

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
)	
HIGHLAND COMMUNITY BANK,)	
CHICAGO, ILLINOIS)	FDIC-08-240b
)	DB NO. 2009-DB-07
(Illinois Chartered)	
Insured Nonmember Bank))	
_____)	

Highland Community Bank, Chicago, 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, rule or regulation 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, et seq, 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 the Division, dated September 9, 2009, 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, rule, or regulation, 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 and had violated laws, rules, or regulations. 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 and violations of law, rule, or regulation:

- A. Engaging in hazardous lending and lax collection practices, including, but not limited to:
- The failure to obtain adequate collateral;
 - The failure to establish and monitor collateral margins of secured borrowers;
 - The failure to establish and enforce adequate loan repayment programs;
 - The failure to obtain current and complete financial information;
 - Extending credit with inadequate diversification of risk;
 - Other poor credit administration practices.
- B. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- C. Operating with an excessive level of adversely classified, delinquent, and nonaccrual loans.

- D. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- E. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.

IT IS FURTHER 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 assignees, take affirmative action as follows:

CAPITAL

1. (a) Immediately upon 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 10 percent. For purposes of this ORDER, Tier 1 capital shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325, with the exception of deferred tax assets which shall be disallowed in full.

(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 17th Street, N.W., Washington, D.C. 20429 and to the Division in care of Scott D. Clarke, Assistant Director, 122 S. 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. 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 the Division in care of Scott D. Clarke, Assistant Director, 122 S. 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

2. (a) Within 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 \$250,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the Report of Examination as of August 4, 2008, ("ROE"). The plan shall include, but not be limited to, provisions which:

- (i) 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;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) 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
- (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.

(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 FDIC's Chicago Region, ("Regional Director"), and the Division.

NO ADDITIONAL CREDIT TO CLASSIFIED BORROWERS

3. 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:

(a) Any borrower who is already obligated in any manner to the Bank on any extensions of credit that have been charged off the books of the Bank or classified "Loss" so long as such credit remains uncollected;

(b) Any borrower on a loan which has been classified "Substandard" and is uncollected unless the Bank's Board 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 and a copy of said statement is placed in the appropriate loan file and incorporated in the minutes of the applicable board of directors meeting.

ASSETS CLASSIFIED LOSS

4. While this Order is in effect, the Bank shall immediately eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the ROE or any subsequent Visitation or Examination.

SPECIAL MENTION

5. Within sixty (60) days from the date of this Order, the Bank shall initiate steps to correct the deficiencies in the

loans listed for Special Mention in the ROE, and any subsequent visitations.

LENDING AND COLLECTION POLICIES

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio.

(b) The revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall incorporate the items discussed on pages 12 through 13 of the ROE as well as the standards established by Appendix A of part 364 of the FDIC Rules and Regulations.

(c) Copies of the policies and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Division.

ALLOWANCE FOR LOAN AND LEASE LOSSES

7. (a) Within 30 days of the effective date of this ORDER the Bank shall replenish its Allowance for Loan and Lease Losses ("ALLL") in accordance with the recommendations made in the ROE.

(b) 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 the Division.

LIQUIDITY PLAN

8. (a) Within 30 days of the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. 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 on pages 13 through 14 of the ROE.

PROFIT PLAN AND BUDGET

9. (a) Within 30 days from the effective date of this ORDER, 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 years 2009 and 2010. The plans 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) 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 means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) Within 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.

STRATEGIC PLAN

10. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Division.

DIVIDEND RESTRICTION

11. 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.

RESTRICTION ON GROWTH

12. During the life of this ORDER, the Bank shall not increase its total assets by more than 3 percent during any consecutive three-month period without providing, at least 30 days prior to its implementation, a growth plan to the Regional

Director and the Division. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the Regional Director and the Division. In no event shall the Bank increase its total assets by more than 10 percent annually. For the purpose of this paragraph, "total assets" shall be defined as in the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income.

DISCLOSURE TO SHAREHOLDER

13. 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 its next shareholders meeting.

PROGRESS REPORTS

14. 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 Board, 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.

CLOSING PARAGRAPHS

The effective date of this Order shall be ten (10) calendar days after its issuance by the Division and the FDIC.

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 Division and the FDIC.

Pursuant to delegated authority.

Dated: September 15th, 2009.

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

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