

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 )	CONSENT ORDER
_____ )	
MCHENRY SAVINGS BANK )	
MCHENRY, ILLINOIS )	FDIC-12-360b
_____ )	2012-DB-44
(ILLINOIS CHARTERED )	
INSURED SAVINGS BANK) )	
_____ )	

McHenry Savings Bank, McHenry, Illinois ("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 under Sections 9009, 9015, 9018, 11001, and 11002 of the Savings Bank Act ("SBA"), 205 ILCS 205/9009, 9015, 9018, 11001 and 1102, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation

("FDIC") and the Illinois Department of Financial and Professional Regulation, Division of Banking, ("Division"), dated October 9, 2012, 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 regulation relating to Capital, Asset Quality, Management, Earnings, Liquidity, and Sensitivity to Market Risk, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined that they had reason to believe the Bank had engaged in unsafe or unsound banking practices and therefore accepted the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and the SBA, 205 ILCS 205/1001 et seq., have been satisfied, the FDIC and the Division **HEREBY ORDER** 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), or in Sections 1007.05 and 11005 of the SBA, 205 ILCS 205/1007.05 and 11005, and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. During the life of this ORDER, and consistent with the Management Plan referred to in Paragraph 2 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 all 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.

IMPLEMENTATION OF MANAGEMENT PLAN

2. As of the effective date of this ORDER, the Bank shall implement and follow all recommendations of the Management Plan prepared for the Bank by Wipfli, LLP, dated March 29, 2011, which the Bank submitted to the FDIC and the Division on April 8, 2011.

BOARD PARTICIPATION

3. (a) As of the effective date of this ORDER, the Bank's board of directors ("**Board**") shall further increase its

participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal insider, charged off, and recovered loans; concentration of credit monitoring reports; investment activity; liquidity monitoring; capital enhancement planning; operating policies; individual committee reports; audit reports; internal control reviews including management's responses; reconciliation of general ledger accounts; implementation of the Management Plan as required by Paragraph 2 above; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within Forty-five (45) days from the effective date of this ORDER, the Bank's Board shall develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER by a committee consisting of the entire Board.

(c) Following the required date of compliance with subparagraph (b) above, the Bank's Board shall review the Bank's

compliance with this ORDER and record its review in the minutes of each regularly scheduled monthly board of directors' meeting.

DIRECTORS AND SENIOR EXECUTIVE OFFICERS

4. During the life of the 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 Rule and Regulations, 12 C.F.R. § 303.101 (b).

CAPITAL

5. (a) Within ninety (90) 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 nine percent (9%) and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of twelve percent (12%). For purposes of this ORDER, Tier 1 capital and total 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 subsequent increase in Tier 1 capital may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325;
- (ii) The elimination of all or part of the assets classified "Loss" at the Joint FDIC and Division Examination which began on April 2, 2012 ("ROE"), 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;
- (iii) The collection in cash of assets previously charged off;
- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank;
- (v) Any other means acceptable to the Division and Regional Director of the FDIC's Chicago Regional Office ("Regional Director"); or
- (iv) Any combination of the above means.

(c) If all or part of any subsequent 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 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 twenty (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 for its review. Any changes requested to be made in the materials by the FDIC 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 ten (10) calendar days of the date any material development or change was planned or occurred, which is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(e) Should the Bank be unable to reach the required capital levels within the time frames specified in subparagraph (a) above, or be unable to maintain those levels, then within thirty (30) days of receipt of written direction from the Regional Director and the Division, the Bank shall develop, adopt, and implement a written plan to sell or merge itself into another federally insured financial institution or to otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. A copy of the plan required by this sub-paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the Division.

#### DIVIDEND RESTRICTION

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



LOSS CHARGE OFF

7. As of the effective date of this ORDER, the Bank shall charge off from its books and records any asset classified "Loss" in the ROE.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

8. (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 \$250,000 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 six (6) and twelve (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 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.

#### PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

9. (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 extension 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.

(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 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.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

10. As of the effective date of this ORDER, the Bank shall immediately revise its ALLL policy to adequately address each of the ALLL methodology deficiencies identified in the ROE. The revised policy shall also provide for Board review of the ALLL at least once each calendar quarter, with said review to be completed at least ten (10) days prior to the filing of the Report of Condition and Income to ensure that the results of the

Board review are properly reported in the quarterly Reports of Condition and Income and that ALLL is adequately funded at all times. Such Board reviews shall, at a minimum, ensure compliance with the following:

- (i) The Federal Financial Banks Examination Council's Instructions for the Reports of Condition and Income;
- (ii) The Interagency Statement of Policy on the Allowance for Loan and Lease Losses; applicable accounting guidance, including Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") Subtopic 450-10 and FASB ASC Subtopic 310-10 (which now supersede prior FAS 5 and 114 guidelines; and
- (iii) All other applicable regulatory guidance that addresses determination of the adequacy of the Bank's ALLL.

LIQUIDITY

11. (a) As of the effective date of this ORDER, the Bank shall have and thereafter retain a minimum liquidity position of not less than fifteen (15%) percent of Total Assets.

(b) While this ORDER remains in effect, the Bank

shall monitor and review its liquidity position daily to ensure that the Bank has sufficient liquid assets to meet current and anticipated liquidity needs. The liquidity ratios the Bank uses will be prepared using FFIEC Uniform Bank Performance Report guidelines. The results of the daily reviews shall be presented to the Bank Board each month and the results of board review and any actions taken recorded in the minutes.

(c) Upon 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) While this ORDER remains in effect, the Bank shall conduct quarterly liquidity stress testing to simulate varying market conditions to aid in identifying alternative courses of action to meet the Bank's funding needs.

(e) On each day the Bank is open for business while this ORDER remains in effect, the Bank shall submit a liquidity analysis report to the Division and the Regional Director. The liquidity report shall be in a format acceptable to the Division and the Regional Director.

#### INVESTMENT PORTFOLIO VALUATION

12. (a) While this ORDER remains in effect, the Bank shall engage a qualified, independent outside firm, acceptable to the Regional Director and the Division, to perform quarterly

Fair Market Value ("FMV") and Other-Than-Temporary Impairment ("OTTI") valuations of all investment securities currently held by the Bank.

(b) The firm retained shall have the requisite expertise to perform such valuations and the Bank shall provide the Regional Director and the Division with a copy of the proposed engagement letter or contract with the firm for review.

(c) The methodologies utilized to determine FMV and OTTI valuations shall minimally involve multiple, independent sources of information for pricing securities; shall fully document the sources, adjustments, and assumptions made; and shall be conducted in conformance with all applicable FASB ASC.

(d) A copy of each completed FMV and OTTI assessment shall be provided to the Regional Director and the Division for review and comment.

#### VIOLATIONS

13. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation listed in the ROE.

(b) Within ninety (90) days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

LOAN POLICY

14. (a) Within ninety (90) days from the effective date of this ORDER, and annually thereafter, the Bank Board shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate policy revisions to adequately address the lending deficiencies identified in the ROE and to prevent or abate further loan deterioration.

(b) The initial revisions to the Bank's loan policy required by this paragraph shall, at a minimum, include provisions which:

- (i) Adequately address all weaknesses and recommendations identified in the ROE, including credit administration deficiencies in the: consumer loan portfolio; floor plan lending; and the discount loan program;
- (ii) Establish procedures for correcting technical exceptions discussed in the ROE; and
- (iii) Establish review and monitoring procedures to ensure all lending personnel are adhering to established lending procedures and that the Board is receiving timely and fully documented

reports on loan activity, including any deviations from established policy.

(c) The Bank Board shall approve the revised written loan policy and any subsequent modification thereto, which approval shall be recorded in the minutes of the Board meeting at which approved. Thereafter, the Bank shall implement and follow the revised written loan policy.

#### LOAN REVIEW AND GRADING SYSTEM

15. Within ninety (90) 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. The scope of loan reviews under the revised procedures shall be expanded to include, at a minimum:

- (a) Residential real estate loans;
- (b) Consumer loans; and
- (c) The discount loan portfolio.

#### ADHERENCE TO CALL REPORT INSTRUCTIONS

16. As of the effective date of this ORDER, the Bank shall amend their Reports of Condition and Income to comply with recommendations in the ROE. The Bank shall continue to file these Reports in accordance with Call Report Instructions each calendar quarter.



PROFIT PLAN AND BUDGET

17. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise its existing Three-Year Profit Plan and Budget in accordance with all recommendations made in the ROE. Thereafter, during the life of this ORDER, the Bank shall adopt, implement, and adhere to the revised profit plan and a realistic, comprehensive budget for all categories of income and expense. 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 revised 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) During each monthly board meeting following completion of the profit plans and budgets required by this paragraph, the Bank's 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 Board in the minutes of the Board meeting at which such evaluation is undertaken.

(d) During the life of this ORDER, a written profit plan and budget, encompassing a rolling three-year period, shall be prepared annually and reviewed and revised as necessary every six months.

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

#### GROWTH PLAN

18. During the life of this ORDER, the Bank shall not increase its total assets by more than one and one-quarter percent (1.25%) during any consecutive three-month period, with the sole exception of providing for adequate liquidity, without providing, at least thirty (30) days prior to its

implementation, an acceptable 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. For the purpose of this paragraph, "total assets" shall be defined as in the Federal Financial Institutions Examination Council's Instructions for Consolidated Reports of Condition and Income.

#### NOTIFICATION OF SHAREHOLDER

19. 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 of proxy statement preceding the Bank's next shareholder meeting.

#### PROGRESS REPORTS

20. 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 Division written progress reports signed by each member of the Bank's Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.

CLOSING PARAGRAPHS

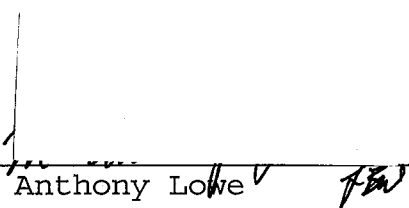
The effective date of this ORDER shall be the date of its issuance by the FDIC and the Division.

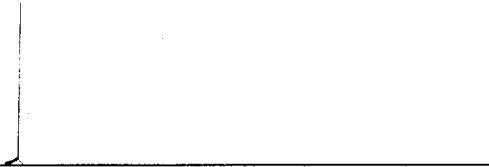
The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

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: October 25, 2012.

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

  
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Manuel Flores  
Director  
Illinois Department of Financial  
and Professional Regulation  
Division of Banking