

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 )	)	ORDER TO CEASE AND DESIST
EDGEBROOK BANK, )	)	
CHICAGO, ILLINOIS )	)	FDIC-06-106b
(Illinois Chartered )	)	DB NO. 2006-DB-24
Insured Nonmember Bank )	)	
_____ )	)	

Edgebrook Bank, Chicago, 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 392.30, 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 AN ORDER TO CEASE AND DESIST ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation (the "FDIC") and Division, dated October 23, 2006, 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, 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 there was reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The FDIC and the Division, therefore, accepted the STIPULATION and issued the following:

ORDER TO CEASE AND DESIST

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 and violations of law, rule, or regulation:

- A. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices and violations of law, rule, or regulation;

- B. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of deposits;
- C. Failing to keep accurate books and records;
- D. Violating provisions of the FDIC ORDER granting deposit insurance to the Bank, effective June 7, 2004;
- E. Violating provisions of the Division ORDER Issuing Charter numbered 2005-BTC-06 effective, March 9, 2005;
- F. Engaging in hazardous lending and lax collection practices including but not limited to:
  - (i) Failing to establish and enforce adequate loan repayment programs;
  - (ii) Failing to provide for the type and quality of loan underwriting and credit analysis consistent with prudent industry standards;
  - (iii) Failing to identify problem credits in a timely manner;
  - (iv) Extending credit to borrowers without adequate repayment capacity or sufficient cash flow from the project financed; and
  - (v) Failing to establish risk management systems to monitor concentrations of credit and high risk loans;

- G. Operating with inadequate risk management systems, including:
  - (i) Operating with an inadequate interest rate risk management system;
  - (ii) Operating with an inadequate Information Technology risk management system; and
  - (iii) Operating with an inadequate Bank Secrecy Act/Anti-Money Laundering risk management system.
- H. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- I. Violating laws, rules, or regulations, including:
  - (i) Failing to maintain suitable books and records as is required under Section 16 of the Illinois Banking Act, [205 ILCS 5/1], (the "Illinois Act");
  - (ii) Failing to comply with Sections 215.4(a)(1), 215.5(c)(4), and 215.5(d)(4) of Federal Reserve Board Regulation O, which implements Section 22(h) of the Federal Reserve Act and is made applicable to insured nonmember institutions by Section 18(j)(2) of the Federal Deposit Insurance Act which covers transactions with bank insiders;
  - (iii) Failing to comply with Part 304 of the FDIC Rules and Regulations ("Part 304"), 12 C.F.R. Part 304,

with respect to the preparation and submission of Consolidated Reports of Condition and Income; and (iv) Failing to comply with Part 323 of the FDIC Rules and Regulations, ("Part 323") C.F.R. Part 323, with respect to obtaining required real estate appraisals in connection with the extension of loans or credit.

IT IS FURTHER 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, take affirmative action as follows:

1. The Bank shall immediately allocate the necessary resources to return the Bank's books and records to, and maintain them at, a complete and accurate state. During the life of this ORDER, all accounting differences for entries shall be charged off from the Bank's books if not reconciled and balanced within 90 days of the date of the entry.
2. (a) Within 60 days from the effective date of this ORDER, the Bank's board of directors ("Board") shall ensure that all Consolidated Reports of Condition and Income filed with the FDIC on or after December 31, 2005 are reviewed and shall amend and file with the FDIC, as necessary, amended Consolidated Reports of Condition and Income, in accordance with the Reports of

Condition and Income Instructions, which accurately reflect the financial condition of the Bank as of the date of each such Report. Amended Reports of Condition and Income must be filed if previously submitted reports were not filed in accordance with the Instructions for Preparation of Consolidated Reports of Condition and Income.

- (b) In addition, and during the life of this ORDER, the Bank shall file with the FDIC Consolidated Reports of Condition and Income that accurately reflect the financial condition of the Bank as of the reporting period specified. In particular, such Reports shall incorporate any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC or Division examination of the Bank during that reporting period.

3. As of the effective date of this ORDER, the Board shall immediately take all measures necessary to ensure compliance with:

- (a) The conditions contained in the FDIC's ORDER granting deposit insurance to the Bank, dated June 7, 2004;
- (b) The conditions contained in the Division's ORDER Issuing Charter number 2005-BTC-06, effective March 9, 2005; and

- (c) The loan and investment policies submitted by the Bank in conjunction with its application for deposit insurance.
4. (a) During the life of this ORDER, the Board shall take action to ensure that complete and accurate minutes of board and committee meetings are maintained; that said minutes fully address all requirements of this ORDER; and that management reports provided to the Board are timely and contain adequate information to facilitate fully informed and meaningful deliberation to allow the Board to make sound business decisions.
- (b) During the life of this ORDER, the Board shall increase its participation in the affairs of the Bank, which shall specifically include meeting no less frequently than monthly. The Board shall establish specific procedures designed to fully inform the Board regarding the management, operation, and financial condition of the Bank at regular intervals and in a consistent format. The Board shall prepare in advance and follow a detailed written agenda during each Board meeting, in which the following matters, at a minimum, shall be reviewed and approved: reports of income and expenses; loan reports, including new, overdue, renewed, extended, restructured, insider, non-accrual,

charged-off, and recovered loans; investment activity; asset/liability and funds management reports; operating policies; personnel actions; audit and supervisory reports; and the minutes summarizing individual committee meetings and actions. Said increased Board participation shall also require the Board's assumption of full responsibility for the approval of sound policies, strategic plans, and budgets for all of the Bank's activities. Board minutes regarding any such actions shall be detailed, maintained and recorded on a timely basis, and shall document reviews and any related actions, including the names of any dissenting directors. Nothing in this paragraph shall preclude the Board from considering matters other than those contained in the agenda.

5. (a) Within 90 days from the effective date of this ORDER, the Board shall ensure that the Bank has and retains qualified management. At a minimum, such management shall include a chief executive officer or president with proven ability in managing a bank of comparable size and complexity. Such person 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;
- (iv) Restore all aspects of the Bank to a safe and sound condition, including asset quality, earnings, management effectiveness, and liquidity; and
- (v) Establish assignments of responsibility for implementing these plans.

- (b) Within 90 days from the effective date of this ORDER, a committee comprised of a majority of independent directors shall assess the qualifications and adequacy of the Bank's management and staffing. The committee shall ensure that the Bank has qualified management, including a chief executive officer, chief lending officer and an appropriate number and type of senior officers, with the requisite knowledge, skills, ability, and experience, giving consideration to the size and complexity of the Bank, to operate the Bank in a safe and sound manner in compliance with applicable laws and regulations, and to restore the

Bank to a satisfactory financial condition, including, but not limited to, capital adequacy, asset quality, management effectiveness, earnings, liquidity, sensitivity to market risk, information technology, and Bank Secrecy Act/Anti-Money Laundering compliance.

(c) Prior to the addition of any director or the employment of any senior executive officer, the Bank shall comply with the requirements of Section 32 of the FDI Act ("Section 32"), 12 U.S.C. 1831 (i) and Subpart F of Part 303 of the FDIC Rules and Regulations ("Subpart F"), 12 C.F.R. Part 303. In addition, the Bank shall comply with the provisions of Section 13(a) of the Illinois Act prior to effecting any change in the Bank's senior management personnel or directors.

6. (a) Within 90 days from the effective date of this ORDER, the Board shall ensure the establishment of a comprehensive policy and methodology for determining the adequacy of the allowance for loan and lease losses (ALLL). The policy shall provide for a review of the ALLL at least once each calendar quarter and be completed at least 10 days prior to the end of each quarter in order that the results of the review conducted by the Board may be properly reported in the

quarterly Reports of Condition and Income. Such reviews shall, at a minimum, ensure compliance with the following:

- (i) The Federal Financial Institutions Examination Council's Instructions for the Reports of Condition and Income; the Interagency Statement of Policy on the Allowance for Loan and Lease Losses; applicable accounting guidance, including Financial Accounting Standards (FAS) 5 and 114; other applicable regulatory guidance that addresses the adequacy of the Institution's allowance.
- (b) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the 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 reserve recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the Board shall consider the Federal Financial Institutions Examination Council's Instructions for

the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the Division or the FDIC.

7. (a) Within 90 days, the Board shall ensure the implementation of an independent loan review program, independent from active Bank management, that will provide for a periodic review of the Bank's loan portfolio and the identification and categorization of problem credits. At a minimum, the program shall provide for:

- (i) Prompt identification of loans with credit weaknesses that warrant the special attention of management, including the name of the borrower, amount of the loan, reason why the loan warrants special attention, and assessment of the degree of risk that the loan will not be fully repaid according to its terms;
- (ii) Action plans to reduce the Bank's risk exposure from each identified relationship;
- (iii) Prompt identification of all outstanding balances and commitments attributable to each obligor identified under the requirements of subparagraph (i), including outstanding balances and commitments attributable to related

- interests of such obligors, including the obligor of record, relationship to the primary obligor identified under subparagraph (i), and an assessment of the risk exposure from the aggregate relationship;
- (iv) Identification of trends affecting the quality of the loan portfolio, potential problem areas, and action plans to reduce the Bank's risk exposure;
  - (v) Assessment of the overall quality of the loan portfolio;
  - (vi) Identification of credit and collateral documentation exceptions and an action plan to address the identified deficiencies;
  - (vii) Identification and status of violations of laws, rules, or regulations with respect to the lending function and an action plan to address the identified violations;
  - (viii) Identification of loans that are not in conformance with the Bank's lending policy and an action plan to address the identified deficiencies;
  - (ix) Identification of loans to directors, officers, principal shareholders, and their related

interests; and

- (x) A mechanism for reporting periodically, but in no event less than quarterly, the information developed in (i) through (ix) above to the full Board. The report must also describe the action(s) taken by management with respect to problem credits.
  - (b) Within 90 days of the effective date of this ORDER, the Board shall implement a risk management program to manage and monitor the Bank's high-risk loans. The risk management program shall conform to outstanding regulatory guidance, including that contained in "Home Equity Lending Credit Risk Management Guidance," issued on May 24, 2005, and "Interagency Guidance on High Loan-to-Value Residential Real Estate Lending," issued on October 12, 1999.
  - (c) In order to comply with the items listed in (a) and (b) above, the Board may hire an independent bank consultant.
8. (a) Within 90 days from the effective date of this ORDER, the Board shall ensure development of a written plan, to be submitted to the FDIC and Division for review, for the systematic reduction and elimination of the Bank's concentrations of credit identified in the FDIC

Report of Examination of March 27, 2006.

Specifically, the plan shall address the Bank's portfolio of loans or other extensions of credit advanced or committed, directly or indirectly, to or for the benefit of: any borrowers that are outside of the institution's market area, participations purchased from one source, and any borrowers with loans made in exception to the loan-to-value guidelines provided in Appendix A to Part 365 of the FDIC's Rules and Regulations. At a minimum, the plan shall include:

- (i) Dollar levels and percent of capital to which the Bank shall reduce each concentration;
- (ii) Timeframes for achieving the reduction in dollar levels identified in response to (i) above;
- (iii) Provisions for the submission of monthly written progress reports to the Board for review and notation in minutes of the meetings of the board of directors; and
- (iv) Procedures for monitoring the Bank's compliance with the plan.

9. Within 90 days from the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the Board shall ensure the development and full

implementation of a written profit plan consisting of goals and strategies, consistent with sound banking practices, and taking into account the Bank's other written plans, policies, or other actions as required by this ORDER. The profit plan and any subsequent modification thereof shall be submitted to the FDIC and Division for review and comment. After consideration of all such comments, the Board shall approve the plan, which approval shall be recorded in the minutes of the board of directors meeting. Thereafter, the Bank, its directors, officers, and employees shall fully implement the profit plan and any subsequently approved modification. The written profit plan shall include, at a minimum:

- (a) Identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;
- (b) Specific goals to improve the net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings, as well as maintain adequate provisions to the allowance for loan and lease losses;
- (c) Realistic and comprehensive budgets for all categories of income and expense items;
- (d) A description of the operating assumptions that form

the basis for, and adequately support, material projected revenue and expense components;

- (e) Coordination of the Bank's loan, investment, funds management, and operating policies; strategic plan; and allowance for loan and lease loss methodology with the profit and budget planning;
- (f) A budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly; recording the results of the evaluation and any actions taken by the Bank in the minutes of the board of directors meeting at which such evaluation is undertaken; and
- (g) Individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

10. Within 60 days from the effective date of this ORDER, the Board shall ensure the development of written Market Risk review procedures and submit them to the FDIC and Division for review and comment. After consideration of all such comments, the Board shall approve the procedures, which approval shall be recorded in the minutes of a board of directors meeting. The Market Risk review procedures, at a minimum, shall utilize an adequate model for managing and monitoring the Bank's sensitivity to market risk.

11. Within 90 days from the effective date of this ORDER, the Board shall ensure implementation of an internal audit program that establishes procedures to protect the integrity of the Bank's operational and accounting systems. The program shall, at a minimum, conform to the Interagency Policy Statement on the Internal Audit Function and its Outsourcing and provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records. In addition, the program shall provide for monthly reports of audit findings from the internal audit program directly to the Board. The minutes of board of directors meetings at which such audit reports are submitted shall reflect Board consideration of these reports and describe any discussion or action taken as a result thereof.
12. Within 90 days from the date of this ORDER, the Board shall ensure that all reasonable efforts are made by the Bank to correct the internal routine and control deficiencies detailed in the March 27, 2006 Report of Examination. Deficiencies not corrected due to economic impracticability, or other justifiable reasons, shall be explained in writing and submitted to the FDIC and Division. Additionally, the Board shall ensure the establishment of policies and procedures to prevent the

recurrence of the deficiencies noted.

13. Within 60 days from the date of this ORDER, the Board shall ensure correction by the Bank of all deficiencies in regards to Information Technology as set forth in the March 27, 2006 Report of Examination.
14. (a) Within 60 days from the effective date of this ORDER, the Board shall ensure that the Bank takes all steps necessary, consistent with sound banking practices, to eliminate and/or correct all violations of laws, rules and regulations cited by the FDIC, on pages 22 through 24 in the March 27, 2006 Report of Examination. In addition, the Board shall ensure adoption and implementation by the Bank of appropriate procedures to ensure future compliance with all applicable laws, rules and regulations.  
  
(b) Within 60 days from the effective date of this ORDER, the Board shall ensure that the Bank takes all steps necessary, consistent with sound banking practices, to eliminate and/or correct all contraventions of Policy Statements cited by the FDIC, on pages 24 through 27 in the March 27, 2006 Report of Examination. In addition, the Board shall ensure adoption and implementation by the Bank of appropriate procedures to ensure future compliance with all applicable Policy

Statements.

15. Within 30 days from the effective date of this ORDER, the Board shall establish a compliance committee, comprised of a majority of outside directors, to monitor the Bank's compliance with this ORDER. The committee shall, within 60 days from the effective date of this ORDER, and every 90 days thereafter, submit a written report detailing the Bank's compliance with this ORDER to the full Board for consideration at its regularly scheduled meeting. Establishment of this committee does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.
16. (a) Within 30 days from the end of every calendar quarter following the effective date of this ORDER, the Board shall furnish to the FDIC and the Division written progress reports, signed by each member of the Board, detailing the actions taken to secure compliance with this ORDER and the results thereof.  
  
(b) Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the FDIC and Division have, in writing, released the Bank from making further reports.
17. (a) After the effective date of this ORDER, the Bank shall send a copy of this ORDER or otherwise furnish a

description of this ORDER to the shareholders of the Bank:

- (i) In conjunction with the next shareholder communication; and
  - (ii) In conjunction with its notice or proxy statement preceding the next shareholder meeting.
- (b) The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, notice, or statement shall be sent to Scott D. Clarke, Assistant Director, Division of Banking, 122 South Michigan Avenue, Suite 1900, Chicago, Illinois 60603, and to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the Division or the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The effective date of this ORDER shall be 10 calendar days after its issuance by the Division and the FDIC.

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 Division and the FDIC.

Pursuant to delegated authority.

Dated: November 1, 2006.

---

Scott D. Clarke  
Assistant Director  
Division of Banking  
Illinois Department of  
Financial and  
Professional Regulation

---

Sylvia H. Plunkett  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance Corporation