

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

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

Written Agreement by and among

MICHIGAN HERITAGE BANK
Farmington Hills, Michigan

FEDERAL RESERVE BANK
OF CHICAGO
Chicago, Illinois

and

MICHIGAN OFFICE OF FINANCIAL AND
INSURANCE REGULATION
Lansing, Michigan

Docket No. 08-057-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Michigan Heritage Bank, Farmington Hills, Michigan (the “Bank”), a Michigan state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Chicago (the “Reserve Bank”), and the Michigan Office of Financial and Insurance Regulation (the “OFIR”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on December 16, 2008, the board of directors of the Bank at duly constituted meeting adopted a resolution authorizing and directing H. Perry Driggs, Jr., 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 sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

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

Asset Improvement

1. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the report of examination commenced by the Reserve Bank on June 16, 2008 (“Report of Examination”) or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified as “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or

renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review. For purposes of this Agreement, the term "related interest" is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System (the "Board of Governors")(12 C.F.R. § 215.2(n)).

2. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$500,000, including OREO, that: (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$500,000 including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and OFIR an acceptable written plan to improve the Bank's position on such loan or asset.

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

Allowance for Loan and Lease Losses

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

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

(c) Within 60 days of this Agreement, the Bank shall adopt an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing

of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and OFIR, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

4. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(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 the Bank's 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.

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

Liquidity and Funds Management

6. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to enhance the monitoring and reporting of the Bank's liquidity position;
- (b) additional tools to measure and estimate liquidity needs on an ongoing basis;
- (c) specific liquidity targets and parameters and the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; and
- (d) steps to diversify sources of funding and reduce reliance on short-term noncore funding.

7. Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR an acceptable revised written contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

Earnings Plan and Budget

8. (a) Within 30 days of this Agreement, the Bank shall submit to the Reserve Bank and OFIR a written business plan for 2009 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and

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

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

Dividends

9. (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, and OFIR.

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323) and the Michigan policy on dividends. All requests for prior approval shall be received by the Reserve Bank and OFIR at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and loan loss reserve needs of the Bank.

Regulatory Reports

10. Within 60 days of this Agreement, the Bank shall file amended regulatory reports to correct any previously filed report that does not comply with regulatory reporting requirements.

Compliance with Laws and Regulations

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

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

Compliance with the Agreement

12. Within 10 days of this Agreement, the board of directors of the Bank shall appoint a committee (the “Compliance Committee”) to monitor and coordinate the Bank’s compliance with the provisions of this Agreement. The Compliance Committee shall include at least three outside directors who are not executive officers of the Bank, as defined in section 215.2 (e)(1) (12 C.F.R. §§ 215.2(e)(1)) of the Board of Governors’ Regulation O. At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors on a monthly basis.

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

Approval and Implementation of Plans and Program

14. (a) The Bank shall submit written plans and a program that are acceptable to the Reserve Bank and OFIR within the applicable time periods set forth in paragraphs 2, 3, 4, 6, 7 of this Agreement.

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

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

Communications

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

(a) Ms. Julie A. Williams
Assistant Vice President
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604

(b) Mr. Gary L. Thielsen
Assistant Director
Michigan Office of Financial and Insurance Regulation
P.O. Box 30224
Lansing, Michigan 48909

(c) Mr. Vince Borowski
Executive Vice President
Michigan Heritage Bank
28300 Orchard Lake Road
Suite 200
Farmington Hills, Michigan 48334

Miscellaneous

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

17. 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.

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

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

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

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of this 16th day of December, 2008.

Michigan Heritage Bank

Federal Reserve Bank of Chicago

By: /s/ H. Perry Driggs, Jr.
H. Perry Driggs, Jr.
Chairman

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

Michigan Office of Financial and Insurance
Regulation

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