv. Provide for and document improved and effective training of all appropriate personnel, including, without limitation, tellers, customer service representatives, lending officers, private and personal banking officers, and all other customer

contact personnel. The training shall be conducted by qualified staff and independent contractors and shall include training in all aspects of regulatory and internal policies and procedures related to the BSA. The training curriculum shall be updated on a regular basis, not less frequent than annually, to assure that all personnel are provided with the most current and up to date information. Additionally, appropriate staff members shall be properly trained with regards to BSA prior to the bank entering into any new products or services.

- v. Shall adequately address or correct all identified BSA/AML deficiencies noted in the ROE.

(b) Within seventy-five (75) days of the effective date of this ORDER, the Bank shall provide the Regional Director and the WDFI with a copy of the revised written BSA compliance program for review and comment. After receipt of any comments from the FDIC and/or The WDFI and adoption of any recommended changes, the Board shall approve and implement the revised

Program in a manner acceptable to the Regional Director and the WDFI.

NOTIFICATION TO SHAREHOLDER

11. 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.

WRITTEN PROGRESS REPORTS

12. 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 WDFI detailing the form and manner of any action taken to secure compliance with each provision of this ORDER and the results thereof. In addition, the Bank shall furnish such other reports as requested by the Regional Director and the WDFI. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the WDFI have released, in writing, the Bank from making further reports. All progress reports and other written responses to this ORDER shall be reviewed by the Bank's Board and made a part of the minutes of the Board meeting.

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.

Issued Pursuant to Delegated Authority.

Dated: October 1, 2012.

/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