

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
)	
OSWEGO COMMUNITY BANK)	FDIC-12-448b
OSWEGO, ILLINOIS)	2012-DB-53
)	
(ILLINOIS CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

Oswego Community Bank, Oswego, 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 A CONSENT ORDER ("Stipulation") with representatives of the Federal Deposit Insurance Corporation (the "FDIC") and Division, dated May 2, 2013, 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 relating to weaknesses in Capital Adequacy, Asset Quality, Management Effectiveness, 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 Section 48(6), 205 ILCS 5/48(6), 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), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. During the life 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.

RESTRICTIONS ON BANK PAYMENTS

2. (a) As of the effective date of this ORDER, the Bank shall not make any payment, directly or indirectly, to or for the benefit of:

- (i) the Bank's holding company or any other Bank affiliate, or any Bank affiliate's

shareholders, including immediate family members and related interests of shareholders; or

- (ii) third parties under contract or other agreement between the third party and the Bank's holding company or any other Bank affiliate, or any Bank affiliate's shareholders, including immediate family members and related interests of shareholders;

without the prior written authorization of the Bank's Board of Directors ("**Bank Board**").

(b) Prior to granting authorization for any payments as described in subparagraph (a) above, the Bank Board shall determine that such payments are appropriate business expenses of the Bank, that the Bank has derived a benefit or value commensurate with the amount of payment or reimbursement, that payments are consistent with law and regulation, safe and sound banking practices and Bank policies, and that the Bank Board has received appropriate documentation to support its authorization for payment or reimbursement.

EXPENSE PAYMENT/REIMBURSEMENT PRACTICES

3. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall retain a bank consultant, acceptable to the Regional Director of the FDIC's Chicago Regional Office ("Regional Director") and the Division, for the purpose of conducting a review of the Bank's expense payments from January 1, 2011 through the date of this Order.

(b) The consultant shall prepare a written report that includes identification of all expenses, including but not limited to, payments or reimbursements made by the Bank to, on behalf of, or under contracts executed by Bank affiliates, officers, directors, and employees of the bank or its affiliates, and shareholders of the Bank's affiliates, their immediate family members, or related interests of these individuals and entities. The consultant's analysis of expenses paid or reimbursed shall specifically include a determination of whether or not the Bank received benefits or value commensurate with the amount of payment or reimbursement, and whether said payments or reimbursements were supported by appropriate written agreements, policies and procedures.

(c) The Bank shall provide the Regional Director and Division with a copy of the proposed

engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, shall include:

- (i) A description of the work to be performed under the contract or engagement letter;
- (ii) The responsibilities of the consultant;
- (iii) Identification of the professional standards to be utilized by the consultant in the work to be performed;
- (iv) A description of the specific procedures the consultant will use in carrying out its analysis;
- (v) A description of the qualifications of the specific employee(s) of the consultant who will perform the work;
- (vi) The agreed time frame for completion of the analysis;
- (vii) A description of the restrictions, if any, imposed on use of the reported findings; and
- (viii) A provision for unrestricted examiner access to consultant workpapers.

(d) All reports prepared by the consultant shall be submitted simultaneously to the Bank Board, the Regional Director and the Division. The reports shall be reviewed by each member of the Bank Board, with each director's review documented in the board minutes.

(e) Within thirty (30) days of receipt of any consultant report in which it is determined that prior expense payments by the Bank were inappropriate, the Bank Board shall ensure that reimbursement or restitution for the inappropriate payments is immediately sought on behalf of the Bank from the party or entity to whom the payments were made.

BANK EXPENSE POLICY

4. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate a revised written policy establishing clear, specific procedures for the approval and payment or reimbursement of expenses to the Bank's affiliates and the Bank's and its affiliates' directors, officers, employees, shareholders, and related interests thereof. Upon completion, a copy of the written policy required by this paragraph shall be submitted to, and deemed to be acceptable by, the Regional Director and the Division. At a minimum, the policy shall include:

(i) A provision requiring the Bank to determine, in advance of payment, that all proposed expense and/or reimbursement payments are fully compliant with the requirements of Federal Reserve Board Regulations 23A and 23B;

(ii) Provisions which specify reasonable limitations for all categories of expenses related to customer entertainment and business development;

(iii) Provisions requiring complete documentation for, and Bank Board pre-approval of, the payment of all expenses related to customer entertainment and business development; and

(iv) Provisions prohibiting the payment or reimbursement of personal expenses for the Bank's, or its affiliates', directors, officers, and employees.

(b) While this ORDER remains in effect, the Bank Board, or a committee of independent directors, shall conduct monthly reviews of all expenses submitted for payment by the Bank's, or its affiliates', officers and directors, with the results of these reviews recorded in

the Bank Board minutes. The Bank Board shall ensure that the Bank seeks immediate reimbursement for any expenses paid by the Bank which are not in conformance with the policy established pursuant to this paragraph.

(c) Within thirty (30) days from the receipt of any comments from the Regional Director or the Division, and after adoption of any recommended changes, the Bank shall approve, implement, and follow the policy, which approval shall be recorded in the minutes of the Bank Board meeting at which approved.

BOARD PARTICIPATION

5. (a) As of the effective date of this ORDER, the Bank Board shall 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; investment activity; operating policies; individual committee reports; audit reports; internal control reviews

including management's responses; reconciliation of general ledger accounts; and compliance with this ORDER. Bank Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) As of the effective date of this ORDER, the Bank Board shall ensure that the minutes of the Bank Board meetings accurately reflect the attendance of all parties, clearly establish a record for every occasion the Bank Board grants an approval in response to a proposed insider transaction, and generally contain sufficient detail to describe all matters discussed during the meeting, including abstentions or dissenting votes on proposals.

(c) To facilitate appropriate decision making and monitoring by the Bank Board, Bank management shall provide the Board with timely and accurate financial data for each monthly meeting, which shall also include Reports of Income and Condition.

(d) Within sixty (60) days from the effective date of this ORDER, the Bank Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

6. (a) Within sixty (60) 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 (9%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of thirteen (13%) 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

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's Accounting and Securities Disclosure Section, 550 17th 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.

(c) 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, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(d) 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 paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the Division.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

7. (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 Report of Examination dated April 2, 2012 ("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 Bank 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 meeting. A copy of the statement shall be placed in the appropriate loan file.

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 more than ninety (90) days 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 Bank 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 Board for review and notation in minutes of the Board meetings.

(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 more than ninety (90) days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

LENDING AND COLLECTION POLICIES

9. (a) Within ninety (90) 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. 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 in the ROE.

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

DIVIDEND RESTRICTION

10. 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES ("ALLL")

11. (a) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the Bank Board 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 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) ALLL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

PROFIT PLAN AND BUDGET

12. (a) Within ninety (90) 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 2013 and 2014. 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) During each monthly meeting of the Bank Board following completion of the profit plans and budgets required by this paragraph, the Board members, 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 in the minutes of the Board 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.

CONCENTRATIONS OF CREDIT

13. (a) Within sixty (60) days, from the effective date of this ORDER the Bank will formulate, adopt and implement a written plan to reduce the loan concentrations of credit identified in the ROE. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each concentration; and
- (ii) Provision for the submission of monthly written progress reports to the Bank Board for review and notation in the minutes of the Board meetings.

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

INTERNAL ROUTINES AND CONTROLS

14. Within ninety (90) days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls which are cited in the

ROE. Additionally, within the same time frame the Bank shall establish policies and procedures to prevent recurrence of similar deficiencies in the future.

CORRECTION OF VIOLATIONS

15. (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 regulations cited in the ROE.

(b) To the extent the Bank believes a specific cited violation cannot be eliminated or corrected, the Bank shall provide a detailed written statement, acceptable to the Regional Director and the Division, explaining precisely why it is believed the specific violation cannot be corrected or eliminated.

(c) 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.

RESTRICTION ON GROWTH

16. While this ORDER is in effect, the Bank shall not increase its total assets by more than five (5%) percent during any consecutive three-month period without providing, at least thirty (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 ten (10%) percent during any consecutive twelve (12) month period. 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.

LOAN TRANSFER RESTRICTION

17. While this ORDER is in effect, the Bank shall not accept transfer of any loan from a sister institution within the Metropolitan Bank Group holding company without written Bank Board approval certifying that the loan in question constitutes a "high quality asset" and stating why acquisition of the loan would be in the best interests of the Bank.

MANAGEMENT OF OTHER REAL ESTATE ("ORE")

18. Within sixty (60) days from the effective date of this ORDER, the Bank shall correct, eliminate, or otherwise fully address all ORE management deficiencies noted in the ROE. Additionally, within the same time frame the Bank

shall establish policies and procedures to prevent recurrence of similar ORE management deficiencies in the future.

INTEREST RATE RISK MANAGEMENT

19. Within ninety (90) days of the effective date of this Order, the Bank shall revise and amend its Interest Rate Risk Management plan. Annually thereafter while this ORDER is in effect, 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 interest rate risk management procedures. The Bank's plan shall include interest rate risk management objectives and procedures for measuring, monitoring, and controlling the Bank's sensitivity to interest rate risk. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

NOTIFICATION TO SHAREHOLDER

20. 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

21. 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 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,

