

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

and

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____ )	
In the Matter of )	
MERIDIAN BANK )	ORDER TO CEASE AND DESIST
ELDRED, ILLINOIS )	2008-DB-29
( ILLINOIS CHARTERED )	FDIC-08-121B
INSURED NONMEMBER BANK )	
_____ )	

Meridian Bank, Eldred, 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 38 Ill. Adm. Code, section 392.30, 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 AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with

representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated July 8, 2008, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, 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 they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the Division, therefore, accepted the CONSENT AGREEMENT and issued the following:

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:

- A. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.
- B. 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.
- C. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- The failure to obtain proper loan documentation;
  - The failure to obtain adequate collateral;
  - The failure to establish and monitor collateral margins of secured borrowers;
  - The failure to establish and enforce adequate loan repayment programs;
  - The failure to obtain current and complete financial information;
  - The failure to establish an adequate loan review program; and
- D. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.
- E. Operating with inadequate procedures for determining the adequacy of the Bank's allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.
- F. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held.
- G. Operating in a manner which has resulted in inadequate earnings.
- H. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- I. Operating with an inadequate liquidity policy.

J. Operating with an inadequate strategic plan.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) Within 90 days from the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include: (i) a chief executive officer with proven ability in managing a bank of comparable size and experience in upgrading a low quality loan portfolio; (ii) 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 (iii) an appropriately staffed collections department given the type and quality of the Bank's loan portfolio. Such persons 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 asset

quality, capital adequacy, earnings,  
management effectiveness, and liquidity.

(b) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division in writing of any changes in any of the Bank's directors or senior executive officers. 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), and includes any person identified by the FDIC and the Division, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(c) 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 comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. Further, the Bank shall request and obtain the Division's written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

#### MANAGEMENT PLAN

2. (a) Within 60 days from the effective date of this

ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and the Division. The consultant shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") 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 consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

- (i) A description of the work to be performed under the contract or engagement letter;
- (ii) The responsibilities of the consultant;
- (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 employee(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 workpapers.

(c) The Management Plan shall be developed within 90 days from the date on which the consultant is retained. The Management Plan shall include, at a minimum:

- (i) Identification of both the type and number of officer and staff positions needed to properly manage and supervise the affairs of the bank;
- (ii) Identification of roles and responsibilities of all officer positions and a determination of suitable officer compensation to ensure satisfactory earnings, sufficient capital, and the bank's safe and sound condition.
- (iii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iv) Evaluation of all Bank officers 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
- (v) 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) The Management Plan shall be submitted to the Regional Director and the Division for review and comment upon its completion. 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 approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and adhere to the Management Plan and/or any subsequent modification.

#### REDUCTION OF SUBSTANDARD ASSETS

3.(a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Division for review and comment a written plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is classified "Substandard" in the Division's Report of Examination as of January 28, 2008 ("Report"). In developing such plan, the Bank shall, at a minimum:

- (i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each asset within 6 months from the effective date of this ORDER; and

(ii) Provisions 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.

(c) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the Division.

(d) Within 30 days from the receipt of any comment from the Regional Director and Division, and after the adoption of any recommended changes, the Bank shall approve the written plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and adhere to this written plan.

#### REDUCTION OF DELINQUENCIES

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional

Director and the Division for review and comment a written plan for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit the extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why said deviation is in the best interest of the Bank;
- (ii) Delineate areas of responsibility for collections;
- (iii) Establish acceptable guidelines for the collection of delinquent credits;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies within 6 and 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) A copy of the written plan shall be submitted to the Regional Director and the Division upon its completion. Within 30 days from receipt of any comment from the Regional Director and the Division, and after the adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and adhere to the plan.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (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" 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" and is uncollected unless the Bank's board of directors 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 placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors' meeting.

LOAN COMMITTEE

6. As of the effective date of this ORDER, the Bank's loan committee shall meet at least monthly.

(a) The loan committee shall, at a minimum, perform the following functions:

- (i) Evaluate, grant and/or approve loans in accordance with the Bank's loan policy. The

loan committee shall provide a thorough written explanation of any deviations from the loan policy, which explanation shall address how said exceptions are in the Bank's best interest. The written explanation shall be included in the minutes of the corresponding committee meeting.

- (ii) Review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in the Report as of January 28, 2008, or that are included on the Bank's internal watch list.
- (iii) Review and give prior written approval for all advances, renewals, or extensions of credit to any borrower or the borrower's related interests when the aggregate volume of credit extended to the borrower and the borrower's related interests exceeds \$100,000. For purposes of this ORDER, the term "related interest" is defined pursuant to section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n).

- (iv) Review all applications for new loans and renewals of existing loans to Bank directors, executive officers, and their related interests, and prepare a written opinion as to whether the credit is in conformance with the Bank's loan policy and all applicable laws, rules, and regulations. Such applications, renewals, and written opinions shall be referred to the Bank's board of directors for consideration.
- (v) Maintain written minutes of the committee meetings, including a record of the review and status of the aforementioned loans. Such minutes shall be made available at the next Bank board of directors' meeting.

ALLOWANCE FOR LOAN AND LEASE LOSSES

7. (a) Within 10 days from the effective date of this ORDER, the Bank shall make a provision of at least \$705,000 to its allowance for loan and lease losses ("ALLL").

(b) Within 30 days from the effective date of this ORDER, the Bank shall make an additional provision for loan and lease losses which, after review and consideration by the board of directors, reflects the potential for further losses in the remaining loans or leases classified "Substandard" and all other loans and leases in its portfolio. In making this

determination, the board of directors 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.

(c) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and the Division and filed by the Bank subsequent to January 28, 2008 but prior to the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank's loan portfolio, and which, at a minimum, incorporate the adjustments required by this paragraph.

(d) Prior to submission or publication of all Reports of Condition and Income required by the FDIC and the Division after the effective date of this ORDER, the board of directors of the Bank 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 of directors 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.

(e) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

LOSS CHARGE-OFF

8. As of the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report as of January 28, 2008 that have not been previously collected or charged off. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

STRATEGIC PLAN

9. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate and adopt 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.

(b) The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management;

(ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) The Bank will submit the strategic plan to the Regional Director and the Division for review and comment. After consideration all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting.

#### BUDGET AND PROFIT PLAN

10. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Division for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2008 and 2009. 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) Within 30 days from the end of each calendar quarter following completion of the profit plan and budget 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.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Division for review and comment within 30 days of the end of each year. Within 30 days of receipt of all such comments from the Regional Director and the Division and after adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and adhere to the plan.

#### CAPITAL

11. (a) Within 30 days from the last day of each calendar quarter following the effective date of this ORDER, the Bank shall determine from its Report of Condition and Income its level of Tier 1 capital as a percentage of its total assets ("capital ratio") for that calendar quarter. If the capital ratio is less than 8.0 percent, the Bank shall, within 30 days of the date of the required determination, increase its capital ratio to not less than 8.0 percent calculated as of the end of that preceding quarterly period. 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 such 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; or
- (ii) The elimination of all or part of the assets classified "Loss" as of January 28, 2008 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; or
- (iii) The collection in cash of assets previously charged off; or
- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank; or
- (v) Any other means acceptable to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division; or
- (vi) Any combination of the above means.

(c) If all or part of the 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 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 and to Scott D. Clarke, Assistant Director, Division of Banking, Illinois Department of Financial and Professional Regulation, 500 East Monroe, Springfield, Illinois 62701, for their review. Any changes requested to be made in the materials by the FDIC or the Division 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 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) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

#### DIVIDEND RESTRICTION

12. As of the effective date of this ORDER, the Bank shall pay no cash dividends without the prior written consent of the Regional Director and the Division.

#### AUDITS

13. Within 90 days from the effective date of this ORDER, the Bank's board of directors shall engage a qualified independent party to perform ongoing loan review analysis of the loan portfolio on no less than a quarterly basis. Such review shall include a comprehensive review of the loan portfolio including all credits adversely classified in the Report of Examination as of January 28, 2008 as well as credits on the Bank's watch list and sampling of all new loans made each quarter. The loan review shall risk rate or grade each credit

and determine compliance with the Bank's loan policy. The risk ratings assigned shall be utilized when determining the adequacy of the Bank's allowance for loan and lease losses. The Bank shall submit to the Regional Director and the Division a copy of all loan review reports within 10 days of the Bank's receipt of such report(s).

#### ASSET/LIABILITY MANAGEMENT

14. (a) Within 120 days from the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Division for review and comment a written plan addressing rate sensitivity objectives, and asset/liability management. Annually thereafter during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to maintain adequate provisions to meet the Bank's liquidity needs. The initial plan shall include, at a minimum, provisions:

- (i) Identifying the source and use of borrowed and/or volatile funds;
- (ii) Establishing appropriate lines of credit at correspondent banks, including the Federal Reserve Bank of St. Louis, that would allow the Bank to borrow funds to meet depositor

- demands if the Bank's other provisions for liquidity proved to be inadequate;
- (iii) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;
  - (iv) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;

DISCLOSURE TO SHAREHOLDERS

15. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429

and to the Illinois Department of Financial and Professional Regulation, Division of Banking, 500 East Monroe, Springfield, Illinois 62701, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and the Division shall be made prior to dissemination of the description, communication, notice or statement.

#### COMPLIANCE WITH ORDER

16. (a) Within 30 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.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled board of directors' meeting.

#### PROGRESS REPORTS

17. 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 Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have

been accomplished and the Regional Director and the Division have, in writing, released the Bank from making further reports.

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: July 15, 2008.

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

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