

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF ILLINOIS

OFFICE OF BANKS AND REAL ESTATE

BUREAU OF BANKS AND TRUST COMPANIES

_____)	
In the Matter of)	ORDER TO
)	CEASE AND DESIST
BANK OF CHESTNUT)	
CHESTNUT, ILLINOIS)	FDIC-02-190b
)	OBRE No. 2002-BBTC-86
(Insured State Nonmember Bank))	
_____)	

Bank of Chestnut, Chestnut, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code, section 392.30, regarding hearings before the Office of Banks and Real Estate for the State of Illinois ("OBRE"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("STIPULATION") with representatives of the Federal Deposit Insurance

Corporation ("FDIC") and OBRE, dated January 9, 2003, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and OBRE.

The FDIC and OBRE considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and OBRE, therefore, accepted the STIPULATION 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:

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

- The failure to follow written loan policy guidelines;
- The failure to obtain current and complete financial information;

- The failure to implement an adequate loan review program for consumer loans;
- The failure to obtain adequate collateral on loans and to establish and monitor collateral margins of secured borrowers; and
- The failure to establish and enforce adequate loan repayment programs.

B. Operating with an excessive level of adversely classified loans, delinquent loans, and nonaccrual loans.

C. Operating with an excessive volume of loan losses.

D. Operating with inadequate internal routines and controls.

E. Operating with an inadequate loan policy.

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

G. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices.

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

1. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's staffing needs ("Staffing Plan"), with particular emphasis on its loan administration and loan collection needs.

(b) The Staffing 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 staff members to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties; and
- (iv) A plan to recruit and hire any additional or replacement personnel (on a full-time, part-time or consultant

basis) with the requisite ability, experience and other qualifications to satisfy identified staffing needs.

(c) The Staffing Plan shall be submitted to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and Commissioner of OBRE ("Commissioner") for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and Commissioner and after the adoption of any recommended changes, the Bank shall approve the Staffing 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 Staffing Plan and/or any subsequent modification.

2. 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 Commissioner'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, including

any person identified by the FDIC and OBRE, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

3. Within 60 days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls which are listed in the Joint FDIC/OBRE Report of Examination as of June 30, 2002 ("Joint Report"). Additionally, the Bank shall establish policies to prevent the recurrence of any deficiencies noted.

4. 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 July 31, 2002, 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 Regional Director and Commissioner. 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.

5. (a) Within 30 days from the effective date of this ORDER, the Bank shall replenish its allowance for loan and lease losses ("ALLL") which will replenish the ALLL for

the loans charged off as a result of a "Loss" classification as reflected in the Joint Report.

(b) Within 30 days from the effective date of this ORDER, 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 FDIC or OBRE.

(c) Within 60 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to July 31, 2002, 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 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 FDIC or OBRE.

6. (a) Within 60 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to strengthen lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and Commissioner for review and comment upon its completion.

(b) The initial revisions to the Bank's loan policy required by this paragraph, at a minimum, shall include provisions:

- (i) Establishing standards for extending unsecured credit;
- (ii) Establishing lending authority and responsibilities of the loan committee;
- (iii) Prohibiting the extension or renewal of an extension of credit, without the full collection in cash of accrued and unpaid interest and a principal reduction;
- (iv) Establishing guidelines for the use of credit reports, including: (A) circumstances which require a credit report; (B) the frequency of when a credit report should be obtained, and (C) course of action based on the findings in the credit report;
- (v) Designating the Bank's normal trade area;
- (vi) 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;

(vii) Establishing procedures for the handling and disposition of repossessed assets and other real estate; and

(viii) Establishing limitations of the extension of credit through overdrafts.

(c) Within 30 days from the receipt of any comments from the Regional Director and Commissioner, and after the adoption of any recommended changes, the board of directors shall approve the written loan policy and any subsequent modification thereto, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the amended written loan policy.

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall implement a loan review program for consumer loans. The loan review program shall, at a minimum:

(i) Require a loan review of consumer loans over \$10,000;

- (ii) Establish a schedule for performing loan review once the loan is made; and
- (iii) Establish loan review requirements to include, at a minimum, adequacy of documentation, compliance with loan policy, calculation of the borrower's debt to income ratio, and calculation of the loan to value ratio.

(b) A copy of the loan review shall be placed in the appropriate loan file. All loan reviews shall be submitted to the board of directors for review and notation in the board of director's minutes. The Bank shall incorporate the loan review program for consumer loans into the Bank's loan policy.

8. (a) As of the effective date of this ORDER, and without the prior approval of the Regional Director and Commissioner, 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.

9. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written plan to reduce the Bank's risk position in each asset in excess of \$10,000 which is classified "Substandard" in the Joint Report and in all subsequent reports of examination of the FDIC or OBRE while this ORDER is in effect. 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 six 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. The monthly written progress reports shall contain, at a minimum, the following for each borrower: lender officer actions, contact with borrower, current plans to improve the credit, repayment ability, and collateral coverage.

(c) As used in this paragraph, "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 FDIC.

(d) Within 30 days from the receipt of any comment from the Regional Director and Commissioner, and after the adoption of any recommended changes, the Bank shall approve the written plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow this written plan.

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written plan for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit the extension of credit for the payment of interest;
- (ii) Clearly define areas of responsibility;
- (iii) Establish acceptable guidelines for the collection of delinquent credits;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies within three and six months from the effective date of this ORDER; and

(v) 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. The monthly written progress reports shall contain, at a minimum, the following for each delinquent loan: lender officer actions, contact with borrower, current plans to improve the credit, repayment ability, and collateral coverage.

(b) Within 30 days from receipt of any comment from the Regional Director and Commissioner, and after the 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.

11. Within 60 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Joint Report. In addition, the Bank shall develop a plan to improve credit documentation. This plan shall be forwarded to the Regional Director and Commissioner for review and comment upon its completion.

12. As of the effective date of this ORDER, the Bank shall pay no cash dividends which would result in a Tier 1 capital ratio of less than 7.0 percent, without the prior written consent of the Regional Director and Commissioner.

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2003. 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 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 Regional Director and Commissioner for review and comment within 30 days of the end of each year. Within 30 days of receipt of all such comments from the Regional Director and Commissioner 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.

14. (a) Within 30 days from the effective date of this ORDER, 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.

15. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and Commissioner 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 Regional Director and Commissioner have, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be 10 calendar days after its issuance by the FDIC and OBRE.

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 FDIC and OBRE.

Pursuant to delegated authority.

Dated: January 30, 2003.

Scott M. Polakoff
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

Scott D. Clarke
Assistant Commissioner
Office of Banks and Real
Estate for the State of
Illinois