

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

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In the Matter of	)	Order No.: CN 09-29
	)	
<b>LINCOLN FEDERAL BANCORP, INC.</b>	)	Effective Date: October 6, 2009
	)	
Lincoln, Nebraska	)	
OTS Docket No. H3726	)	
_____	)	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, Lincoln Federal Bancorp, Inc., Lincoln, Nebraska, OTS Docket No. H3726 (Mid-Tier Holding Company), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

**WHEREAS**, the Mid-Tier Holding Company, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Central Region (Regional Director), is authorized to issue consent Orders to Cease and Desist where a savings and loan holding company has consented to the issuance of an order.

**NOW, THEREFORE, IT IS ORDERED that:**

**Cease and Desist.**

1. The Mid-Tier Holding Company shall cease and desist from engaging in unsafe or unsound practices that have resulted in operating the Mid-Tier Holding Company with an

inadequate level of capital protection for the volume, type and quality of consolidated assets held by the Mid-Tier Holding Company.

**Business Plan.**

2. (a) By November 30, 2009, the Board shall adopt and submit to the Regional Director, for review and comment, a detailed business plan for preserving and enhancing the consolidated capital and earnings of the Mid-Tier Holding Company (Business Plan) that addresses the comments and recommendations in the February 23, 2009 OTS Report of Examination of the Mid-Tier Holding Company and its parent company, Lincoln Federal Bancorp, MHC, Lincoln, Nebraska, OTS Docket No. H3727 (ROE). The Business Plan shall cover the period beginning with the quarter ending December 31, 2009 through the quarter ending December 31, 2011. At a minimum, the Business Plan shall address the following components:

- (i) establishment and achievement by December 31, 2009 of a minimum tangible capital ratio of tangible equity capital to total tangible assets commensurate with the Mid-Tier Holding Company's consolidated risk profile;
- (ii) development and implementation of operating strategies to achieve the Board approved minimum tangible capital ratio and realistic net income levels at the Mid-Tier Holding Company that will result in profitability and adequate debt service throughout the term of the Business Plan without reliance on cash dividends or other capital distributions from the Mid-Tier Holding Company's wholly-owned savings association subsidiary, Lincoln FSB of Nebraska, Lincoln, Nebraska, OTS Docket No. 03896 (Association);
- (iii) specific plans for capital infusions, when needed, for the Association to

maintain: (A) Tier 1 (Core) Capital Ratio equal to or greater than seven percent (7 %); and (B) Total Risk-Based Capital Ratio equal to or greater than eleven percent (11 %);

(iv) quarterly cash flow projections for the Mid-Tier Holding Company on a stand alone basis through calendar year-end December 31, 2011 that identify both the sources of funds and the expected uses of funds;

(v) detailed quarterly pro forma consolidated and unconsolidated Mid-Tier Holding Company balance sheets and income statements for the period beginning December 31, 2009 and ending December 31, 2011 that reflect the maintenance throughout the period of the Board established minimum tangible equity capital ratio; and

(vi) detailed descriptions of all relevant assumptions and projections and supporting documentation for all relevant assumptions and projections.

(b) Within thirty (30) days after receipt of any written comments from the Regional Director, the Board shall revise and adopt the Business Plan based upon such comments. The Board shall ensure that the Association implements and adheres to the Business Plan. A copy of the Business Plan shall be provided to the Regional Director within seven (7) days after the Board meeting.

(c) Once the Business Plan is implemented, the Mid-Tier Holding Company shall operate within the parameters of its Business Plan. Any proposed material deviation from or change to the Business Plan must be submitted for the prior, written non-objection of the Regional Director. Requests for any material deviation or change must

be submitted at least sixty (60) days before a proposed deviation or change is implemented.

(d) The Mid-Tier Holding Company shall notify the Regional Director regarding any material event affecting or that may affect the balance sheet, income statement, capital, or the cash flow of the Mid-Tier Holding Company within five (5) days after such event.

3. (a) On a quarterly basis, beginning with the quarter ending December 31, 2009, the Mid-Tier Holding Company shall prepare and submit to the Board a report that compares projected operating results contained within the Business Plan to actual results (Business Plan Variance Report). The Board shall review each Business Plan Variance Report and address external and internal risks that may affect the Mid-Tier Holding Company's ability to successfully implement the Business Plan. This review shall include, but not be limited to, adverse scenarios relating to real estate sales, interest rates, staffing levels and expertise, operating expenses, marketing costs, and economic conditions in the markets where the Mid-Tier Holding Company is operating. The Board's review of each Business Plan Variance Report and assessment of the Mid-Tier Holding Company's compliance with the Business Plan shall be fully documented in the appropriate Board meeting minutes.

(b) Within forty-five (45) days after the close of each quarter beginning with the quarter ending December 31, 2009, the Board shall provide the Regional Director with a copy of each Business Plan Variance Report.

#### **Real Estate Investments.**

4. (a) Within thirty (30) days, the Board shall obtain and submit to the Regional Director adequate documentation substantiating that its real estate investments that are

(b) The Board shall ensure that all real estate investments are reflected on the books and records of the Mid-Tier Holding Company in accordance with GAAP.

**Affiliate Transactions.**

5. Effective immediately, the Mid-Tier Holding Company shall not engage in transactions with any subsidiary or affiliate or parent company without the prior written non-objection of the Regional Director, except: (a) exempt transactions under 12 C.F.R. Part 223; and (b) intercompany cost-sharing transactions identified in executed written agreements between the parties. The Mid-Tier Holding Company shall provide thirty (30) days advance written notice to the Regional Director of any proposed affiliate transaction and shall include a full description of the transaction. The Board shall ensure that any transaction with an affiliate complies with the requirements of 12 CFR § 563.41 and Regulation W, 12 CFR Part 223, including Subpart F (General Provisions of Section 23B).

**Debt Restrictions.**

6. Effective immediately, the Mid-Tier Holding Company shall not directly or indirectly incur, issue, renew, or rollover any debt, increase the maximum amount of any current lines of credit, or guarantee the debt of any entity, without prior written notice to and written approval from the Regional Director. The Mid-Tier Holding Company's written request for approval shall

be submitted to the Regional Director at least thirty (30) days prior to incurring, issuing, renewing, rolling over any debt, increasing any current lines of credit, or guaranteeing the debt of any entity. For purposes of this Paragraph, the term “debt” includes, but is not limited to, loans, bonds, cumulative preferred stock, hybrid capital instruments, such as subordinated debt or trust preferred securities, and guarantees of debt. For purposes of this Paragraph, the term “debt” does not include liabilities incurred in the normal course of business to acquire goods and services and that are normally recorded as accounts payable under GAAP.

**Capital Distributions.**

7. Effective immediately, the Mid-Tier Holding Company shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Mid-Tier Holding Company’s written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment, or distribution of capital.

**Severance and Indemnification Payments.**

8. Effective immediately, the Mid-Tier Holding Company shall not make any golden parachute payment<sup>1</sup> or any prohibited indemnification payment<sup>2</sup> unless, with respect to each such payment, the Mid-Tier Holding Company has complied with the requirements of 12 C.F.R. Part 359.

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<sup>1</sup> The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

<sup>2</sup> The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

**Directorate and Management Changes.**

9. Effective immediately, the Mid-Tier Holding Company shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>3</sup> set forth in 12 C.F.R. Part 563, Subpart H.

**Employment Contracts and Compensation Arrangements.**

10. Effective immediately, the Mid-Tier Holding Company shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or Senior Executive Officer of the Mid-Tier Holding Company, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement, or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359.

**Effective Date, Incorporation of Stipulation.**

11. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

**Duration.**

12. This Order shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

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<sup>3</sup> The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

**Time Calculations.**

13. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

14. The Regional Director may extend any of the deadlines set forth in the provisions of this Order upon written request by the Mid-Tier Holding Company that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

**Submissions and Notices.**

15. All submissions, including progress reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

16. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

(a) **To the OTS:**

Regional Director  
Office of Thrift Supervision  
One South Wacker Drive, Suite 2000  
Chicago, Illinois 60606  
Facsimile: (312) 917-5002

(b) **To the Mid-Tier Holding Company:**

Chairman of the Board  
Lincoln Federal Bancorp, Inc.  
1101 N Street  
Lincoln, Nebraska 68508-2169  
Facsimile: (402) 474-0275

**No Violations Authorized.**

17. Nothing in this Order or the Stipulation shall be construed as allowing the Mid-Tier Holding Company, its Board, officers or employees to violate any law, rule, or regulation.

**IT IS SO ORDERED.**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
Daniel T. McKee  
Regional Director, Central Region

Date: See Effective Date on page 1

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	)	Order No.: CN 09-29
	)	)	
<b>LINCOLN FEDERAL BANCORP, INC.</b>	)	)	Effective Date: October 6, 2009
	)	)	
Lincoln, Nebraska	)	)	
OTS Docket No. H3726	)	)	

**STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST**

**WHEREAS**, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Lincoln Federal Bancorp, Inc., Lincoln, Nebraska, OTS Docket No. H3726 (Mid-Tier Holding Company) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Mid-Tier Holding Company pursuant to 12 U.S.C. § 1818(b);

**WHEREAS**, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings and loan holding company has consented to the issuance of an order; and

**WHEREAS**, the Mid-Tier Holding Company desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceedings by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1-3 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

### **Jurisdiction.**

1. The Mid-Tier Holding Company is a “savings and loan holding company” within the meaning of 12 U.S.C. § 1813(w)(3) and 12 U.S.C. § 1467a. Accordingly, the Mid-Tier Holding Company is a “depository institution holding company” as that term is defined in 12 U.S.C. § 1813(w)(1).
2. Pursuant to 12 U.S.C. § 1818(b)(9), the “appropriate Federal banking agency” may initiate cease and desist proceedings against a savings and loan holding company in the same manner and to the same extent as a savings association for regulatory violations and unsafe or unsound acts or practices.
3. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings and loan holding company. Therefore, the Mid-Tier Holding Company is subject to the authority of the OTS to initiate and maintain an administrative cease-and-desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

### **OTS Findings of Fact.**

4. Based on its February 23, 2009 examination of the enterprise consisting of the Mid-Tier Holding Company and its parent company, Lincoln Federal Bancorp, MHC, Lincoln, Nebraska, OTS Docket No. H3727, the OTS finds that the Mid-Tier Holding Company has engaged in unsafe or unsound practices, including operating the Mid-Tier Holding Company with an inadequate level of capital protection for the volume, type and quality of consolidated assets held by the Mid-Tier Holding Company.

### **Consent.**

5. The Mid-Tier Holding Company consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Mid-Tier Holding Company further agrees to comply

with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

**Finality.**

6. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

**Waivers.**

7. The Mid-Tier Holding Company waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

**OTS Authority Not Affected.**

8. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Mid-Tier Holding Company if, at any time, the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

9. The Mid-Tier Holding Company acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 8 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Mid-Tier Holding Company that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

10. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

11. If any provision of this Stipulation and/or the Order 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 the Regional Director in his or her sole discretion determines otherwise.

12. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

13. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

14. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

15. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

**Signature of Directors/Board Resolution.**

16. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Mid-Tier Holding Company to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting.

**WHEREFORE**, the Mid-Tier Holding Company, by its directors, executes this Stipulation.

**LINCOLN FEDERAL BANCORP, INC.**  
**Lincoln, Nebraska**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
Gerald H. Maddox, Chairman

By: \_\_\_\_\_ /s/  
Daniel T. McKee  
Regional Director, Central Region

\_\_\_\_\_/s/  
Richard D. Hitz, Director

Date: See Effective Date on page 1

\_\_\_\_\_/s/  
Paul Kardell, Director

\_\_\_\_\_/s/  
Michael J. Rierden, Director

\_\_\_\_\_/s/  
Leo J. Schumacher, Director

\_\_\_\_\_/s/  
Dale L. Young, Director