

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

STATE OF WISCONSIN  
DEPARTMENT OF FINANCIAL INSTITUTIONS  
MADISON, WISCONSIN

Written Agreement by and among

THE FIRST BANK OF BALDWIN  
Baldwin, Wisconsin

FEDERAL RESERVE BANK OF  
MINNEAPOLIS  
Minneapolis, Minnesota

and

STATE OF WISCONSIN  
DEPARTMENT OF FINANCIAL  
INSTITUTIONS  
Madison, Wisconsin

Docket Nos. 11-043-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of The First Bank of Baldwin, Baldwin, Wisconsin (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Minneapolis (the “Reserve Bank”), and the State of Wisconsin Department of Financial Institutions (“DFI”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 22, 2011, the Bank’s board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Jon M. Mentink to enter into this Agreement on behalf of the Bank, and consenting to compliance with each and every provision

of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u).

NOW, THEREFORE, the Bank, the Reserve Bank, and the DFI agree as follows:

### **Board Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the DFI 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, lending and credit administration, asset quality, capital, and earnings;

(b) the responsibility of the board of directors to monitor management’s adherence to approved Bank policies and procedures and to require management to document exceptions thereto; and

(c) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s credit risk management, adversely classified assets, credit administration, allowance for loan and lease losses (“ALLL”), capital, liquidity, and earnings.

### **Credit Risk Management**

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Timely and accurate identification and quantification of credit risk within the loan portfolio;
- (b) an assessment of the qualifications and number of staff in the loan origination and credit administration functions;
- (c) comprehensive, periodic problem loan portfolio reporting to the board of directors and senior management, to include but not be limited to, original loan purpose, repayment history, nonaccrual status, exceptions to loan policy and credit administration standards, and a well-defined workout strategy; and
- (d) strategies to minimize credit losses and reduce the level of problem assets.

### **Lending and Credit Administration**

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

- (a) Standards for renewing or modifying existing loans, including, but not limited to, analysis, documentation, and approval requirements;
- (b) standards for interest-only loans;
- (c) standards for the capitalization of interest;
- (d) the timely procurement of appraisals and evaluations, and reappraisals and reevaluations which meet regulatory requirements;
- (e) the monitoring of real estate tax payments on real estate collateral;
- (f) a description of required loan documentation and a requirement for the maintenance of such documentation in the loan file;
- (g) the remediation of technical exceptions in all open loan files;

- (h) steps to ensure compliance with loan documentation requirements and minimize technical exceptions;
- (i) procedures to ensure the timely and consistent analyses of borrowers' and guarantors' current financial condition, global cash flow, repayment sources, and performance;
- (j) standards for the timely movement of loans to non-accrual status; and
- (k) appropriate staffing of the credit administration function.

### **Loan Grading and Loan Review**

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written program for the accurate grading of the Bank's loan portfolio. The program shall provide for policies, procedures, and processes for the timely and ongoing grading of loans. The program shall, at a minimum, address, consider, and include:

- (a) Standards and criteria for assessing the credit quality of loans, including a discussion of the factors used to assign appropriate risk grades to loans;
- (b) procedures for the early identification of problem loans;
- (c) procedures to re-evaluate the grading of loans in the event of material changes in the borrower's performance or the value of the collateral;
- (d) procedures to evaluate the grading of all loans assigned less than a pass grade at least quarterly;
- (e) designation of the person(s) responsible for the grading of loans;
- (f) controls to ensure staff's consistent application and adherence to the loan grading system; and

(g) a mechanism for reporting to senior management and the board of directors, at least monthly, that at a minimum: summarizes the Bank's loan grades; describes trends in asset quality; identifies the loans that are nonperforming, adversely graded, or identified as needing special attention, describes the status of those loans, and describes the actions taken, or to be taken, by management for strengthening of the quality of any such loans.

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written program for the effective, ongoing review of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall provide for policies and procedures for the timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading process. The program shall, at a minimum, address, consider, and include:

- (a) The scope, depth, and frequency of the independent loan review;
- (b) clearly defined responsibilities for the loan review function; and
- (c) an objective and timely assessment of the overall quality of the loan portfolio and the accuracy of assigned loan grades.

6. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure that management takes prompt action to address findings noted in the report(s).

### **Asset Improvement**

7. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the Report of Examination conducted by the

Reserve Bank that commenced on September 27, 2010 (the “Report of Examination”), or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank’s risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank’s interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit and 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 meetings of the board of directors or its committee, as appropriate, 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 of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. § 215.2(n)).

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI 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 \$250,000, including other real estate owned (“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 \$250,000, 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 prepare a written plan to improve the Bank’s position on such loan or asset, and shall submit such plan for approval to the Reserve Bank and the DFI within 30 days after the end of the calendar quarter in which the loan or asset became subject to the requirements of this paragraph.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the DFI 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**

9. (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 the DFI.

(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 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), 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 the DFI. 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 collectability.

(c) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the 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 the DFI, 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**

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) 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);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank.

11. The board of directors shall monitor and review the sufficiency of the Bank's capital on a quarterly basis and shall: (i) notify the Reserve Bank and the DFI, in writing, no more than 30 days after the end of any quarter in which the Bank's capital ratios (total risk-based, tier one risk-based, or leverage) fall below the plan's minimums; and (ii) submit simultaneously an acceptable written plan that details the steps the Bank will take to increase its capital ratios above the approved plan's minimums.

## **Liquidity**

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

## **Earnings Plan and Budget**

13. (a) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and the DFI a plan to improve the Bank's earnings and a budget for 2011. The written plan and budget shall include, but not be limited to:

(i) Identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) a realistic and comprehensive budget for calendar year 2011, including income statement and balance sheet projections; and

(iii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A plan and budget for each calendar year subsequent to 2011 shall be submitted to the Reserve Bank and the DFI at least 30 days prior to the beginning of that calendar year.

## **Dividends**

14. (a) 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 (the "Director"), and the DFI.

(b) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and

projected information, as appropriate, on the Bank's capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment. The Bank 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).

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

15. 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) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*).

16. 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).

### **Progress Reports**

17. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall submit to the Reserve Bank and the DFI 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, Programs, Policies and Procedures**

18. (a) The Bank shall submit written plans, programs, policies and procedures that are acceptable to the Reserve Bank and the DFI within the applicable time periods set forth in paragraphs 2, 3, 4, 5, 8(a), 8(b), 9(c), 10, 11 and 12 of this Agreement.

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

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

## **Communications**

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

- (a) Ms. Diann G. Townsend  
Assistant Vice President  
Federal Reserve Bank of Minneapolis  
90 Hennepin Avenue  
Minneapolis, Minnesota 55401-1804
- (b) Mr. Michael J. Mach  
Administrator  
Division of Banking  
State of Wisconsin Department of  
Financial Institutions  
345 Washington Avenue  
Madison, Wisconsin 53703-2701
- (c) Mr. Jon M. Mentink  
President  
The First Bank of Baldwin  
990 Main Street  
Baldwin, Wisconsin 54002

## **Miscellaneous**

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

21. The provisions of this Agreement shall be binding upon the Bank and its 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 the DFI.

23. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the DFI or any other federal or state agency from taking any other action affecting the Bank, or any of its 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 the 26<sup>th</sup> day of July, 2011.

THE FIRST BANK OF BALDWIN

FEDERAL RESERVE BANK  
OF MINNEAPOLIS

By: /s/ Jon M. Mentink  
Jon M. Mentink  
President

By: /s/ James M. Barnes  
James M. Barnes  
Vice President

STATE OF WISCONSIN  
DEPARTMENT OF FINANCIAL  
INSTITUTIONS

BY: /s/ Michael J. Mach  
Michael J. Mach  
Administrator