

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

STATE OF  
MICHIGAN OFFICE OF FINANCIAL AND INSURANCE REGULATION  
LANSING, MICHIGAN

Written Agreement by and among

WARREN BANCORP, INC.  
Warren, Michigan

WARREN BANK  
Warren, Michigan

FEDERAL RESERVE BANK  
OF CHICAGO  
Chicago, Illinois

and

MICHIGAN OFFICE OF FINANCIAL AND  
INSURANCE REGULATION  
Lansing, Michigan

Docket No. 08-024-WA/RB-HC  
08-024-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Warren Bancorp, Inc., Warren, Michigan (“Bancorp”), a registered bank holding company, and its subsidiary bank, Warren Bank, Warren, Michigan (the “Bank”), a Michigan state-chartered bank that is a member of the Federal Reserve System, Bancorp, the Bank, the Federal Reserve Bank of Chicago (the “Reserve Bank”), and the Michigan Office of Financial and Insurance Regulation (the “OFIR”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on September 18, 2008, the boards of directors of Bancorp and the Bank at duly constituted meetings adopted resolutions authorizing and directing Damian S. Kassab and Thomas Bernasconi, to enter into this Agreement on behalf of Bancorp and the Bank, respectively, and consenting to compliance with each and every provision of this Agreement by Bancorp and the Bank and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

NOW, THEREFORE, Bancorp, the Bank, the Reserve Bank, and OFIR agree as follows:

**Board of Directors Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and OFIR a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including, but not limited to, credit risk management;
- (b) measures to enhance the independence of credit administration from the loan production function;
- (c) steps to establish an effective loan workout function; and
- (d) a formal process to approve exceptions to approved loan policies.

2. Within 60 days of this Agreement, the board of directors shall take such actions as are necessary to employ a permanent, full-time chief credit officer with the requisite ability, qualifications, and demonstrated experience needed to oversee the credit administration process, including but not limited to, problem loan workouts.

### **Credit Risk Management**

3. Within 60 days of this Agreement, the Bank shall submit an acceptable written plan to the Reserve Bank and OFIR that describes the specific actions that the Bank's board of directors proposes to take to strengthen the Bank's credit risk management practices and to address the deficiencies relating to credit risk management noted in the report of examination commenced on January 28, 2008 (the "Report of Examination"). The plan shall, at a minimum, address, consider, and include:

(a) Enhanced risk monitoring policies, procedures, and practices to identify, measure, monitor, and control risks arising from concentrations of credit by industries, types of loan, and geographic locations, consistent with Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, December 12, 2006 (SR 07-1); and

(b) enhanced management information systems to provide accurate and timely information to the Bank's management and board of directors, including but not limited to, updated problem loan or watch reports and other real estate owned ("OREO") reports.

### **Lending and Credit Administration**

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR acceptable revised written lending and credit administration policies and procedures that shall, at a minimum, address, consider and include:

- (a) An evaluation of existing lending authority and lending limits, including approval limits for overdrafts;
- (b) procedures for exceptions to the Bank's loan policies, including required documentation by the account officer and approval by the board of directors;
- (c) procedures to identify loans with a common repayment source or credit relationship and to aggregate such loans on monthly reports to the board of directors;
- (d) procedures to ensure full documentation of loan guarantor repayment capacity;
- (e) procedures to ensure that all significant events are reported on the monthly problem loan report to the board of directors; and
- (f) controls to ensure uniform adherence to all loan policies and procedures.

#### **Asset Improvement**

5. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, "loss" or "doubtful" in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified "substandard" in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank's interest in the

ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank's written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$1,000,000, including OREO, that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$1,000,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and OFIR an acceptable

written plan, approved by the Bank's loan committee, to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter, the Bank shall submit a written progress report to the Reserve Bank and OFIR to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, extension report, and past due/non-accrual report.

### **Allowance for Loan and Lease Losses**

7. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "loss" in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified "loss" unless otherwise approved in writing by the Reserve Bank and OFIR.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 and December 13, 2006, and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and OFIR. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan

portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall adopt an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and OFIR, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Capital Plan**

8. Within 60 days of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank and OFIR an acceptable joint written plan to maintain at Bancorp, on a consolidated basis, and the Bank, as a separate legal entity on a stand-alone basis, sufficient total risk-based capital, Tier 1 risk-based capital, and leverage ratios. The plan shall, at a minimum, address, consider, and include:

(a) The consolidated organization's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-

Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(c) the volume of the Bank's adversely classified assets, concentrations of credit, adequacy of the loan loss reserves, projected growth of assets, and projected retained earnings; and

(d) the source and timing of additional funds to fulfill the consolidated organization's and the Bank's future capital requirements and the Bank's loan loss reserve needs.

9. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

### **Liquidity/Funds Management**

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable revised written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the monitoring and reporting of the Bank's liquidity position;



- (b) additional tools to measure and estimate liquidity needs on an ongoing basis;
- (c) specific liquidity targets and parameters and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; and
- (d) steps to diversify sources of funding and reduce reliance on volatile liabilities, including brokered deposits.

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

#### **Earnings Plan and Budget**

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR a written business plan for 2009 for improving the earnings and overall condition of the Bank. The plan, at a minimum, shall provide for or describe:

- (i) the responsibilities of the board of directors for the development, approval, implementation, and monitoring of the business plan;
- (ii) the major areas in, and means by which, the Bank's board of directors will seek to improve the Bank's earnings and operating performance; and
- (iii) a realistic and comprehensive budget.

(b) A written business plan for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and OFIR at least one month prior to the beginning of that calendar year.

## **Dividends**

13. (a) Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (“Director”), and, as to the Bank, also OFIR.

(b) Bancorp shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Bancorp and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings and loan loss reserve needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancorp and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors’ Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323) and, as to the Bank, the Michigan policy on dividends.

## **Debt and Stock Redemption**

14. (a) Bancorp shall not, directly or indirectly, incur, increase, or guarantee any debt, including debt to shareholders, without the prior written approval of the Reserve Bank. All

requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancorp shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Compliance with Laws and Regulations**

15. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of Section 32 of the FDI Act (12 U.S.C. § 1831i), Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 225.71 *et seq.*).

(b) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation’s regulations (12 C.F.R. Part 359).

### **Compliance with the Agreement**

16. Within 10 days of this Agreement, the boards of directors of Bancorp and the Bank shall appoint a joint committee (the “Compliance Committee”) to monitor and coordinate Bancorp’s and the Bank’s compliance with the provisions of this Agreement. The Compliance Committee shall include at least three outside directors who are not executive officers or principal shareholders of Bancorp or the Bank, as defined in section 215.2 (e)(1) and section 215.2(m)(1) (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)) of the Board of Governors’

Regulation O. At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors on a monthly basis.

17. Within 30 days after the end of each calendar quarter following the date of this Agreement, Bancorp and the Bank, as applicable, shall submit to the Reserve Bank and OFIR written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

### **Approval and Implementation of Plans, Policies, Procedures, and Program**

18. (a) Bancorp and the Bank, as applicable, shall submit written plans, policies, procedures, and a program that are acceptable to the Reserve Bank and OFIR within the applicable time periods set forth in paragraphs 3, 4, 6, 7(c), 8, 10, and 11 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and OFIR, Bancorp and the Bank, as applicable, shall adopt the approved plans, policies, procedures, and programs. Upon adoption, Bancorp and the Bank, as applicable, shall promptly implement the approved plans, policies, procedures, and programs, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and OFIR.

### **Communications**

19. All communications regarding this Agreement shall be sent to:

- (a) Ms. Julie A. Williams  
Assistant Vice President  
Federal Reserve Bank of Chicago  
230 South LaSalle Street

Chicago, Illinois 60690

- (b) Mr. Gary L. Thielsen  
Assistant Director  
Michigan Office of Financial and Insurance Regulation  
P.O. Box 30224  
Lansing, Michigan 48909
  
- (c) Mr. Damian Kassab  
Chairman of the Board  
Warren Bancorp, Inc.  
Warren Bank  
38880 Garfield Road  
Clinton Township, MI 48038

**Miscellaneous**

20. Notwithstanding any provision of this Agreement, the Reserve Bank and OFIR may, in their sole discretion, grant written extensions of time to Bancorp and the Bank to comply with any provision of this Agreement.

21. The provisions of this Agreement shall be binding upon Bancorp, the Bank, and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

22. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and OFIR.

23. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, OFIR, or any other federal or state agency from taking any other action affecting Bancorp and the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

24. Pursuant to section 50 of the FDI Act (12 U.S.C. §1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 18th day of September, 2008.

Warren Bancorp, Inc.

Federal Reserve Bank of Chicago

By: /s/ Damian S. Kassab  
Damian S. Kassab  
Chairman of the Board

By: /s/ Mark H. Kawa  
Mark H. Kawa  
Vice President

Warren Bank

Michigan Office of Financial and Insurance  
Regulation

By: /s/ Thomas Bernasconi  
Thomas Bernasconi  
President

By: /s/ Stephen R. Hilker  
Stephen R. Hilker  
Chief Deputy Commissioner