

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
MUTUAL BANK	)	
HARVEY, ILLINOIS	)	
	)	FDIC-08-193b
(ILLINOIS CHARTERED	)	2008-DB-64
INSURED NONMEMBER BANK)	)	
_____	)	

Mutual Bank, Harvey, 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 December 19, 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, including, but not limited to:

- Failing to perform adequate cash flow analysis;
- Excessive and improper use of interest reserves;
- Failing to adequately monitor construction loan draws;
- Failing to establish an adequate loan grading system;
- Failing to establish an adequate loan review program;
- Failing to recognize loss in a timely manner;
- Operating with excessive concentrations of credit;  
and
- Failing to establish and enforce adequate loan repayment programs.

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

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

F. Operating with an inadequate loan policy.

- G. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- H. Operating with inadequate procedures for determining the adequacy of the Bank's allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.
- I. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.
- J. Operating in a manner which has resulted in inadequate earnings.
- K. Operating with an inadequate external audit program.

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

MANAGEMENT PLAN

1. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") 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;
- (iv) Evaluation of all Bank officers to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and
- (v) 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.

(c) The Management Plan shall be submitted to the Regional Director and the Division for review and comment upon its completion. 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 Bank shall approve the Management 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 adhere to the Management Plan and/or any subsequent modification.

#### MANAGEMENT

2. (a) Within 90 days from the effective date of this ORDER, the Bank shall have and retain qualified management. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Such persons 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 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.

LOSS CHARGE-OFF

3. 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 Joint FDIC/Division Report of Examination of the Bank as of June 2, 2008 ("Joint 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.

REDUCTION OF SUBSTANDARD ASSETS

4. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Division for review and comment a written plan to reduce the Bank's risk position in each asset in excess of \$3,000,000 which is classified "Substandard" in the Joint Report.

(b) 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;
- (ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position;
- (iii) Establish dollar levels to which the Bank shall reduce each asset within 6 and 12 months from the effective date of this ORDER; and

(iv) 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.

(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 and the Division.

(d) Within 30 days from the receipt of any comment from the Regional Director and Division, 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 adhere to this written plan.

#### REDUCTION OF DELINQUENCIES

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Division 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 an extension of credit for the payment of interest, including replenishment of interest

reserves, unless the Board provides in writing a detailed explanation of why the extension of credit is in the best interest of the Bank;

- (ii) Delineate areas of responsibility for collections;
- (iii) Establish acceptable guidelines for the collection of delinquent credits;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies 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) A copy of the written plan shall be submitted to the Regional Director and the Division upon its completion. Within 30 days from receipt of any comment from the Regional Director and the Division, 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 adhere to the plan.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (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" or "Doubtful" 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.

SPECIAL MENTION

7. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the Joint Report.

### CONCENTRATION OF CREDIT

8. (a) 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 manage concentrations of credit as identified in the Joint Report in a safe and sound manner. At a minimum, the concentration management program must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit and for a limit on concentrations in terms of the Bank's capital position that is commensurate with safe and sound banking practices and the overall risk profile of the Bank.

(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

9. Within 30 days from the date of this Order, the Bank shall implement revised 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 \$1,000,000;

(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.

#### 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) Correcting all loan underwriting, loan administration, and loan portfolio management weaknesses detailed in the Joint Report;
- (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;
- (iii) Requiring that collateral appraisals be reviewed by management for conformance with the Uniform Standards of Professional

Appraisal Practice and the requirements of Part 323 of the FDIC Rules and Regulations, 12 C.F.R. Part 323, prior to the making of secured extensions of credit; and

- (iv) Requiring a nonaccrual policy in accordance with the Federal Financial Institutions Examination Council ("FFIEC") Instructions for the Consolidated Reports of Condition and Income.

(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. The Bank shall inform the Regional Director and the Division, in writing, of the manner in which it intends to implement this policy and ensure compliance therewith.

#### CAPITAL PLAN

11. Within 60 days of the effective date of this ORDER, the Bank shall develop, implement, and adhere to a plan which is

acceptable to the Regional Director and the Division to address the adequacy of the Bank's capital.

DIVIDEND RESTRICTION

12. (a) As of the effective date of this ORDER, the Bank shall pay cash dividends only in an amount sufficient to cover the estimated shareholder Federal and applicable state income taxes associated with the Schedule K-1 allocation of Bank's earnings, but in no event more than forty-two percent (42%) of the Bank's earnings, and only if:

(i) The Bank is in compliance with its approved capital plan as described in Paragraph 11 of this ORDER; and

(ii) The Bank is "well capitalized" as defined in section 325.103 of the FDIC Rules and Regulations, 12 C.F.R. § 315.103.

(b) The Bank shall forward a copy of the dividend calculation and board minutes containing the dividend approval and documentation of compliance with this Paragraph to the Regional Director and the Division within ten (10) days of each Board meeting at which dividends are approved.

(c) Except as provided in Paragraph 12(a), while this ORDER is in effect the Bank shall pay no cash dividend without

the prior written consent of the Regional Director and the Division.

ALLOWANCE FOR LOAN AND LEASE LOSSES

13. (a) 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" or "Doubtful" and all other loans and leases in its portfolio. In making this determination, 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.

(b) Prior to submission or publication of all Reports of Condition and Income required by the FDIC and the Division 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, Statements of Financial Accounting Standards Nos. 5 and 114, and any analysis of the Bank's ALLL provided by the FDIC or the Division.

(c) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

#### ASSET GROWTH

14. During the life of this ORDER, the Bank shall not increase its total assets by more than 2.0 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 8.0 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.

STRATEGIC PLAN

15. (a) Within 120 days from the effective date of this ORDER, the Bank shall formulate and adopt a revised strategic plan which is realistic and comprehensive. 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.

(b) The written strategic plan shall address, at a minimum:

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

(c) The Bank will submit the strategic plan to the Regional Director and the Division for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting.

BUDGET AND PROFIT PLAN

16. (a) Within 60 days from the effective date of this

ORDER, the Bank shall formulate and submit to the Regional Director and the Division for review and comment a revised written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2009 and 2010. 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 the Division for review and comment within 30 days of the end of the preceding calendar year. Within 30 days of receipt of all such comments from the Regional Director and the Division 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 adhere to the plan.

#### AUDITS

17. Within 60 days from the effective date of this ORDER, the Bank's board of directors shall formulate and submit to the Regional Director and the Division for review and comment a comprehensive written audit program. At a minimum, the audit program shall provide that the Bank provide the Regional Director and the Division with a copy of all external audit reports within 10 days of the Bank's receipt of such report(s). The Bank shall thereafter implement and adhere to an effective system of internal and external audits. A copy of the audit program should be submitted to the Regional Director and the Division upon its completion.

#### ASSET/LIABILITY MANAGEMENT

18. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Division for review and comment a revised written plan addressing asset/liability management. 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. The initial plan shall include, at a minimum, provisions:

- (i) Identifying the source and use of borrowed and/or volatile funds;
- (ii) Reducing the Bank's reliance on high-cost and brokered funds;
- (iii) 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;
- (iv) 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

- (v) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs.

DISCLOSURE TO SHAREHOLDERS

19. 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 17<sup>th</sup> 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

20. Within 30 days from the effective date of this ORDER, the Bank shall establish a compliance committee comprised of at least 3 directors. No committee member may be an executive officer or principal shareholder, as those terms are defined in sections 215.2(e)(1) and (m) of Regulation O, 12 C.F.R. §§ 215.2(e)(1) and (m). The committee shall monitor compliance with this ORDER and, within 30 days from the effective date of this ORDER and every 30 days thereafter, shall submit to the board of directors for consideration at its regularly scheduled meeting a written report detailing the Bank's compliance with this ORDER. The compliance report shall be incorporated into the minutes of the board of directors' meeting. Establishment of this committee does not in any way diminish the responsibility of the entire board of directors to ensure compliance with the provisions of this ORDER.

#### PROGRESS REPORTS

20. 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 10 calendar days after the date of 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: December 30, 2009.

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

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