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UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of:)
)
Horizon Bank)
Oskaloosa, Iowa)
OTS Docket No. 0260) OTS Order No.: MWR-07-7
) Dated: September 19, 2007

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Horizon Bank, Oskaloosa, Iowa (OTS Docket No. 0260) (Horizon or Bank), is a federally chartered savings bank that is regulated by the Office of Thrift Supervision (OTS); and

WHEREAS, Section 38 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1831o, and Part 565 of the OTS Regulations, 12 C.F.R. Part 565, require insured depository institutions that are undercapitalized to file a capital restoration plan specifying the steps the institution will take to become at least adequately capitalized; and

WHEREAS, Section 38 of FDIA, 12 U.S.C. § 1831o, requires OTS to take prompt corrective action to resolve the problems of insured depository institutions at the least possible long-term loss to the deposit insurance fund; and

WHEREAS, Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7, provides for OTS's issuance of directives to take prompt corrective action to resolve the problems of insured depository institutions and to restore their capital; and

WHEREAS, OTS, on May 10, 2007, notified the Bank that it was "undercapitalized" for purposes of the prompt corrective action provisions of Section 38 of FDIA, 12 U.S.C. § 1831o; and

WHEREAS, the Bank also is not in compliance with one of the three capital standards required by Section 5(t) of the Home Owners' Loan Act (HOLA), 12 U.S.C. § 1464(t); and

WHEREAS, Section 5(t)(6)(B)(ii) of HOLA, 12 U.S.C. § 1464(t)(6)(B)(ii), requires any bank not in compliance with the capital standards to comply with a capital directive issued by OTS; and

WHEREAS, on June 15, 2007, the Bank submitted to OTS a capital restoration plan that was subsequently amended on August 7, 2007 and August 15, 2007 (collectively, Capital Plan); and

WHEREAS, OTS has considered the Bank's capital deficiency, the Capital Plan, in accordance with Section 567.10 of the OTS Regulations, 12 C.F.R. § 567.10, and Section 38(e)(2) of FDIA, 12 U.S.C. § 1831o(e)(2) and conditionally approved the Capital Plan as set forth in a letter to the Bank, dated August 23, 2007; and

WHEREAS, the Bank's execution of the Stipulation and Consent to this Prompt Corrective Action Directive (Directive or PCA Directive) is a condition imposed in writing in connection with the approval of the Bank's Capital Plan; and

WHEREAS, the Bank and its Board of Directors (Board), by execution of the attached Stipulation and Consent to Prompt Corrective Action Directive (Stipulation and Consent) to the issuance of this Directive, the terms of which are incorporated herein by this reference, have stipulated and consented to the issuance of the Directive; and

WHEREAS, OTS issued a Notice of Intent to issue this Directive on August 23, 2007, and OTS has determined to issue this Directive in order to resolve the Bank's problems at the least long-term cost to the deposit insurance fund, thereby effectuating the purpose of Section 38 of FDIA, 12 U.S.C. § 1831o; and

WHEREAS, the Bank, in the interest of cooperation and to avoid the time and expense of pursuing further OTS administrative procedures for the issuance of a PCA Directive, and without admitting or denying that grounds exist, consents to the terms of this Directive;

NOW THEREFORE, pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, including but not limited to subsection (f) thereof, Section 5(t)(6)(B)(ii) of HOLA, 12 U.S.C. § 1464(t)(6)(B)(ii), and 12 C.F.R. § 565.7, OTS directs the Bank and its Board to do the following, as specified herein below:

PART I – IMPROVING CAPITAL

Section 1.1 Capital Plan

The Bank shall comply with the terms of its Capital Plan, including any amendments thereto approved by the Midwest Regional Director of OTS (Regional Director).

Section 1.2 Required Recapitalization

- A. Pursuant to 12 U.S.C. § 1831o(f)(2)(A), (f)(2)(J) and (e)(5), based upon OTS's determination that the action will better carry out the purpose of 12 U.S.C. § 1831o, and subject to subsection (B) of this **Section 1.2**, and all applicable laws and regulations, the Bank is directed to undertake to make diligent and good faith efforts to enter into a written binding letter of intent (or binding agreement) on or around September 30, 2007 with another federally insured depository institution or holding company thereof or other Qualified Entity (as defined in **Section 3.2C hereof**), providing for the Bank to be acquired by or merged with a Qualified Entity. If the Bank has not entered into such binding letter of intent on or around **September 30, 2007**, the Bank shall raise capital in an amount of \$1 million through a capital infusion from its holding company, Horizon Financial Services, Corp., Oskaloosa, Iowa (Horizon Financial) and shall take all other necessary actions to achieve "adequately capitalized status" as defined in 12 C.F.R. § 565.4(b)(2) by **September 30, 2007**. For purposes of this Section 1.2, the Bank's level of compliance with 12 C.F.R. § 565.4(b)(2) shall be set forth in the Bank's Thrift Financial Report (TFR), which is due no later than October 30, 2007. Consequently, any replenishment of a deficit in the Bank's measure of capital to achieve "adequately capitalized status" that is made by the Bank prior to October 30, 2007, shall be treated as effective on September 30, 2007 for purposes of the Bank's

Capital Plan, this Section 1.2, and its TFR.

- B. The Bank shall not issue any securities to Horizon Financial or enter into any binding agreement or understanding to merge, consolidate, or otherwise be acquired, sell all or substantially all of its assets and liabilities, or enter into any agreement or understanding to reorganize unless: (1) the Bank has provided OTS with at least **10 days** prior written notice of its intention to take such action of issuing securities or entering into such an agreement; and (2) following such notice, OTS has provided the Bank with prior written notice of its nonobjection to the proposed action. OTS hereby extends the deadline set forth in Section 1.2A hereof for the Bank's submission of an executed binding letter of intent (or a binding agreement) by one day for each day of OTS's review of the letter or agreement and up to 14 days thereafter to resolve any OTS comments on such letter or agreement.

Section 1.3 Efforts to Obtain Capital

Having determined that such actions will better carry out the purposes of 12 U.S.C. § 1831o, OTS requires, pursuant to 12 U.S.C. § 1831o(f)(2)(J), the Board at all times make diligent and good faith efforts to cause the Bank to comply with **Sections 1.1 and 1.2 hereof**.

Section 1.4 Reports of Compliance

- A. No later than **thirty (30) days following the end of each calendar month**, management of the Bank shall prepare, and the Board shall review, a written report concerning the Bank's compliance with the requirements of the Capital Plan and other requirements of this Directive during the preceding month. The report and review shall include (1) verification of the Bank's prompt corrective action capital category; and (2) confirmation that the Bank is in compliance with (a) all restrictions that apply automatically to an insured depository institution in that category, and (b) the other restrictions and requirements contained in this Directive, or a description of any instance of noncompliance with any of the Bank's obligations under this Directive and the specific measures undertaken to cure such noncompliance. The Board shall document this review in the Board minutes. All documentation considered by the Board in performing its review shall be explicitly referenced in the minutes of the meeting at which the review was undertaken.
- B. By no later than **thirty (30) days following the end of each calendar quarter**, the Bank shall submit the following documents to OTS, in a format acceptable to OTS, which may include reports to and responses from the Board documented in the Board meeting minutes:
1. **Quarterly** variance reports on the Bank's compliance with the Capital Plan setting forth: (a) actual operating results versus projected results and (b) detailed explanations of any material deviations from the Capital Plan and a specific description of the corrective actions or measures that have been implemented, proposed, or are under consideration to correct any material deviation. A deviation shall be considered material under this Section when: (a) the Bank engages in any activity, operation, or line of business that is inconsistent with or that is not covered by the Capital Plan; or (b) the Bank falls below or fails to meet target amounts established in the Capital Plan by more than 10 percent unless the activity involves assets risk-weighted 50 percent or less, in which case a

variance of more than 15 percent shall be deemed to be a material deviation. Notwithstanding the foregoing, none of the following deviations shall be deemed to be material: (a) a change of \$1 million in any balance sheet category, or (b) a change of 10 percent or less in any income statement category. For purposes of this Section, the term "balance sheet category" is defined as cash, 1-4 family permanent mortgage loans, consumer loans, commercial loans, commercial real estate loans, mortgage-backed securities, other investment securities, fixed assets, retail deposits, wholesale deposits, Federal Home Loan Bank advances, other borrowed money, other liabilities, and equity capital. For purposes of this Section, the term "income statement category" is defined as income statement items as presented in the Bank's Capital Plan. In the event of a material deviation considered adverse by OTS, the Bank shall have a 30-day period to cure the deviation to the satisfaction of OTS, upon OTS's notification; and

2. If requested, copies of the minutes of the Bank's Board supporting actions taken to comply with **Sections 1.1 and 1.2 of this Directive**.
- C. If the Bank signs a binding letter of intent, the Board shall provide to OTS a written **monthly** report updating in detail the status of its efforts to (a) merge with or be acquired by another depository institution, depository institution holding company, or other qualified entity, or (b) sell all or substantially all of the Bank's assets and liabilities to another depository institution, depository institution holding company or other qualified entity. The **monthly** status report shall provide a summary of actions, during the immediately preceding **month**, taken by the Bank and its Board and executive officers in furtherance of the Bank's efforts to arrange a merger, acquisition, or sale, as required by **Sections 1.1 and 1.2 hereof**. The monthly status report shall be delivered to OTS on the **15th** day after the end of the **preceding month**. The Board will continue to provide **monthly** status reports to OTS until directed otherwise by the Regional Director.
 - D. OTS directs the actions required by this **Section 1.4** pursuant to 12 U.S.C. § 1831o(f)(2)(J), and based upon a determination by OTS that such action will better carry out the purposes of 12 U.S.C. § 1831o.

Section 1.5 Adequate Progress

If OTS, in its sole discretion, determines that the Bank is failing to make adequate progress toward achieving the requirements set forth in **Sections 1.1 and 1.2** above, OTS may take such further supervisory, enforcement, or resolution action as it deems appropriate.

Section 1.6 Change in Status

Upon notification that it is "critically undercapitalized" pursuant to 12 C.F.R. § 565.3, the Bank will cooperate fully with FDIC efforts to avoid a loss or otherwise minimize exposure to the insurance fund. Such cooperation includes, but is not limited to, responding to requests for information, providing full access to personnel, agents and service providers, accommodating on-site visits, and permitting FDIC to provide otherwise confidential information to third parties to facilitate the liquidation or other resolution of the Bank in anticipation of the possible appointment of FDIC as conservator, receiver, or other legal custodian. Nothing herein shall be interpreted to preclude such cooperation with FDIC at any time prior to such time, as the Bank may become "critically

undercapitalized.” OTS directs this action pursuant to 12 U.S.C. § 1831o(f)(2)(J) and based upon a determination by OTS that such action will better carry out the purposes of 12 U.S.C. § 1831o.

Section 1.7 OTS Marketing Efforts

In accordance with Paragraph 5 of the accompanying Stipulation and Consent, the Bank agrees to the following in connection with OTS’s efforts to assist in the possible merger, acquisition or sale of the Bank by or to qualified parties, upon notification that the Bank is “significantly undercapitalized” or “critically undercapitalized”; provided, however, that upon receipt of documentation acceptable to the Regional Director that the Bank’s capital position, pursuant to 12 U.S.C. § 1831o and all applicable regulations, is (i) “undercapitalized” and that the Bank is in compliance with its approved capital restoration plan as required by OTS or (ii) “adequately capitalized,” such authorization shall be suspended:

- A. OTS, acting through its authorized representatives, is hereby authorized to market the Bank to prospective acquirors, merger partners or buyers (Qualified Entity) using OTS’s marketing procedures and to receive and evaluate all offers submitted for acquisition of the Bank; however, OTS is not precluded from referring a Qualified Entity to the Bank or arranging meetings between the Bank and a Qualified Entity at any time; and
- B. The Board shall direct the Bank and its agents and employees to take all reasonable steps to assist OTS in marketing the Bank. Such assistance shall include, but not be limited to, preparing an updated marketing package and assisting a Qualified Entity in conducting due diligence examinations of the Bank.

OTS is imposing the above-referenced provisions pursuant to 12 U.S.C. § 1831o(f)(2)(J) based on its determination that these provisions will better carry out the purposes of 12 U.S.C. § 1831o.

Section 1.8 Authorization to Negotiate Plan of Merger

The Bank agrees to authorize the following in connection with OTS’s efforts to assist in the possible merger, acquisition, or sale of the Bank by or to a Qualified Entity, upon notification, pursuant to 12 U.S.C. § 1831o and all applicable regulations that the Bank either has (i) a leverage ratio (as defined in 12 C.F.R. § 565.2(c)) of 2.5 percent or less, or (ii) total risk-based capital (as defined in 12 C.F.R. § 565.2(j)) of three (3) percent or less; provided, however, that upon receipt of documentation acceptable to the Regional Director that (i) the Bank’s capital position, pursuant to 12 U.S.C. § 1831o and all applicable regulations, is above such level and the Bank is in compliance with its capital restoration plan as required by OTS or (ii) the Bank is “adequately capitalized,” as defined in 12 C.F.R. § 565.4(b)(2), such authorizations shall be suspended:

- A. OTS, acting through its authorized representatives, after discussion with the Bank, is permitted to negotiate a plan of merger, consolidation, transfer of the Bank’s assets and liabilities, reorganization, acquisition, or capital infusion (Plan of Combination or Reorganization) on behalf of the Bank, and to draft proposed documents for any such Plan of Combination or Reorganization; however, after consultation with the Bank at any time, OTS is not precluded from facilitating the drafting of, or discussions regarding a Plan of Combination or Reorganization between the Bank and any Qualified Entity with which the Bank is negotiating;

- B. The Board shall immediately take under consideration any reasonable offer to enter into a Plan of Combination or Reorganization (hereinafter collectively, Offer) that is forwarded and recommended to the Board by OTS, and shall promptly approve any such Offer that protects the interests of the depositors, creditors and borrowers of the Bank;
- C. The Board shall recommend to the shareholders of the Bank any Offer approved by the Board pursuant to subparagraph (B) above, if approval of the Offer by the shareholders, or any portion thereof, is legally required; and
- D. Upon receipt of any necessary approvals pursuant to subparagraphs (B) and (C) above and at the direction of OTS, the Bank shall take all corporate actions necessary to accept the Offer and consummate the Plan of Combination or Reorganization.

OTS is imposing the above-referenced provisions pursuant to 12 U.S.C. § 1831o(f)(2)(J) based on its determination that these provisions will better carry out the purposes of 12 U.S.C. § 1831o.

PART II – OPERATING RESTRICTIONS

MANDATORY RESTRICTIONS

Section 2.1 Compliance with Mandatory Restrictions

- A. The Bank shall comply with all of the mandatory prompt corrective action provisions set forth in 12 U.S.C. § 1831o and 12 C.F.R. § 565.6 that automatically apply to the Bank based upon the Bank's prompt corrective action capital category. These provisions are set forth as follows:
 - 1. **Undercapitalized Institutions**
 - (a) No capital distributions may be made without the prior written approval of OTS if: (i) the Bank is not adequately capitalized, or (ii) after making the distribution, the Bank would be undercapitalized. 12 U.S.C. § 1831o(d)(1); 12 C.F.R. §§ 565.6(a)(1) and (a)(2)(i).
 - (b) No management fees may be paid to any person having control of the Bank if: (i) the Bank is not adequately capitalized, or (ii) after making the payment, the Bank would be undercapitalized. 12 U.S.C. § 1831o(d)(2); 12 C.F.R. §§ 565.6(a)(1) and (a)(2)(i).
 - (c) The Bank may not permit its average total assets during any calendar quarter to exceed its average total assets during the preceding quarter unless (i) OTS has accepted the Bank's capital restoration plan, (ii) the increase in assets is consistent with the plan, and (iii) the Bank's ratio of tangible equity to assets increases during the calendar quarter at a rate sufficient to enable the Bank to become adequately capitalized within a reasonable time. 12 U.S.C. § 1831o(e)(3); 12 C.F.R. § 565.6(a)(2)(iv).

- (d) The Bank may not, directly or indirectly, acquire any interest in any company or insured depository institution, establish or acquire any additional branch office, or engage in any new line of business, unless (i) OTS has accepted the Bank's capital restoration plan, the Bank is in compliance with the plan, and OTS determines that the action is consistent with, and will further achievement of the plan, or (ii) the FDIC's Board approves the action. 12 U.S.C. § 1831o(e)(4); 12 C.F.R. § 565.6(a)(2)(v).
- (e) The Bank may not accept, renew or roll over any brokered deposit. 12 U.S.C. § 1831f(a); 12 C.F.R. § 337.6(b)(3).
- (f) The Bank shall file a new capital restoration plan pursuant to 12 U.S.C. § 1831o(e)(2) and 12 C.F.R. § 565.5.
- (g) The Bank shall monitor its compliance with the applicable requirements of 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 565.

2. Significantly undercapitalized institutions and institutions without approved capital plans must comply with Sections 2.1A(1) above and the following restrictions:

The Bank may not, without the OTS's prior written approval (a) pay any bonus to any senior executive officer, or (b) provide compensation to any senior executive officer exceeding that officer's average rate of compensation (excluding bonuses, stock options, and profit-sharing) during the 12 calendar months preceding the calendar month in which the Bank became undercapitalized. 12 U.S.C. § 1831o(f)(4); 12 C.F.R. § 565.6(a)(3).

3. Critically undercapitalized institutions must comply with the restrictions set forth in Sections 2.1A(1) and (2) and the following restrictions:

- (a) The Bank may not make any payment of principal or interest on its subordinated debt beginning 60 days after the Bank becomes critically undercapitalized. 12 U.S.C. § 1831o(h)(2)(A); 12 C.F.R. § 565.6(a)(4)(ii).
- (b) Without the FDIC's prior written approval, as required by 12 U.S.C. §§ 1831o(h)(1) and (i)(2); 12 C.F.R. § 565.6(a)(4)(i), the Bank may not:
 - (i) enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, sale of assets, or similar action with respect to which the Bank is required to give notice to OTS;
 - (ii) extend credit for any highly leveraged transaction;
 - (iii) amend the Bank's charter or bylaws, except to the extent necessary to carry out any other requirement of any law, regulation or order;
 - (iv) make any material change in accounting methods;

- (v) engage in any "covered transaction" with an affiliate, as defined in 12 U.S.C. § 371c(b);
 - (vi) pay excessive compensation or bonuses; or
 - (vii) pay interest on new or renewed liabilities at a rate that would increase the Bank's weighted average cost of funds to a level significantly exceeding the prevailing rates of interest on insured deposits in the Bank's normal market area.
- B. If the Bank's PCA capital category deteriorates to a lower level, the Bank shall comply with the above restrictions, as well as all of the additional mandatory prompt corrective action provisions applicable to its lower PCA capital category.
- C. If the Bank should improve from a lower to a higher PCA capital category, it must continue to comply with the previously applicable mandatory sanctions of the lower category, until such time as approval to cease compliance with the lower category sanctions is requested of, and received from OTS.

PART III - GENERAL PROVISIONS

Section 3.1 Jurisdiction

This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

Section 3.2 Definitions

- A. All technical words or terms used in this Directive, for which meanings are not specified or otherwise provided by the provisions of this Directive, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, FDIA, OTS Bulletins, or OTS Examination Handbook. Any such technical words or terms used in this Directive and undefined in Code of Federal Regulations, HOLA, FDIA, OTS Bulletins or OTS Examination Handbook shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.
- B. The term "Effective Date" has the meaning set forth in **Section 3.13** of this Directive.
- C. The term "Qualified Entity" may include but is not limited to an individual, a group of individuals, a partnership, a corporation, or any other form of business organization that may, under applicable statutes and regulations, merge with or acquire the Bank or purchase all or substantially all of its assets or liabilities.

Section 3.3 Successor Statutes, Regulations, and Guidance Amendments

Reference in this Directive to provisions of statutes and regulations shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date (as defined

in Section 3.13 hereof) hereof and references to successor provisions as they become applicable.

Section 3.4 Notices

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Directive to be made upon, given or furnished to, delivered to, or filed with OTS or the Bank shall be in writing and sent by first class U.S. mail (or by reputable overnight courier, electronic facsimile transmission, or hand delivery via messenger) addressed as follows:

OTS: Assistant Director Tony Jardieu
Midwest Region
Office of Thrift Supervision
225 East John Carpenter Freeway, Suite 500
Irving, Texas 75062-2326
Fax number: (972) 277-9501

Bank: President or Board of Directors
Horizon Bank
301 1st Avenue E
Oskaloosa, Iowa 52577-3106
Fax number: (641) 673-0074

Section 3.5 Duration, Termination or Suspension of the Directive

- A. The terms and provisions of this Directive shall be binding upon the Bank and its successors in interest.
- B. The Directive shall remain in effect until terminated, modified or suspended in writing by the Midwest Regional Director.
- C. OTS, in its discretion, may, by written notice, suspend any or all provisions of the Directive, except for Section 2.1 (Mandatory Restrictions).

Section 3.6 Time Limits.

Time limitations for compliance with the terms of this Directive run from the Effective Date, unless otherwise noted. The Regional Director, the OTS Regional Deputy Director, or the assigned Assistant Director, may extend any time limits set forth in this Directive by specifically granting that extension in writing.

Section 3.7 OTS Review of Actions Requested

The Regional Director, the OTS Regional Deputy Director, or the assigned Assistant Director may provide a written notice of non-objection, acceptability, approval, or objection, or request additional information with respect to any submission to OTS required by this Directive, except that any amendment to the Capital Plan must receive the prior written approval of the Regional Director.

Section 3.8 Effect of Headings

The Part and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 3.9 Separability Clause

In case any provision in this Directive is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby unless OTS, in its sole discretion, determines otherwise.

Section 3.10 No Violations Authorized; Consequences of Directive

- A. Nothing in this Directive, including, without limitation, any of the timeframes for actions set forth in Part I, shall be construed as: (1) allowing the Bank to violate any law, rule, regulation, or policy statement to which it is subject or (2) restricting OTS from taking such actions as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, actions pursuant to 12 U.S.C. § 1831o, or taking any other type of supervisory, enforcement, or resolution action that OTS determines to be appropriate.
- B. OTS's conditional approval of the Capital Plan does not (1) constitute approval of contemplated actions or transactions for which a separate application, filing or notification is required prior to engaging in an activity contemplated by the Capital Plan; (2) prevent the revocation of conditional approval of the Capital Plan upon the discovery of other or additional facts that OTS determines warrants such action, including, but not limited to, any material adverse findings disclosed in any examination of the Bank or any material change in the assumptions underlying the Capital Plan; (3) indicate adoption of the Bank's assumptions or predictions underlying or set forth in the Capital Plan, nor do such assumptions or predictions bind OTS; or (4) prohibit OTS from requiring modifications and/or amendments of the Capital Plan as OTS determines necessary.

Section 3.11 Other Enforcement Documents

- A. This Directive does not supersede the Consent Order to Cease and Desist for Affirmative Relief and its accompanying Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief (collectively, Cease and Desist Order) issued by OTS Order No. MWR-07-4, dated May 18, 2007. The Cease and Desist Order remains in effect, except that any requirement in this Directive that is more restrictive than the Cease and Desist Order, the requirement in this Directive shall govern.
- B. This Directive does not supersede the terms of OTS's conditional approval of the Bank's Capital Plan set forth in OTS's August 23, 2007 letter to the Bank, except that any requirement in this Directive that is less restrictive than that set forth in the August 23, 2007 letter, this PCA Directive shall govern.

C. Nothing contained in this Directive shall affect or limit OTS's ability to take enforcement action in connection with any violation of the Cease and Desist Order or any enforcement action against an institution-affiliated party of the Bank.

Section 3.12 Incorporation of Stipulation

The Stipulation is made a part hereof and is incorporated herein by this reference.

Section 3.13 Effective Date of this Directive

This Directive (including all the requirements and limitations herein) is effective immediately on the date of issuance of the Directive (Effective Date), which is the date indicated below.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By

15/
Frederick R. Casteel
Regional Director
Midwest Region

Dated:

9-19-07

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of:)
)
Horizon Bank)
Oskaloosa, Iowa)
OTS Docket No. 0260)
)
_____)

OTS Order No.: MWR-07-7
Date: September 19, 2007

**STIPULATION AND CONSENT TO
PROMPT CORRECTIVE ACTION DIRECTIVE**

1. The Office of Thrift Supervision (OTS) has informed Horizon Bank, Oskaloosa, Iowa, (Bank), OTS No. 0260, based upon information reported to OTS, that grounds exist to issue a Prompt Corrective Action Directive (PCA Directive) pursuant to Section 38 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1831o, and 12 C.F.R. § 565.7 against the Bank. The Bank, in the interest of cooperation and to avoid the time and expense of pursuing further OTS administrative procedures for the issuance of a PCA Directive, and without admitting or denying that such grounds exist, stipulates and consents to the terms set forth in this Stipulation and Consent to Prompt Corrective Action Directive (Stipulation and Consent).
2. The Bank stipulates it is a federally chartered savings association subject to the supervision and regulation by OTS. The Bank is a "savings association" as that term is used in the Home Owners' Loan Act (HOLA), 12 U.S.C. §§ 1461 et seq., and an "insured depository institution" as defined in 12 U.S.C. §§ 1813(b) and 1813(c)(2). The Bank stipulates, as such, it is subject to OTS's authority to issue a directive to take prompt corrective action pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, and 12 C.F.R. § 565.7.
3. The Bank consents, by execution of the Stipulation and Consent, to OTS's issuance of the accompanying PCA Directive. The Bank further agrees to comply with the terms of the PCA Directive.
4. By execution of this Stipulation and Consent, the Bank (i) consents to OTS's appointment of a conservator or receiver or other legal custodian for the Bank and (ii) waives its rights to seek judicial review of such appointment at any time that the Bank is "critically undercapitalized"; however, upon receipt of documentation acceptable to the Regional Director that the Bank's capital position pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, and 12 C.F.R. § 565.4, is "adequately capitalized" or better, the Bank's consent to the appointment of a conservator, receiver, or other legal custodian and its waiver of its right to judicial review thereof, shall be suspended.

5. The Bank, by execution of this Stipulation and Consent, authorizes OTS to provide otherwise confidential information about the Bank to third parties to facilitate the possible acquisition of the Bank by a qualified buyer, sale of the Bank's assets, the purchase of the Bank's branches, or the possible merger of the Bank with a qualified merger partner at any time that the Bank is significantly undercapitalized and until such time the Bank becomes adequately capitalized as determined pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, and 12 C.F.R. § 565.4.
6. The Bank hereby agrees that upon notification that it is "critically undercapitalized" pursuant to 12 C.F.R. § 565.3, the Bank will cooperate fully with Federal Deposit Insurance Corporation (FDIC) to avoid a loss or otherwise minimize exposure to the insurance fund. Such cooperation includes, but is not limited to, responding to requests for information, providing full access to personnel, agents, and service providers, and accommodating on-site visits; and further includes the Bank's full authorization to FDIC to provide otherwise confidential information to third parties to facilitate the liquidation or other resolution of the Bank in anticipation of the possible appointment of FDIC as conservator, receiver, or other legal custodian. Nothing herein shall be interpreted to preclude such cooperation with FDIC at any time prior to such time as the Bank may be notified that it is "critically undercapitalized".
7. The attached PCA Directive is effective upon issuance. The Bank acknowledges that the PCA Directive is enforceable pursuant to Section 5(d) of HOLA, 12 U.S.C. § 1464(d), and Section 8 of FDIA, 12 U.S.C. § 1818.
8. The Bank hereby waives the following:
 - (a) its rights to pursue OTS's administrative process for issuance of the accompanying PCA Directive pursuant to 12 C.F.R. § 565.7;
 - (b) any and all rights it might otherwise have pursuant to federal law or regulations (including, but not limited to, 12 U.S.C. § 1831o and 12 C.F.R. § 565.7) in connection with issuance of the accompanying PCA Directive;
 - (c) its right to seek judicial review of the accompanying PCA Directive, including, but not limited to, any such right provided by Section 8(h) of FDIA, 12 U.S.C. § 1818(h); and
 - (d) its right to challenge or contest in any manner the basis, issuance, validity, or enforceability of the accompanying PCA Directive or any provision thereof.
9. The Consent Order to Cease and Desist for Affirmative Relief issued by OTS Order No. MWR-07-4, dated May 18, 2007, and the accompanying Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief shall remain in effect.
10. (a) The laws of the United States of America shall govern the construction and validity of this Stipulation and Consent and the PCA Directive.

