

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)	
)	
MARSHALL COUNTY STATE BANK)	CONSENT ORDER
VARNA, ILLINOIS)	
)	FDIC-13-174b
(Illinois Chartered)	2013-DB-12
Insured Nonmember Bank))	
_____)	

Marshall County State Bank, Varna, 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 AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and a representative for the Division dated August 07, 2013, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices or 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 decided to accept this STIPULATION.

Having also determined that the requirements for 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 PARTICIPATION

1. As of the effective date of this ORDER, the board shall maintain 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 continue to be reviewed and approved: individual committee reports; new, overdue, renewed, insider, delinquent, nonaccrual, charged off, and recovered loans; concentration of credit reports; adoption or modification of operating policies; reports of income and expenses; audit reports; internal control reviews including management's responses. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

MANAGEMENT PLAN

2. (a) Within 30 days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director and the Division, who will develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and the Division with a copy of the proposed engagement letter or contract with the independent third party for review, prior to commencing the study.

(c) The Management Study shall be developed within 60 days from the effective date of this Order. The Management Study shall include, at a minimum:

- (i) Identification and establishment of Board and/or Bank committees, as are needed to provide guidance and oversight to active management;
- (ii) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (iii) Evaluation of all senior Bank officers and senior staff members 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
- (iv) 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.

(d) Upon completion, the results of the Management Study shall be immediately provided to the Regional Director and the Division directly from the independent third party.

(e) Within 60 days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the study. A copy of the Bank's plans as required by this paragraph shall be submitted to the Regional Director and the Division.

MANAGEMENT

3. (a) Within 120 days from the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include: a new chief executive officer with proven ability in managing a bank of comparable size and experience; a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio; and a chief financial officer/cashier with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity

management, and interest rate risk management. Management shall be provided the necessary written authority to implement the provisions of this ORDER.

(b) 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 Division. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act, 12 U.S.C. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

AUDIT

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall engage an independent public accounting firm acceptable to the Regional Director and the Division to perform an external audit of its financial statements and operating procedures.

(b) The Bank shall provide the Regional Director and the Division with a copy of the proposed engagement letter with the accounting firm for review before it is executed. The engagement letter, at a minimum, should include:

- (i) A description of the work to be performed under the engagement letter;
- (ii) The responsibilities of the accounting firm;

- (iii) An identification of the professional standards covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) The qualifications of the person(s) who are to perform the work;
- (vi) The time frame for completion of the work;
- (vii) Any restrictions on the use of the reported findings; and
- (viii) A provision for unrestricted examiner access to work papers.

(c) The audit shall be initiated upon the Bank's receipt of the Regional Director and the Division's non-objection to the proposed accounting firm, utilizing year-end financial statements dated 12-31-13.

(d) A complete written audit report shall be completed in a timely manner and transmitted to the Regional Director and the Division no later than March 31, 2014.

BSA/AML PROGRAM

5. (a) Within 30 days from the effective date of this ORDER, as described in the Joint Report of Examination as of

March 1, 2013 ("ROE"), the Bank shall develop, adopt, and implement revised written Bank Secrecy Act/Anti-Money Laundering ("BSA/AML") policies and procedures, which fully meet all applicable requirements of section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8. These policies and procedures shall comply with all federal and state laws and regulations, and shall address, but not be limited to currency transaction reporting, suspicious activity reporting, the customer identification program ("CIP") and financial recordkeeping. The revised BSA/AML policies and procedures shall be submitted to the Regional Director and the Division for approval prior to adoption.

(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 Bank shall implement the BSA/AML Program, recording its approval in the meeting minutes of the board of directors.

(c) Within 30 days from the effective date of this ORDER, the Bank shall develop a BSA/AML training program that specifically addresses both the nontraditional and traditional banking products and services offered by the Bank. Each applicable Bank employee and dual or third-party employee shall be appropriately trained. Such training shall specifically

address, but not be limited to customer due diligence and monitoring of high risk customers. All such training shall be conducted at least annually and shall be documented.

(d) The Bank's Compliance Committee ("CC"), which shall consist of a majority of outside directors or officers not directly involved in the BSA/AML Program, shall provide guidance and oversight to the BSA/AML Program. Within 60 days of the effective date of this order, the CC shall complete a full review of the BSA/AML Program in order to remedy deficiencies noted in the ROE. The CC shall also assess the Bank's staffing needs to satisfy the objective of maintaining qualified personnel capable of implementing the Bank's BSA/AML Program. The assessment shall take into account the type and complexity of the products being offered by the Bank, a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, and other qualifications to administer the BSA/AML program. The CC shall meet quarterly and maintain minutes, which shall be provided to the board of directors quarterly. The board of directors shall evaluate the CC's minutes, record the results of the evaluation, and note any actions taken in the minutes of the board of directors' meetings.

(e) Within 90 days from the effective date of this ORDER, that Bank shall report its efforts to supplement lacking and inaccurate CIP for all tax refund customers of the EROs with whom the Bank conducted business.

(f) Within 30 days from the effective date of this ORDER, the Bank shall develop, implement, and adhere to procedures for monitoring suspicious activity and filing of Suspicious Activity Reports ("SAR") related to any and all products and services offered by the Bank. The filing of SARs shall be regularly conveyed to and documented in the meeting minutes of the board of directors.

(g) Any and all law enforcement inquiries shall be reported to the board of directors and reflected in the board minutes within 30 days of the Bank's receipt of the inquiry.

CAPITAL

6. (a) Within 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 9.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12.0 percent. During the life of this Order, the Bank shall maintain the aforementioned levels of capital. 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) Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall determine from its Report of Condition and Income its Tier 1 capital for that calendar quarter. The Board shall review and analyze the adequacy of the Bank's capital ratio.

(c) 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 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.

(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 that 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.

(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 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.

RESERVES

7. As of the effective date of this ORDER, the Bank shall take all necessary steps to maintain adequate reserves for any potential charge backs or other liabilities arising from its third party tax processing.

INTERNAL ROUTINES

8. Within 60 days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls that are listed in the ROE. The Bank shall ensure that all accounts on its financial statements are reconciled and balanced at least monthly. Additionally, policies and procedures shall be established to prevent the recurrence of any internal routine and control deficiency so noted.

PROFIT PLAN AND BUDGET

9. (a) Within 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 year 2013, and

annually thereafter. 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 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.

(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 of directors' meeting, 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.

STRATEGIC PLAN

10. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a realistic, comprehensive strategic plan. 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. The written strategic plan shall address, at a minimum:

- (i) strategies for sustaining satisfactory asset quality;
- (ii) strategies for increasing earnings performance, including a written profit plan with a realistic, comprehensive budget for all categories of income and expense for the calendars years of 2013 and 2014 and every year thereafter that this Order is in effect;
- (iii) strategies for increasing capital and maintaining capital at a level consistent with the risk profile of the Bank;
- (iv) strategies for maintaining a sufficient liquidity position;
- (v) strategies to implement and adequately control mortgage banking operations;
- (vi) strategies for providing sufficient staff levels and training, specifically for all new lines of business the Bank engages in;
- (vii) strategies for sufficient management succession;

- (viii) strategies for identifying new lines of business and new areas of lending, including mortgage banking, as well as identifying management's expertise in each new area; and
- (ix) financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within thirty (30) days from the end of each calendar quarter following the adoption and implementation of the strategic plan described in (a) above, the Board shall evaluate the Bank's actual performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board's meeting at which such evaluation is undertaken.

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

(d) The plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and the

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

(e) The Bank shall operate within the parameters of its strategic plan. The Bank shall submit any proposed major deviations or material changes from the plan (including changes resulting from decisions made by the holding company) to the FDIC and the Division for non-objection, a minimum of sixty (60) days before the proposed change is to be implemented.

VIOLATIONS OF LAW AND CONTRAVENTIONS OF POLICY STATEMENTS

11. Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation, and contraventions of policy statements as listed in the ROE.

DIVIDEND RESTRICTION

12. 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.

GROWTH RESTRICTION

13. (a) During the life of this ORDER, the Bank shall not increase its total assets by more than five per cent (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 State. 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 approval of the Regional Director and the State. In no event shall the Bank increase its total assets by more than twelve (12.0%) 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.

(b) During the life of this Order, the Bank shall not enter into any new lines of business without prior written approval of the FDIC and the Division.

MONITORING

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

NOTIFICATION TO SHAREHOLDER

15. 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

16. Within 45 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.

CLOSING PARAGRAPHS

This ORDER shall be effective on the date of issuance.

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: August 19, 2013

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

Manuel Flores
Acting Secretary
Illinois Department of
Financial and Professional
Regulation