

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

In the Matter of

WARREN BANK
Warren, Michigan

Docket No. 09-087-PCA-SM

Prompt Corrective Action
Directive Issued Pursuant to
Section 38 of the Federal Deposit
Insurance Act, as Amended

The Board of Governors of the Federal Reserve System (the “Board of Governors”) has determined that:

(A) Warren Bank, Warren, Michigan (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, was undercapitalized, as defined in section 208.43(b)(3) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(3)), for purposes of section 38 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1831*o*), as of March 19, 2009.

(B) The Bank did not file a capital restoration plan that meets the requirements of section 38(e)(2) of the FDI Act (12 U.S.C. § 1831*o*(e)(2)) and section 208.44 of Regulation H of the Board of Governors (12 C.F.R. § 208.44).

(C) The Bank’s failure to file an acceptable capital restoration plan at the time that the Bank was undercapitalized has caused the Bank to be subject to all of the provisions of section 38 of the FDI Act and section 208.45 of Regulation H of the Board of Governors (12 C.F.R. § 208.45) that are applicable to a significantly undercapitalized state member bank.

(D) Based on the financial statement submitted by the Bank to Federal Reserve Bank of Chicago (the “Reserve Bank”) staff on July 16, 2009, the Bank is significantly undercapitalized, as defined in 208.43(b)(4) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(4)), for purposes of section 38 of the FDI Act, as of June 30, 2009.

(E) Pursuant to sections 38(f)(1)(A) and (B) of the FDI Act (12 U.S.C. §§ 1831o(f)(1)(A) and (B)) and section 208.44(e) of Regulation H of the Board of Governors (12 C.F.R. § 208.44(e)), the Bank is subject to the all of the provisions of section 38 of the FDI Act and section 208.45 of Regulation H of the Board of Governors that are applicable to a significantly undercapitalized state member bank.

(F) Pursuant to sections 38(f)(2) and (3) of the FDI Act (12 U.S.C. §§ 1831o(f)(2) and (3)), section 208.45(b) of Regulation H of the Board of Governors (12 C.F.R. § 208.45(b)), and section 263.202(a)(2) of the Rules of Practice for Hearings of the Board of Governors (the “Rules of Practice”) (12 C.F.R. § 263.202(a)(2)), the Bank must immediately take certain actions in order to carry out the purposes of section 38 of the FDI Act, due to the Bank’s weakened capital position.

Accordingly, pursuant to section 208.45(b) of Regulation H of the Board of Governors and section 263.202(a)(2) of the Rules of Practice, the Board of Governors issues this Directive and immediately directs the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), to comply fully with the following:

1. The Bank shall immediately, but no later than August 28, 2009 (or such additional time as the Board of Governors may permit), in conjunction with the Bank’s parent bank holding company, Warren Bancorp, Inc., Warren, Michigan:

(a) Increase the Bank's equity through the sale of shares or contributions to surplus in an amount sufficient to make the Bank adequately capitalized as defined in section 208.43(b)(2) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(2));

(b) enter into and close a contract to be acquired by a depository institution holding company or combine with another insured depository institution, closing under which contract is conditioned only on the receipt of necessary regulatory approvals, the continued accuracy of customary representations and warranties, and the performance of customary pre-closing covenants; or

(c) enter into and close a contract to sell the bank to an individual or group of individuals, subject to the provisions of the Change in Bank Control Act, as amended (12 U.S.C. § 1817j), closing under which contract is conditioned only on the receipt of necessary regulatory approvals, the continued accuracy of customary representations and warranties and the performance of customary pre-closing covenants.

2. The Bank shall comply fully with the provisions of section 38(d)(1) of the FDI Act (12 U.S.C. § 1831o(d)(1)) restricting the making of any capital distributions, including, but not limited to, the payment of dividends.

3. The Bank shall not, without the prior written approval of the Reserve Bank and the fulfillment of one of the requirements set forth in paragraph 1, accept, renew, or rollover deposits bearing an interest rate that exceeds the prevailing effective rates on insured deposits of comparable amounts and maturity in the Bank's market area.

4. (a) The Bank shall comply fully with the provisions of section 38(f)(2)(B)(i) of the FDI Act (12 U.S.C. § 1831o(f)(2)(B)(i)) requiring that all transactions between the Bank and any affiliate comply with section 23A of the Federal Reserve Act (12 U.S.C. § 371c).

(b) For the purposes of this Directive, the terms (i) “transaction” shall include, but not be limited to, the transfer, sale or purchase of any asset, including cash, or the direct or indirect payment of any expense or obligation of, the payment of a management or service fee of any nature to, or any extension of credit to an affiliate; (ii) “extension of credit” shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. § 215.3); and (iii) “affiliate” shall be defined as set forth in subparagraph (b)(1) of section 23A of the Federal Reserve Act (12 U.S.C. § 371c(b)(1)) and section 223.2 of Regulation W of the Board of Governors (12 C.F.R. § 223.2).

5. The Bank shall comply fully with the provisions of sections 38(f)(4)(A)(i) and (ii) of the FDI Act (12 U.S.C. §§ 1831o(f)(4)(A)(i) and (ii)) restricting the payment of bonuses to senior executive officers and increases in compensation of such officers.

6. The Bank shall comply fully with the provisions of sections 38(e)(3) and (4) of the FDI Act (12 U.S.C. §§ 1831o(e)(3) and (4)) restricting asset growth, acquisitions, branching, and new lines of business.

7. Thirty days after the date of this Directive and monthly thereafter, the Bank shall submit to the Reserve Bank written progress reports detailing the steps taken to comply with this Directive.

8. All communications regarding this Directive shall be sent to:

- (a) Mr. Joseph J. Turk
Assistant Vice President
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604
- (b) Mr. Damian Kassab
Chairman of the Board of Directors
Warren Bank
38880 Garfield Road
Clinton Township, Michigan 48038

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

10. Each provision of this Directive shall remain effective and enforceable until stayed, modified, terminated or suspended in writing by the Board of Governors.

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

12. (a) The Directive does not supersede the Written Agreement by and among Warren Bancorp, Inc., the Bank, the Reserve Bank, and the Michigan Office of Financial and Insurance Regulation, dated September 18, 2008.

(b) Notwithstanding any provision of this Directive, the Bank shall comply with any other supervisory action issued by the Board of Governors, the Reserve Bank, or the Michigan Office of Financial and Insurance Regulation.

13. The Bank may, pursuant to section 263.202(a)(2) of the Rules of Practice, submit to the Board of Governors a written appeal of this Directive. Any written appeal of this Directive must be received within 14 calendar days of service of this Directive by Jennifer J. Johnson, Secretary of the Board, Board of Governors of the Federal Reserve System, 20th & C Streets, N.W., Washington, D.C. 20551. Failure to file a written appeal within the time specified herein shall constitute a waiver by the Bank of the opportunity to file a written appeal of this Directive.

By order of the Board of Governors of the Federal Reserve System, effective this 28th day of July, 2009.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Jennifer J. Johnson
Jennifer J. Johnson
Secretary of the Board