DEPARTMENT OF FINANCIAL INSTITUTIONS

STATE OF INDIANA

AND

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of LAFAYETTE COMMUNITY BANK LAFAYETTE, INDIANA (Insured State Nonmember Bank)	ORDER TO CEASE AND DESIST FDIC-06-238b

Lafayette Community Bank, Lafayette, 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, rule, or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges 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 under section 8(b) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST (“CONSENT AGREEMENT”) with representatives of the DFI and the Federal Deposit Insurance Corporation ("FDIC"), dated _____________, ____, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law, rule, or regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the DFI and FDIC.

The DFI and FDIC considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The DFI and FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, 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, cease and desist from the following unsafe or unsound banking practices and violations of law, rule, or regulation:

A. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- The failure to obtain proper loan documentation;
- The failure to obtain adequate collateral;

- The failure to establish and monitor collateral margins of secured borrowers;
- The failure to establish and enforce adequate loan repayment programs;
- The failure to obtain current and complete financial information;
- The failure to comply with the Bank’s loan policy;
- The failure to adequately identify problem credits, including non-accruals;
- The failure to establish and enforce adequate appraisal policies and procedures; and
- Other poor credit administration practices.

B. Operating with an inadequate level of capital protection for the kind and quality of assets held.

C. Violating law, rule, or regulation, including:

  - Section 323.5(b)(2) of the FDIC’s Rules and Regulations (Appraiser Independence);
  - Section 323.3(b) of the FDIC’s Rules and Regulations (Evaluations of Real Property Collateral); and

- Section 365.2(a) of the FDIC’s Rules and Regulations (Loans in Excess of the Supervisory Loan-to-Value Limits).

D. Operating with an excessive level of adversely classified loans and delinquent loans.

E. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.

F. Operating with an inadequate net interest margin and inadequate earnings to maintain acceptable levels of capital.

G. Operating with inadequate asset/liability policies and practices.

H. Operating with inadequate internal routines and controls.

I. Operating with an inadequate audit program.

J. Operating without a written strategic plan.

K. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

L. Operating with a board of directors and committees which have failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices and violations of law, rule, or regulation.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. (a) Not later than December 31, 2006, the Bank shall increase its Tier 1 capital as a percentage of its total assets ("capital ratio") to not less than 7.5 percent, as defined in paragraph(d) below.

(b) Not later than March 31, 2007, the Bank shall increase its capital ratio to not less than 7.75 percent.

(c) Not later than June 30, 2007, the Bank shall increase its capital ratio to not less than 8.0 percent.

(d) Within 30 days from the last day of each calendar quarter following the date of required compliance with paragraph 1(c) of the ORDER, the Bank shall determine from its Report of Condition and Income its capital ratio for that calendar quarter. If this capital ratio is less than 8.0 percent, the Bank shall, within 60 days of the date of the required determination, increase its capital ratio to not less than 8.0 percent calculated as of the end of that preceding quarterly period. For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(e) Any such increase in Tier 1 capital 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" as of August 14, 2006 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 the Director of DFI ("Director")and the Regional Director of the Chicago

Regional Office of the FDIC ("Regional Director"); or

(vi) Any combination of the above means.

(f) If all or part of the increase in capital required by this paragraph is to be accomplished by the sale of new securities, 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 State and 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 Department of Financial Institutions, State of Indiana, 30 South Meridian Street, Suite 300, Indianapolis, Indiana 46204 and to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 for their review. Any changes requested to be made in the materials by the DFI or FDIC shall be made prior to their dissemination.

(g) 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.

(h) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

2. As of the effective date of this ORDER, the Bank

shall not declare or pay any cash dividend without the prior written consent of the Director and the Regional Director.

3. (a) During the life of this ORDER, the Bank shall have and thereafter retain qualified management and staff. Each member of management and staff shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management and staff shall be assessed on their 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 asset quality, capital adequacy, earnings, and management effectiveness.

(b) During the life of this ORDER, the Bank shall notify the Director and the Regional Director in writing of any changes in any of the Bank’s management. For purposes of this ORDER, “management” is defined as members of the board of directors and “senior executive officers,” as that term is defined 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 DFI and FDIC, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(c) Prior to the addition of any individual to the board of directors 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. Further, the Bank shall request and obtain the Director’s and Regional Director’s written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

4. (a) Not later than January 31, 2007, the Bank shall retain a bank consultant acceptable to the Director and Regional Director. This consultant shall not have any previous business relationship with the bank, unless the retention is otherwise approved by the Director and Regional Director. The consultant shall develop a written

analysis and assessment of the Bank’s management and staffing needs (“Management Plan”) for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Director and the Regional Director with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

(i) A description of the work to be performed under the contract or engagement letter;

(ii) The responsibilities of the consultant;

(iii) An identification of the professional standards covering the work to be performed;

(iv) Identification of the specific procedures to be used when carrying out the work to be performed;

(v) The qualifications of the employee(s) who are to perform the work;

(vi) The time frame for completion of the work;

(vii) Any restrictions on the use of the reported findings; and

(viii) A provision for unrestricted examiner access to workpapers.

(c) The Management Plan shall be developed not later than April 30, 2007. The Management Plan shall include, at a minimum:

(i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the bank;

(ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) Evaluation of all Bank officers and key staff members to determine whether these individuals possess the ability, experience, and other qualifications required to perform present and anticipated duties, including adherence to the Bank’s established policies and practices, adherence to State and Federal laws and regulations, and restoration and maintenance of the Bank in a safe and sound condition; and

(iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified by this paragraph of this ORDER.

(d) The Management Plan shall be submitted to the Director and Regional Director for review and comment upon its completion. Within 30 days from the receipt of any comments from the Director and Regional Director and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

5. As of the effective date of this ORDER, the Bank's loan committee, audit committee, and asset/liability committee shall meet at least monthly. The majority of members of the loan and asset/liability committee shall be board members who are not officers of the bank. The audit committee shall be entirely comprised of board members who are not officers of the bank and shall not include the

chairman of the board. These committees shall provide effective oversight of and direction to their respective areas, ensure adherence to safe and sound banking practices, and ensure compliance with State and Federal laws and regulations and bank policies.

6. Not later than February 28, 2007, the Bank shall develop, and submit for review and comment by the Director and Regional Director, a system to correct loan administration deficiencies, ensure compliance with the loan policy, and increase oversight by the loan committee. Specific areas to be addressed include:

(a) Ensuring timely, effective, and prudent loan underwriting and loan review, including:

(i) Obtaining proper loan documentation, both initially and throughout the term of the credit;

(ii) Ensuring the existence and securitization of adequate collateral throughout the term of the credit;

(iii) Ensuring prudent repayment structures, and adherence to same;

(iv) Ensuring loan-to-value ratios meet loan policy guidelines;

(v) Ensuring effective oversight of the real estate appraisal process; and

(vi) Ensuring timely identification of problem credits, including non-accruals.

(b) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

(c) Ensuring timely and effective review of the bank's allowance for loan and lease losses ("ALLL");

(d) Ensuring prudent review of loan renewals, extensions, and capitalization of interest;

(e) Improving collection practices and efforts; and

(f) Ensuring timely and effective communications among senior management, loan officers, credit administration staff, the loan committee, and the board.

7. (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" 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” and is uncollected unless the Bank’s board of directors 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 placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors’ meeting.

8. As of the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “Loss” as of August 14, 2006 that have not been previously collected or charged off. Any such charged-off asset shall not be rebooked without the prior written consent of the Director and Regional Director. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

9. (a) Not later than January 31, 2007, the Bank shall replenish its allowance for loan and lease losses (“ALLL”) in the amount of at least $2,200,000.

(b) Not later than January 31, 2007, the Bank shall make an additional provision for loan and lease losses which, after review and consideration by the board of directors, reflects the potential for further losses in the remaining loans or leases classified “Substandard” and all other loans and leases in its portfolio. In making this determination, the board of directors shall consider the Federal Financial Institutions Examination Council (“FFIEC”) Instructions for the Reports of Condition and Income and any analysis of the Bank’s ALLL provided by the DFI or FDIC.

(c) Not later than January 31, 2007, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to August 14, 2006 but prior to the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank’s loan portfolio, and which, at a minimum, incorporate the adjustments required by this paragraph.

(d) Prior to submission or publication of all Reports of Condition and Income required by the DFI and the FDIC after the effective date of this ORDER, the board of directors of the Bank 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 of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank’s ALLL provided by the DFI or FDIC.

(e) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

(f) While this ORDER is in effect, the Bank shall submit to the Director and Regional Director a copy of all Reports of Condition and Income filed with the FDIC, including those Reports filed pursuant to this paragraph.

10. (a) Not later than February 28, 2007, the Bank shall adopt and implement a written plan to reduce the Bank’s risk position in each asset in excess of $100,000 which is classified “Substandard” in the DFI Report of Examination as of August 14, 2006. A copy of the written plan shall be submitted to the Director and Regional Director upon its completion. In developing such plan, the Bank shall, at a minimum:

(i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each asset within 6 and 12 months from the effective date of this ORDER; and

(ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(c) As used in this ORDER, "reduce" means to: (1) collect; (2) charge off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the DFI or FDIC.

11. Not later than February 28, 2007, the Bank shall correct all deficiencies in the loans listed for “Special Mention” in the DFI Report of Examination as of August 14, 2006.

12. Not later than February 28, 2007, the Bank shall correct the technical exceptions listed in the DFI Report of Examination as of August 14, 2006.

13. Not later than February 28, 2007, the Bank shall adopt and implement a written plan for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

(a) prohibit the extension of credit for the payment of interest;

(b) establish acceptable guidelines for the collection of delinquent credits;

(c) establish dollar levels to which the Bank shall reduce delinquencies within 6 and 12 months from the effective date of this ORDER; and

(d) Provide for the submission of monthly written progress reports to the Bank’s board of directors for review and notation in minutes of the meetings of the board of directors.

A copy of the written plan shall be submitted to the Director and Regional Director upon its completion.

14. Not later than February 28, 2007, the Bank shall establish procedures for managing, monitoring, and measuring the Bank's sensitivity to interest rate risk which 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).

15. Not later than March 31, 2007, the Bank's board of directors shall adopt and implement a comprehensive written audit program. At a minimum, the audit program shall provide that: (a) the internal auditor make written monthly reports of audit findings directly to the Bank's board of directors, which findings and any action taken as a result of the findings shall be recorded in the minutes of the meetings of the board; and (b) the Bank provide the Director and Regional Director with a copy of all external audit reports within 10 days of the Bank's receipt of such report(s). The Bank shall thereafter implement and enforce an effective system of internal and external audits. A copy of the audit program should be submitted to the Director and Regional Director upon its completion.

16. Not later than February 28, 2007, the Bank shall correct the deficiencies in internal routines and controls which are listed in the Report of Examination as of August 14, 2006. Additionally, the Bank shall establish policies to prevent the recurrence of any deficiencies noted.

17. (a) Not later than April 30, 2007, the Bank shall formulate and adopt a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components. The written strategic plan shall contain specific goals and a reasonable and specific time frame for achieving these goals and shall address, at a minimum:

(i) Strategies for pricing policies and asset/liability management;

(ii) Strategies for improving asset quality and sustaining satisfactory asset quality;

(iii) Strategies for improving earnings and sustaining satisfactory earnings;

(iv) Strategies for increasing capital and maintaining capital at a level consistent with the risk profile of the bank;

(v) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(vi) Other significant areas noted in the Report of Examination as of August 14, 2006.

The Bank will submit the strategic plan to the Director and Regional Director for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting.

(b) Within 30 days from the end of each calendar quarter following the effective date of the strategic plan required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the strategic plan and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(c) The strategic plan required by this ORDER shall be revised and submitted to the Director and Regional Director for review and comment 30 days prior to the end of each calendar year for which this ORDER is in effect. Within 30 days of receipt of all such comments from the Director and Regional Director, and after consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

18. (a) Not later than February 28, 2007, the Bank shall eliminate and/or correct all violations of law, rule, and regulation listed in the DFI Report of Examination as of August 14, 2006.

(b) Not later than February 28, 2007, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

19. (a) Not later than February 28, 2007, the Bank shall formulate and submit to the Director and Regional Director for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2007. 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 net interest income, and shall contain

a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 30 days from the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Bank's board of directors 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 of directors' 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 and shall be submitted to the Director and Regional Director for review and comment within 30 days prior to the end of each year. Within 30 days of receipt of all such comments from the Director and Regional Director 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.

20. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its

notice or proxy statement preceding the Bank’s next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the Department of Financial Institutions, State of Indiana, 30 South Meridian Street, Suite 300, Indianapolis, Indiana 46204 and the FDIC Registration and Disclosure Section 550 17th Street, N.W., Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the DFI or the FDIC shall be made prior to dissemination of the description, communication, notice or statement.

21.(a) Not later than January 31, 2007, the Bank’s board of directors shall have in place a program that will provide for monitoring of the Bank’s compliance with this ORDER.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, the Bank’s board of directors shall review the Bank’s compliance with this ORDER and record its review in the minutes of each regularly scheduled board of directors’ meeting.

22. Beginning April 30, 2007, and thereafter within 30 days from the end of each calendar quarter, the Bank shall furnish to the Director and Regional Director written

progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Director and Regional Director have, in writing, released the Bank from making further reports.

This ORDER is effective upon its issuance by the DFI and FDIC.

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 DFI and FDIC.

Pursuant to delegated authority

Dated: February 16, 2007.

Sylvia H. Plunkett
Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation

Judith G. Ripley
Director
Department of Financial Institutions
State of Indiana

Attest:

J. Philip Goddard
Secretary to the Members