

STATE OF ILLINOIS  
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION  
DIVISION OF BANKING  
SPRINGFIELD, ILLINOIS  
and  
FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

_____ )	
In the Matter of )	ORDER TO CEASE AND
)	DESIST
)	
SHOREBANK )	FDIC -09-074-b
CHICAGO, ILLINOIS )	2009-DB-25
)	
(ILLINOIS CHARTERED )	
INSURED STATE NONMEMBER BANK) )	
_____ )	

ShoreBank, Chicago, Illinois ("Bank"), having been advised of, and waiving, specific rights pursuant to 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, relative to the unsafe or unsound banking practices alleged to have been committed by the Bank, has 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 State of Illinois Department of Financial and Professional Regulation, Division of Banking (the

"Division"), dated July 6, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying the allegations 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 they had reason to believe that the Bank had engaged in unsafe or unsound banking practices, and violations of law. 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:

- A. Operating with policies and practices that are detrimental to the Bank and jeopardize the safety of its deposits.
- B. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- C. Operating in a manner which has resulted in inadequate earnings.
- D. Engaging in hazardous lending and lax collection practices.

- E. Operating with an excessive level of adversely classified loans.
- F. Operating with inadequate liquidity and excessive dependence on noncore funding.
- G. Operating with excessive concentrations of credit.
- H. Operating with a less than satisfactory sensitivity to market risk position.

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

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall continue to 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 Bank's board of directors ("Board") or the employment of any individual as a senior executive officer, the Bank shall request and obtain written approval of the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division. 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) 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 ensure that the Bank's capital is, at all times, sufficient for the kind and quality of assets held and risks undertaken. At a minimum, the plan shall provide for (i) the maintenance of an acceptable level of capital protection commensurate with risk in the Bank's assets and operations, and (ii) provide for specific levels of Tier 1 capital as a percentage of its total assets

("capital ratio") and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") for each calendar quarter end for a three year period following the effective date of this Order, and the methods by which such capital increases will be achieved. 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 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, 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.

(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.

#### LOSS CHARGE-OFF

3. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss" in the Report of Examination issued by the FDIC and the Division as of November 10, 2008 ("ROE").

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

4. (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. Notwithstanding the preceding sentence, additional funds may be advanced for the purpose of protecting or preserving the Bank's interest in collateral underlying an extension of credit if the advance is given prior written approval by a committee of the Board, comprised of a majority of independent directors ("Board Committee").

(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 Board Committee 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 incorporated in the minutes of the

applicable committee meeting and be placed in the appropriate loan file.

(c) An Independent Director is a party who: is not an officer of the Bank or any subsidiary of the Bank or any of its affiliates; does not own more than 5 percent of the outstanding shares of the Bank; is not related by blood or marriage to an officer or other director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, or otherwise share a common financial interest with such officer, director or shareholder; and who is not indebted to the Bank directly, or indirectly by blood, marriage or common financial interest, including the indebtedness of any entity in which the individual has an equity interest of 10% or more, in an amount exceeding 5 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an Independent Director for purposes of this ORDER by the Regional Director and the Division.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (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 \$1,000,000 which is, delinquent or classified "Substandard" or "Doubtful" in the 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 Board for review and notation in minutes of the meetings of the Board.

(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 and the Division.

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

#### LOAN ADMINISTRATION POLICIES AND PRACTICES

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall review, revise, adopt, and implement its loan administration policies and practices.

(b) The revisions to the policies and practices, required by this paragraph, at a minimum, shall incorporate the items discussed in the Risk Management Assessment, Loan Administration Section of the ROE.

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

#### ASSET LIABILITY MANAGEMENT PLAN

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan addressing liquidity, dependency on noncore funding, and rate sensitivity objectives. 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 strengthen funds management procedures. The plan shall include, at a minimum, provisions for:

- (i) Maintaining a Liquidity Ratio, as set forth in the Bank's internal Asset Liability Management Policy, of at least 15 percent;
- (ii) Reporting to the Board the Net Noncore Funding Dependence Ratio ("NNCFD Ratio") and Short-term Net Noncore Funding Dependence Ratio ("STNNCFD Ratio") as computed in the Uniform Bank Performance Report;
- (iii) Establishing a desirable range for the NNCFD Ratio and STNNCFD Ratio, as well as reducing the level of brokered deposits, with a target of reducing brokered deposits to no more than a specified level of total deposits by year-end 2010;
- (iv) Revising the Asset Liability Management Policy consistent with the recommendations in the Report;

- (v) Developing a formal contingency funding plan consistent with the recommendations in the Report;
- (vi) Establishing procedures for managing the Bank's sensitivity to interest rate risk that comply with the Joint Agency Statement of Policy on Interest Rate Risk, as well as updating policies and procedures consistent with the recommendations in the Report.

(b) The plan required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director and the Division the Bank shall incorporate any changes required by the Regional Director or the Division and thereafter adopt, implement, and adhere to the plan.

#### DIVIDEND RESTRICTION

8. 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.

PROFIT PLAN, BUDGET, and PROJECTIONS FOR GROWTH

9. (a) Within 60 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, which should be submitted to the Regional Director and the Division for review, 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. The plan should also delineate plans for ensuring the Bank's growth does not outpace the rate of capital accumulation.

(b) Within 30 days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Board 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 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.

#### CONCENTRATIONS OF CREDIT

10. Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to manage each of the 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, and a limit on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank. A copy of the plan shall be provided to the Regional Director and the Division.

#### NOTIFICATION TO SHAREHOLDERS

11. 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.

#### COMPLIANCE COMMITTEE

12. Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a committee of the Board ("Compliance Committee") of not less than three persons with the

responsibility to ensure that the Bank complies with the provisions of this ORDER. At least two-thirds of the members of the Compliance Committee shall be Independent Directors as defined in paragraph 4(c) of this Order. The Compliance Committee shall report monthly to the entire Board, and a copy of the monthly report and any discussion relating to the monthly report or this ORDER shall be included in the minutes of the Bank's Board meetings. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

#### PROGRESS REPORTS

13. 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 an authorized member of the Bank's Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.

The effective date of this ORDER shall be 10 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: July 14, 2009.

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

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