

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
)	
FREEDOM BANK, )	
STERLING, ILLINOIS )	FDIC-09-253b
)	DB NO. 2009-DB-46
(Illinois Chartered )	
Insured Nonmember Bank) )	
_____ )	

Freedom Bank, Sterling, Illinois (the "**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 38 Ill. Adm. Code, Section 392.30, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (the "**Division**"), 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 (the "**FDIC**") and Division, dated September 11, 2009, 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 the Division.

The FDIC and the Division considered the matter and determined that there was reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the Division, 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. Operating with management whose policies and practices allowed the Bank's financial condition to deteriorate.
- B. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank.

- C. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- D. Operating in a manner which has resulted in inadequate earnings and loss to the institution.
- E. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.
- F. Operating with inadequate liquidity in light of the Bank's asset and liability mix.

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

MANAGEMENT

1. (a) Upon the effective date of this ORDER, the Bank shall have and retain qualified management. Management shall be provided 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 capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, 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 request and obtain the Division's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("**section 32**"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

#### CAPITAL

2. (a) Not later than December 31, 2009, the Bank shall increase and maintain its level of Tier 1 capital as a percentage of its total assets ("**capital ratio**") to a minimum of seven and one-half (7.5%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") to a minimum of eleven (11%) percent. By not later than March 31, 2010, the Bank shall further increase and maintain for the life of this ORDER its capital ratio to a minimum of eight

(8%) percent and its total risk based capital ratio to a minimum of twelve (12%) percent. 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) If, while this ORDER is in effect, the Bank increases capital 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 said 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 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to Scott D. Clarke, Assistant Director, Division of Banking, 122 South Michigan Avenue, Suite 1900, Chicago, Illinois 60603, 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.

(c) 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.

#### ASSET QUALITY

3. Within thirty (30) days from the effective date of this Order, and, thereafter, within thirty (30) days from the end of each calendar quarter, the Bank shall furnish a report to the Regional Director and the Division that summarizes the Bank's private label mortgage-backed

securities and collateralized debt obligations. The report should include, but not be limited to, the name and tranch of each security, book value, market value (including pricing source/methodology), nationally recognized rating, impairment testing results, aggregate losses incurred through other-than-temporary impairment, and comments detailing the delinquencies, foreclosures, collateral values, defaults, deferrals, and any other relevant facts on the individual securities. The report shall be reviewed by the Board of Directors of the Bank and made part of the minutes of the Board meeting.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

4. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$500,000 which is, delinquent or classified "Substandard" or "Doubtful" in the February 23, 2009 Report of Examination ("ROE"). The plan shall include, but not be limited to, provisions which:

- (i) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER; and

(ii) 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.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the Division.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director of the Chicago Regional Office of the FDIC ("**Regional Director**") and the Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent by ninety (90) days or more after the effective date of this ORDER or are adversely classified at any subsequent examinations.

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" in the ROE, so long as such credit remains uncollected, without the prior written consent of the Regional Director and Division.

(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", "Doubtful", or is listed for Special Mention in the ROE, 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 signed by each Director, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

#### DIVIDEND RESTRICTION

6. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Division.

#### CONCENTRATION OF CREDIT

7. Within ninety (90) days from the effective date of

this ORDER, the Bank shall formulate adopt and implement a written plan to reduce and manage each of the portfolio concentrations of credit identified in the ROE in a safe and sound manner. At a minimum the plan must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, establish policy guidelines for portfolio mix, and set limits on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

PROFIT PLAN AND BUDGET

8. (a) By not later than December 31, 2009, the Bank shall adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2010. The plans required by this paragraph shall contain formal goals and strategies for improving the earnings of the Bank, 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) The written profit plan shall address, at a minimum:

- (i) Realistic and comprehensive budgets;
- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) Identification of major areas in, and the means by which, the Board of Directors will seek to improve the Bank's operating performance and core earnings; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within thirty (30) days from the end of each calendar quarter following completion of the profit plans and budgets 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.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in

effect.

(e) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

#### LIQUIDITY PLAN

9. (a) Within thirty (30) days of the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("**Liquidity Plan**"). The Liquidity Plan shall include strategies to minimize reliance upon brokered deposits. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions to address the issues identified in the ROE.

(b) Upon the effective date of this Order, Bank management shall monitor and review its liquidity position weekly to ensure that the Bank has sufficient liquid assets to meet current and anticipated liquidity needs. The results of the weekly reviews shall be presented to the Board of Directors each month and the results of Board review and any actions taken recorded in the minutes.

(c) Within 30 days from the effective date of this ORDER, the Bank shall establish and maintain an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through

a clearing account balance.

(d) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

#### NOTIFICATION OF SHAREHOLDER

10. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER:

(1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

#### PROGRESS REPORTS

11. Within thirty (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.

#### CLOSING PARAGRAPHS

The effective date of this ORDER shall be ten (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: September 18, 2009.

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

Jorge A. Solis  
Director  
Division of Banking  
Illinois Department of  
Financial and Professional  
Regulation