FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

In the Matter of	)	
	)	ORDER TO CEASE AND DESIST
HERITAGE COMMUNITY BANK GLENWOOD, ILLINOIS	)	FDIC-08-131b 2008-DB-45
(ILLINOIS CHARTERED INSURED NONMEMBER BANK)	)	

Heritage Community Bank, Glenwood, Illinois ("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 or regulations 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 Illinois Department of Financial and Professional Regulation, Division of Banking ("Division"), 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 Federal

Deposit Insurance Corporation ("FDIC") and the Division, dated September 17, 2008, 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 or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the Division.

The FDIC and the Division 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 or regulations. The FDIC and the Division, therefore, accepted the CONSENT AGREEMENT and issued the following:

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 or regulation:

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

B. 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 and violations of law or regulation.

C. Engaging in hazardous lending and lax collection practices.

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

E. Operating with an inadequate loan policy.

F. Operating in a manner which has resulted in inadequate earnings.

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

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

MANAGEMENT

1. (a) Within 90 days from the effective date of this ORDER, the Bank shall have and retain qualified management. The Bank's board of directors shall provide management with the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its 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, management effectiveness, and liquidity.

(b) 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 Division'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.

MANAGEMENT PLAN

2. (a) Within 60 days from the effective date of this ORDER, the Bank shall either on its own or by contracting with an independent party acceptable to the FDIC and the Division, develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan"), which is acceptable to the Regional Director and the Division, for the purpose of providing qualified management for the Bank.

(b) The Management Plan shall include, at a minimum:

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

(ii) Identification of roles and responsibilities of all officer positions and a determination of suitable officer compensation to ensure satisfactory earnings, sufficient capital, and the bank's safe and sound condition.

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

CAPITAL

3. (a) Within 30 days from the effective date of this Order, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 9.0%, and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 14.0%. For purposes of this ORDER, Tier

1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) Any such increase in Tier 1 capital or qualifying total capital may be accomplished by the following:

(ii) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325; or

(iii) The elimination of all or part of the assets classified "Loss" as of March 31, 2008, 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

(iv) The collection in cash of assets previously charged off; or

(v) The direct contribution of cash by the directors and/or the shareholders of the Bank; or

(vi) Any other means acceptable to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division; or

(vii) Any combination of the above means.

(c) 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 the 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 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 FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to Scott D. Clarke, Assistant Director, Division of Banking, Illinois Department of Financial and Professional Regulation, 500 East Monroe, Springfield, Illinois 62701, for their review.

Any changes requested to be made in the materials by the FDIC or the Division shall be made prior to their dissemination.

(d) 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.

(e) 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 allowance for loan and lease losses and an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

4. Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to reduce the Bank's risk position in each asset in excess of $1,000,000 which is delinquent or classified "Substandard" in

the Report. The written plan shall be acceptable to the Regional Director and Division as determined at subsequent examinations. The plan shall include, but not be limited to, provisions which:

(a) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;

(b) Provide for review of the current financial condition of each delinquent or "Substandard" borrower, including a review of borrower cash flow and collateral value;

(c) Establish dollar levels to which the Bank shall reduce delinquencies and "Substandard" assets 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (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.

CONCENTRATION OF CREDIT

6. (a) Within 15 days of the effective date of this ORDER, the Bank shall determine specific limitations on concentrations of credit as a percentage of the Bank's Tier 1 capital to be implemented and adhered to by the Bank with respect to individual categories of credit described in the Report. The limitations shall be acceptable to the Regional Director and the Division.

(b) Within 60 days from the effective date of this Order, the Bank shall formulate and submit to the Regional

Director and Division a written plan to reduce concentrations of credit, including but not limited to construction and land development loans; speculative real estate loans; and other commercial real estate, as a percentage of the Bank's total Tier 1 Capital. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce the concentrations within six and twelve 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) Within 30 days from the receipt of any comments from the Regional Director and the Division, and after the adoption of any recommended changes, the board of directors shall approve the written plan 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 adhere to the written plan.

HIGH LOAN-TO-VALUE PORTFOLIO

7. (a) Within 60 days from the effective date of this Order, the Bank shall formulate and submit to the Regional

Director and Division for review and comment a written plan to reduce loans in excess of loan-to-value limitations established in Appendix A of Part 365 of the FDIC Rules and Regulations, 12 C.F.R. Part 365, Appendix A. Such plan shall prohibit any additional advances that would increase the loans in excess of supervisory loan-to-value limits or create new loans in excess of supervisory loan-to-value limits and shall include, but not be limited:

(i) Dollar levels to which the Bank shall reduce loans in excess of supervisory loan-to-value limits within six and twelve 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.

(b) Within 30 days from the receipt of any comments from the Regional Director and the Division, and after the adoption of any recommended changes, the board of directors shall approve the written plan 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 adhere to the written plan.

LOAN REVIEW

8. Within 30 days from the effective date of this ORDER, the Bank shall implement comprehensive loan grading and review procedures. The procedures shall require that such loan grading and review will be performed by a qualified individual who is not a member of the Bank's lending staff. The loan review procedures shall, at a minimum:

(a) Classify as necessary significant credit relationships whose aggregate outstanding debt exceeds $300,000;

(b) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;

(c) Identify loans or relationships that warrant special attention of management;

(d) Identify credit and collateral documentation exceptions and track corrective measures;

(e) Identify violations of law, rules, or regulations and track corrective measures; and

(f) Identify loans not in conformance with the Bank's loan policy.

BOARD LOAN APPROVALS

9. As of the effective date of this ORDER, the Bank's board of directors shall, at a minimum, perform the following functions with respect to its approval of loans:

(i) Evaluate, grant and/or approve loans in accordance with the Bank's loan policy as amended to comply with this ORDER. The minutes of the meeting of the board of directors shall provide a thorough written explanation of any deviations from the loan policy, which explanation shall address how the exceptions are in the Bank's best interest;

(ii) Review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in the Report or that are included on the Bank's internal watch list;

(iii) Review and give prior written approval for all advances, renewals, or extensions of credit to any borrower or the borrower's related interests when the aggregate volume of credit extended to the borrower and the borrower's related interests exceeds

$1,000,000. For purposes of this ORDER, the term "related interest" is defined pursuant to section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n); and

(iv) Maintain a written record of the review and status of the aforementioned loans in the minutes of the meetings of the board of directors.

LOAN POLICY

10. (a) Within 30 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 Division 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) Requiring annual financial statements for all borrowers and guarantors with relationships in excess of $1,000,000, and a written analysis thereof;

(ii) Establishing guidelines for the use of interest reserves. The guidelines shall include the types of loans for which such reserves may be used; the amount and duration of such reserves; use of reserves in the case of renewals, refinancings, extensions, and loans with adverse gradings; monitoring of the volume of reserves actually used; and prohibiting the replenishment of reserves through increases in loan balances unless the Bank's board of directors indicates in writing its reasons for determining that such replenishment is in the best interest of the Bank;

(iii) Establishing improved real estate loan monitoring systems, including but not limited to detailed information on real estate sales activity, and monitoring of construction draws, delays and overruns;

(iv) Requiring loan officers to prepare file memoranda to update changing conditions and loan quality;

(v) Establishing a risk management framework that effectively identifies, monitors, and controls concentrations of credit, as provided in the Joint Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, 71 Fed. Reg. 74580, FIL-104-2006; and

(vi) Establishing goals for portfolio mix, including limits within loan and other asset categories.

(c) Within 30 days from the receipt of any comments from the Regional Director and the Division, 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 adhere to the amended written loan policy.

LOSS CHARGE-OFF

11. 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" in the Report 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 the Division.

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.

DIVIDEND RESTRICTION

12. As of the effective date of this ORDER, the Bank shall pay no cash dividends without the prior written consent of the Regional Director and the Division.

ASSET/LIABILITY CONTINGENCY PLANNING

13. Within 30 days from the effective date of this ORDER, the Bank shall develop and implement a written plan addressing asset/liability management contingency planning. The plan shall be acceptable to the Regional Director and the Division. Annually thereafter during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to maintain adequate provisions to meet the Bank's liquidity needs. A copy of the plan and each revision thereof shall also be submitted to the Regional Director and Division upon completion. The initial plan shall include, at a minimum, provisions:

(a) Identifying the source and use of borrowed and/or volatile funds;

(b) Establishing appropriate lines of credit at correspondent banks, including the Federal Reserve

Bank of Chicago, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;

(c) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives; and

(d) Establishing alternative courses of action designed to meet the Bank's liquidity needs.

DISCLOSURE TO SHAREHOLDERS

14. 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 FDIC Registration and Disclosure Section 550 17th Street, N.W., Washington, D.C. 20429 and to the Illinois Department of Financial and Professional

Regulation, Division of Banking, 500 East Monroe, Springfield, Illinois 62701, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and the Division shall be made prior to dissemination of the description, communication, notice or statement.

COMPLIANCE WITH ORDER

15. (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.

PROGRESS REPORTS

16. 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 the Division 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 the Division have, in writing, released the Bank from making further reports.

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

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 the Division.

Pursuant to delegated authority.

Dated: October 10, 2008

M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation

Scott D. Clarke
Assistant Director
Division of Banking
Illinois Department of Financial and Professional Regulation