

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

_____)	
In the Matter of)	AMENDED
)	CONSENT ORDER
KENNEY BANK AND TRUST)	FDIC-12-307b
KENNEY, ILLINOIS)	2012-DB-46a
)	
(Illinois Chartered)	
Insured Nonmember Bank))	
_____)	

Kenney Bank and Trust, Kenney, 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 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 under 38 Ill. Adm. Code Part 392, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking ("Division"), and having waived those rights, entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the

Division, dated October 3, 2013, whereby, solely for the purpose of this proceeding and without admitting or denying the allegations made of unsafe or unsound banking practices relating to management, earnings and violations of law or regulation, 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 to accept the STIPULATION.

Having also determined that the requirements for the issuance of an order under 12 U.S.C. § 1818(b) and section 48(6) of the Illinois Banking Act, 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:

BOARD OVERSIGHT

1. From the effective date of this ORDER, the Bank's board of directors ("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.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall revise the membership of its compliance committee ("Compliance Committee") to include at

least two (2) directors who are not officers of the Bank and at least one (1) member of senior management, plus the Compliance Officer.

(b) The existence of the Compliance Committee in no way diminishes the responsibility of the entire Board for ensuring compliance with the provisions of this ORDER.

(c) The Board, shall allocate resources to management and staff that are:

- (i) Commensurate with the level of complexity of the Bank's operations to ensure the establishment and implementation of adequate systems and procedures; and
- (ii) Sufficient to ensure the Bank's timely compliance with the provisions of this ORDER.

(d) The Board shall ensure that the Bank has skilled and knowledgeable personnel capable of filling the roles of president, chief executive officer (CEO), chief credit officer (CCO), BSA officer and compliance officer who:

- (i) have and retain sufficient authority and independence to implement all duly enacted policies of the bank. This authority shall include the ability to cross departmental lines, have access to

all areas of the Bank's operations, and effectuate corrective action upon discovering deficiencies.

(ii) receive ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's systems.

(e) The Board shall:

(i) Ensure that the duties and responsibilities of all Bank management are clearly defined and provide for open access to both the Board and senior management;

(ii) Require the Compliance Officer to prepare monthly written reports on all aspects of the Compliance Committee's activities and to present the reports to the Board;

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

(i) The Compliance Committee shall report to the Board at each Board meeting held while the ORDER is in effect. The

minutes of the Compliance Committee shall be reviewed by the Board at its monthly meeting, and the minutes of the Board shall document these reviews and approvals, including the names of any dissenting directors.

(ii) All progress reports and other written responses to this ORDER shall be reviewed and signed by each member of the Board, and such reviews shall be recorded in the minutes of the applicable Board meeting. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division have released the Bank, in writing, from making additional reports.

(g) The Board shall ensure proper follow-up and resolution to all visitation and examination findings.

(h) The Board shall hold employees accountable for following adopted policies, procedures and regulatory requirements, and develop an internal monitoring system of employees' performance to ensure that such policies, procedures,

and regulatory requirements are adequately implemented.

MANAGEMENT

2. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include: a president and CEO who is actively involved in the day-to-day affairs of the Bank, who has the requisite experience to oversee the lending and collections activities at the Bank, who has experience guiding an institution of the Bank's size, complexity and products, and who has the experience to guide the Bank to return to traditional community banking. 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, and earnings.

(b) To the extent that the Board determines that the bank does not have sufficient expertise to effect corrective action in regard to any of the provisions contained herein, the Bank shall retain qualified independent consultants to assist in complying with the requirements of this ORDER.

(c) The Board shall be comprised of at least two independent directors. The addition of any new Bank directors required by this paragraph may be accomplished, to the extent permissible by sections 5, 12, 15, 16 of the Illinois Banking Act, 205 ILCS 5/5, 12, 15, 16, and the Bank's by-laws, by means of appointment or election at a regular or special meeting of the Bank's shareholders. For purposes of this ORDER, an independent director shall be any individual who is not an officer of the Bank, any subsidiary, or any of its affiliated organizations; who does not own more than 10 percent of the outstanding shares of the Bank's holding company and does not otherwise share a common financial interest with any person who owns more than 10 percent of the outstanding shares of the Bank's holding company; who is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 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.

(d) Within (60) days from the effective date of this ORDER, the Bank shall develop a succession plan, which shall apply to all executive management positions of the Bank.

(e) During the life of this ORDER, prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall request and obtain the written approval of the 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).

BSA/AML PROGRAM

3. (a) The Bank shall adhere to its Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") policies and procedures, which were revised in accordance with the Consent Order issued November 13, 2012.

(b) The Bank shall continue to record any revisions to its BSA/AML Program in its Board meeting minutes.

(c) The BSA/AML training program that specifically addresses both the nontraditional and traditional banking products and services offered by the Bank shall continue. Each applicable Bank employee and dual or third party employee who is involved with the nontraditional products shall be appropriately

trained. Such training shall specifically address, but not be limited to:

- (i) Customer due diligence; and
- (ii) Monitoring of high risk customers.

All such training shall be conducted at least annually and shall be documented.

(d) The Compliance Committee shall continue to provide guidance and oversight to the BSA/AML Program. The BSA/AML committee shall meet monthly and keep minutes that shall be provided to the Board monthly. The Board shall evaluate the BSA/AML committee's minutes, 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.

(e) The Bank shall continue to adhere to procedures for monitoring suspicious activity and filing of Suspicious Activity Reports related to any and all products and services offered by the Bank, including both nontraditional and traditional. Any suspicious activity shall be reported to the Board.

(f) Any and all law enforcement inquiries shall be reported to the Board and reflected in the Board minutes within 30 days of the Bank's receipt of the inquiry. A copy of the

inquiry and the minutes shall be included in the progress reports discussed in paragraph 13.

(g) The Bank shall continue to operate a comprehensive BSA/AML internal audit program, which should include a full review of the BSA/AML Program, with particular attention to nontraditional products and services. The BSA/AML audit shall include sufficient transaction testing of the Bank's nontraditional products and services. The Bank shall annually assess the Bank's staffing needs for the objective of maintaining qualified personnel capable of implementing the Bank's BSA/AML Program, taking into account the type and complexity of the products offered by the Bank, and shall include the following:

- (i) Identification of both the type and number of officer and staff positions needed to properly manage and supervise the affairs of the Bank's BSA/AML Program; and
- (ii) Evaluation of all BSA/AML Program management and staff 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;

- (iii) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, and other qualifications to fill those positions identified by this paragraph of this ORDER. The Bank shall hire qualified persons, as determined by the Staffing Study, within 60 days of its receipt; and
- (iv) Job descriptions for each employee in the BSA/AML Program.

(h) As part of the progress reports required under paragraph 13, the Bank shall furnish the Regional Director and the Division with its written assessment concerning previously completed Staffing Study, dated February 21, 2013. Thereafter, the Bank shall address how the previously implemented Staffing Study plan is being followed, and discuss subsequent modifications to the plan.

NEW BUSINESS

4. From the effective date of this ORDER the Bank shall not enter into any new line of business without the prior written consent of the Regional Director and the Division.

STRATEGIC PLAN

5. (a) Within 30 days of the effective date of this Order, the Bank shall revise its strategic plan to reflect Board resolutions adopted since the January 2013 strategic plan.

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

(c) The strategic plan shall continue to be revised 30 days prior to the end of each calendar year during which this ORDER is in effect, beginning in 2014. Thereafter, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a Board meeting, and the Bank shall implement and adhere to the revised plan.

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

PROFIT PLAN AND BUDGET

6. (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 2014 and 2015. 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) The potential effects of increases or decreases in non-interest income that results from the addition or subtraction of any new or existing nontraditional activity;
- (ii) Realistic and comprehensive budgets;
- (iii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;

- (iv) Identification of major areas in, and means by which, earnings will be improved; and
- (v) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

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

(d) The profit plan and budget required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a Board, and the Bank shall implement and adhere to the revised plan.

(e) The plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division and shall be acceptable to them.

CORRECTION OF VIOLATIONS

7. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all apparent violations of law, rule, and regulation listed in the April 1, 2013 Joint Report of Examination.

(b) Within 30 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

RESTRICTIONS ON DIVIDENDS

8. As of the effective date of this Order, the Bank shall not pay or declare any dividends without the prior written consent of the Regional Director and the Division.

ASSET GROWTH

9. From the effective date of this ORDER and for so long as this ORDER is in effect, the Bank shall not allow its total average assets, as calculated in accordance with the Bank's Instructions for Preparation of Consolidated Reports of Condition and Income ("Call Report"), to increase in any calendar quarter above the amount of the Bank's total quarterly average assets for the third quarter of 2013.

AFFILIATE RELATIONSHIPS

10. The Bank shall not enter into any new contract with any Bank affiliate without submitting the new contract to the

Regional Director and Division for review. The contract shall be acceptable to the Regional Director and the Division.

MONITORING

11. Within 15 days from the effective date of this ORDER, the Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

NOTIFICATION TO SHAREHOLDER

12. 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

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 each member of the Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.


The effective date of this ORDER shall be upon 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, 29, 2013.



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



Manuel Flores
Acting Secretary
Illinois Department of
Financial and Professional
Regulation