

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
KENNEY BANK AND TRUST)	
KENNEY, ILLINOIS)	FDIC-08-102b
)	DB NO. 2008-DB-31
(Illinois Chartered)	
Insured Nonmember Bank))	
_____)	

Kenney Bank and Trust, Kenney, Illinois (the "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, including those related to the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330, and regulations implementing the Bank Secrecy Act, including 12 C.F.R. Part 326, Subpart B, and 31 C.F.R. Part 103 (hereinafter collectively, the "Bank Secrecy Act" or "BSA"), and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance

Act (the "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 the Division, dated September 26, 2008, 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 the Bank with a Bank board of directors ("Board") which has failed to provide adequate supervision over and direction to the executive management of the Bank to prevent unsafe or unsound banking practices and violations of law, rule and regulations.
- B. Operating the Bank with an ineffective system of internal controls to ensure ongoing compliance with the BSA.
- C. Operating the Bank without a qualified BSA Officer.
- D. Operating the Bank with an ineffective training program for appropriate Bank personnel to ensure compliance with the BSA.
- E. Operating the Bank without an adequate independent test commensurate with the level of BSA risk.
- F. Operating in violation of section 326.8, of the FDIC's Rules and Regulations, 12. C.F.R. § 326.8, and the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R Part 103.
- G. Operating the Bank without effective risk assessment policies and practices to assure compliance with Office of Foreign Assets Control ("OFAC") regulations and policies.

- H. Operating the Bank with management whose practices have resulted in violations of law and regulation.
- I. Operating with inadequate internal controls, policies, and operating systems with regard to Money Services Businesses ("MSBs"), as that term is defined at Section 31 C.F.R. § 103.11(uu).

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:

MANAGEMENT

1. During the life of this ORDER, the Bank shall have and thereafter retain management qualified to oversee all aspects of the Bank's BSA Compliance Program and to assure compliance with all applicable laws and regulations related thereto. Each member of management with responsibilities relating to section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, or the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R. Part 103, shall have the qualifications and experience commensurate with his or her duties and responsibilities under those regulations.

MANAGEMENT CHANGES

2. 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 when it proposes to add any director to the Bank's Board or employ any individual as a senior executive officer, as that term is defined in Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. §303.102. The notification shall include a description of the background and experience of the individual or individuals to be added or employed and must be received at least 30 days before such addition or employment is intended to become effective. The Bank may not add any director to its Board or employ any individual as a senior executive officer unless the Division provides written approval of such individual and the Regional Director does not issue a notice of disapproval pursuant to section 32 of the Act, 12 U.S.C. §1831i.

WRITTEN BSA COMPLIANCE PROGRAM

3. Within sixty (60) days of the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised written BSA compliance program, which fully meets all applicable requirements of section 326.8 of the FDIC's Rules and Regulations ("FDIC Rules"), 12 C.F.R. § 326.8, and which is designed to, among other things, assure and maintain full compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto.

(a) The Bank shall provide the Regional Director and

the Division with a copy of the revised written BSA compliance program for review. Thereafter, the revised program and its implementation shall be prepared and conducted in a manner acceptable to the Division and the Regional Director, as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:

- i. Require the Bank to develop, adopt and implement a revised, effective written policy designed to assure full compliance with all provisions of the BSA.
- ii. Require the Bank to develop a system of internal controls to assure full compliance with the Bank Secrecy Act and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions including, but not limited to, those conducted by RDCs, to assure the identification and proper reporting of all known or suspicious criminal activity, money laundering activity, or violations of the BSA.
- iii. Provide for improved, comprehensive independent testing of compliance with all applicable rules and regulations related to

the BSA, and shall assure that compliance audits are performed at least annually, are fully documented, require a comprehensive scope, and are conducted with the appropriate segregation of duties. Written findings of each audit shall be presented to the Board and noted in the minutes of the Board's meeting at which received.

- iv. Designate a senior bank official to be responsible for overall BSA compliance. This designated senior official shall be in a position, and have the authority, to make and enforce policies with respect to BSA compliance, and to assure that full and complete corrective action is taken regarding previously identified violations and deficiencies. This senior bank official shall have the necessary knowledge and expertise to effectively oversee the Bank's BSA program commensurate with the level of risk in the Bank's operations.
- v. Provide for written, detailed guidelines regarding the administration of the RDC program, MSB account activity, and the Cash

Vault Program including the solicitation, opening, and ongoing monitoring of all such accounts for suspicious activity and the filing of all required reports resulting there from.

- vi. Provide for accurate and comprehensive risk assessments for BSA and OFAC compliance which fully take into account the nature of the Bank's operations including, but not limited to, Remote Deposit Capture ("RDC"), and Cash Vault activities.
- vii. Establish due diligence practices and written guidelines for all customers that are commensurate with the level of BSA and money laundering risk posed by each customer.
- viii. Establish due diligence practices and written guidelines for MSBs that are fully consistent with the Interagency Interpretive Guidance on Providing Banking Services to Money Services Businesses Operating in the United States, as set forth in FDIC Financial Institution Letter 32-2005, dated April 26, 2005 ("FIL-32-

2005").

- ix. Provide for and document improved and effective training of all appropriate personnel, including, without limitation, tellers, customer service representatives, lending officers, private and personal banking officers, and all other customer contact personnel. The training shall be conducted by qualified staff and/or independent contractors, and the training requirement shall apply to all individuals involved in Bank operations, including those working with RDC customers, whether employees or contractors, and shall include training in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific emphasis on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. The training curriculum shall be updated on a regular basis, not less frequent than annually, to assure that all personnel are provided with the most current and up to date information.

BSA STAFF

4. Within thirty (30) days from the effective date of this ORDER, the Bank shall analyze and assess the Bank's staffing needs in order to provide for an adequate number of qualified staff for the Bank's BSA Department, including provision for succession of BSA responsibilities. The BSA Department staff shall be evaluated to determine whether these individuals possess the ability, experience, training and other necessary qualifications required to perform present and anticipated duties, including adherence to the Bank's BSA Compliance Program, the requirements of the BSA regulations, and the provisions of this ORDER.

DIRECTORS' BSA COMMITTEE

5. Within thirty (30) days from the effective date of this ORDER, the Board shall establish a Directors' BSA Committee ("BSA Committee") to oversee the Bank's compliance with BSA regulations and the Bank's BSA Compliance Program Policies and Procedures. A majority of the members of the BSA Committee shall be independent, outside directors. The BSA Committee shall receive comprehensive monthly reports from the BSA Compliance Officer, appointed pursuant to paragraph 3(a)(iv) above, regarding the Bank's compliance with BSA regulations and the Bank's BSA Compliance Program described in paragraph 3 above. The BSA Committee shall present a report to the Board, at each

regularly scheduled board meeting, regarding the Bank's compliance with BSA regulations and the Bank's BSA Compliance Program, which shall be recorded in the appropriate minutes of the board meeting and retained in the Bank's records.

INDEPENDENT TESTING

6. Within one hundred twenty (120) days of the effective date of this ORDER, the Bank shall assure that an effective and comprehensive independent test of compliance with the BSA and 31 C.F.R. Part 103 is conducted. The independent testing should thereafter be conducted on an annual basis.

(a) The Bank shall provide to the Regional Director and Division a copy of the written reports documenting the scope of testing procedures performed, the findings and results made, and any recommendations for improvement based on those findings. At a minimum, the independent testing shall include, and the contract or engagement letter entered into with any third party performing the testing shall provide for, the following:

- i. Testing of the Bank's internal procedures for monitoring BSA compliance;
- ii. Testing to ensure all reportable transactions have been identified and Currency Transaction Reports ("CTRs") have been filed within the prescribed time frames;

- iii. Testing to ensure the Bank is reviewing all applicable reports;
- iv. Testing to ensure Bank personnel are reviewing and monitoring reports for structuring activities and, if applicable, that appropriate Suspicious Activity Reports ("SARs") are filed in a timely manner with the appropriate law enforcement agencies;
- v. Sampling of large currency transactions followed by a review of the CTR filings;
- vi. Testing of the Bank's monitoring, analyzing, and filing procedures for high-risk MSB and Cash Vault customer accounts, to ensure the proper filing of CTRs and SARs thereon. For purposes of this ORDER, a "high-risk MSB" is deemed to be an MSB which exhibits one or more of the "potentially higher risk indicators," as set forth under the Risk Indicators Section of FIL-32-2005, page 3, or an MSB which exhibits traits or characteristics posing a substantially similar or equivalent level of risk;

- vii. Testing of the validity and reasonableness of the customer exemptions granted by the Bank;
- viii. Testing of the Bank's customer identification program;
- ix. Testing of the Bank's recordkeeping system for compliance with the BSA;
- x. Testing to ensure that the Bank is in compliance with rules and regulations related to:
 - Identifying and reporting suspicious activities;
 - Funds transfer operations;
 - On-going training of appropriate personnel;
 - OFAC restrictions and requirements;
 - High-risk activities related to customers and other areas of the Bank;
 - Compliance with information sharing requirements;
 - Testing of the accuracy and validity of the automated large transaction identification system;

- Confirming the integrity and accuracy of management information reports used in the anti-money laundering compliance program; and
- Retention of required records.

xi. Allowing unrestricted examiner access to auditor workpapers if testing is conducted by an outside third party.

LOOK BACK REVIEW

7. Within thirty (30) days of the effective date of this ORDER, the Bank shall develop a written plan detailing how it will conduct, through an independent and qualified auditor, a review of deposit account and transaction activity for the time period beginning October 4, 2005 through the effective date of this ORDER, to determine whether suspicious activity involving any accounts of, or transactions through, the Bank were properly identified and reported in accordance with the applicable suspicious activity reporting requirements ("Look Back Review").

(a) The plan for the Look Back Review, and the subsequent contract or engagement letter entered into with the auditor performing the Review, shall include, at a minimum:

- i. The scope of the review, which shall specify the types of accounts and transactions to be reviewed, which shall

include (1) the Bank's MSB customers, (2) Cash Vault customers, (3) high risk RDC customers, (4) cash intensive customers whether businesses or individuals, (5) customers with international wire transactions, (6) all customers identified by the Bank as high risk, (7) customers on whom the bank has ever filed a suspicious activity report, and all customers related to any of these types of customers;

- ii. The methodology for conducting the Look Back Review, including any sampling procedures to be followed;
- iii. The resources and expertise to be dedicated to the Look Back Review;
- iv. The anticipated date of completion of the Look Back Review;
- v. A provision for unrestricted examiner access to auditor workpapers; and
- vi. A provision that the audit firm will present its findings from the Look Back Review directly to the Bank's Board.

(b) The plan for the Look Back Review, and any subsequent modifications thereof, shall be prepared and

implemented in a manner acceptable to the Regional Director and Division. For this purpose, the draft plan shall be submitted to the Regional Director and the Division for review and comment prior to implementation. After consideration of all such comments, and after adoption of recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board's meeting at which approved.

(c) Within ten (10) days of receipt of written notice from the Regional Director and the Division indicating acceptability of the plan, the Bank shall implement the plan and commence the Look Back Review.

(d) By the 10th day of each month while the Look Back Review is being conducted, the Bank shall provide to Regional Director and the Division a written report detailing the actions taken under the Look Back Review and the results obtained since the prior monthly report.

(e) Within thirty (30) days of completion of the Look Back Review, the Bank shall provide a list to the Regional Director and the Division, specifying all outstanding matters or transactions identified by the Look Back Review which have yet to be reported, and detailing how and when these matters will be reported in accordance with applicable law and regulation.

DUE DILIGENCE PROGRAM

8. Within sixty (60) days from the effective date of this

ORDER, the Bank shall develop, adopt, and implement a written Customer Due Diligence ("CDD") Program. The CDD Program and its implementation shall be prepared and conducted in a manner acceptable to the Regional Director and Division as determined at subsequent examinations and/or visitations of the Bank.

(a) At a minimum, the CDD Program shall provide for a risk focused assessment of the customer base of the Bank to determine the appropriate level of ongoing monitoring required to assure that the Bank can reasonably detect suspicious activity, and determine which customers require Enhanced Due Diligence ("EDD") necessary for those categories of customers the Bank has reason to believe pose a heightened risk of illicit activity including, but not limited to, high-risk MSBs.

(b) At a minimum, the CDD Program shall provide for:

- i. Risk rating of the Bank's customers, specifically including MSBs, based on the potential risk for money laundering or terrorist financing posed by the customer's activities, with consideration given to the purpose of the account, the anticipated type and volume of account activity, types of products and services offered, and locations and markets served by the customer;

- ii. Obtaining, analyzing, and maintaining sufficient customer information necessary to allow effective suspicious activity monitoring, including documentation of normal and expected transactions of the customer;
- iii. Guidance for documenting the analysis conducted under the CDD process, including guidance for resolving issues when insufficient or inaccurate information is obtained;
- iv. Monitoring procedures required for each customer category under the BSA/AML risk ratings;
- v. Guidelines to reasonably assure the identification and timely, accurate reporting of known or suspected criminal activity, as required by the suspicious activity reporting provisions of Part 353 of the FDIC Rules, 12 C.F.R. § 353; and
- vi. Periodic, risk-based monitoring of customer relationships to determine whether the original risk profile remains accurate.

(c) At a minimum, EDD for high-risk MSBs shall include

the following procedures:

- i. Identification of customers requiring site visitations and the required frequency of visitations;
- ii. Identification and proper risk coding of all MSBs;
- iii. Periodic, comprehensive on-site visitations of all high-risk MSBs;
- iv. Periodic review of the high-risk MSB's anti-money laundering program;
- v. Review the results of independent testing of the MSB's anti-money laundering program;
- vi. Review the list of all MSB agents that will be using or receiving services directly or indirectly through the MSB;
- vii. Review the MSB's written agent management and termination practices and procedures;
and
- viii. Review of the MSB's written employee screening practices and procedures.

ACCOUNT MONITORING

9. Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt and implement appropriate policies and procedures for identifying and verifying the type and dollar

volume of transactions in each deposit and RDC account that exceed expected levels of customer cash or wire transfer activity.

(a) The policies and procedures adopted by the Bank shall be prepared and implemented in a manner acceptable to the Regional Director and the Division as determined at subsequent examinations or visitations of the Bank.

INTERNAL AND EXTERNAL AUDITS

10. Within sixty (60) days from the effective date of this ORDER, the Bank shall amend its audit policies, procedures, and practices, both with regard to internal and external audits, to include the Bank's MSB, RDC, iDirect Deposit, and Cash Vault activities. The Bank's internal and external audits shall include reviews of all of these areas, with significant exceptions reported directly to the Board.

(a) The amended policies, practices and procedures adopted by the Bank shall be prepared and implemented in a manner acceptable to the Regional Director and the Division as determined at subsequent examinations or visitations of the Bank.

MSB PROCEDURES

11. Immediately upon the effective date of this ORDER, the Bank shall not open any new accounts for existing or new MSB customers without the prior written approval of the Regional

Director.

(a) Within ninety (90) days from the effective date of this ORDER, the Bank shall obtain or prepare, as appropriate, the following information regarding each high-risk MSB the Bank continues to do business with:

- i. Articles of Incorporation or other organizational or chartering documents;
- ii. Current By-laws or their equivalent;
- iii. Verification of proper registration with the Financial Crimes Enforcement Network ("FinCEN") and compliance with state licensure and registration requirements for all states in which the MSB is incorporated or operates;
- iv. Documents establishing the scope of authority for each individual who transacts MSB activity with the Bank;
- v. Biographical information, including the experience, education, capacity, and integrity of each officer or employee authorized to conduct business for the MSB;
- vi. Current credit information of the type on which the Bank would rely in the ordinary course of business if it were extending

- credit to the MSB;
- vii. An appropriate credit analysis by the Bank if the agreement between the Bank and the MSB provides for the possibility of an extension of credit to the MSB;
 - viii. An unaudited financial statement of the most recent fiscal quarter and an audited financial statement for the most recent fiscal year;
 - ix. A corporate resolution relating to the existence and operation of the MSB;
 - x. A site visitation by the Bank to the administrative headquarters and/or operations center of the MSB prior to opening the account and periodically thereafter; and
 - xi. An annual independent review from an auditor on the Bank's approved auditor list.
 - xii. A written description of the institutions, mechanisms, systems, and/or procedures through which the high-risk MSB, its agents, and/or its affiliates, obtain and process funds that are ultimately deposited

into the Bank. The Bank shall take all reasonable steps necessary to verify the accuracy of the descriptions required by this item.

(b) The Bank shall periodically update the information obtained pursuant to subparagraph 12(a) above and shall retain the information obtained for a period of five (5) years following closing of the customer's account.

(c) The Bank shall obtain written certification from an authorized officer of each MSB, stating that the MSB, its agents, and affiliates operate in conformity with all applicable federal and state laws, rules, and regulations in obtaining and/or processing funds that are ultimately deposited in the Bank.

OFAC

12. Within sixty (60) days of the effective date of this ORDER, the Bank shall develop, adopt and implement a revised, effective written program to assure full compliance with all OFAC rules and regulations. Said program shall, among other things, be designed to assure that the Bank adequately monitors and screens transactions appropriately based on the level of risk associated with such transactions.

(a) The program adopted by the Bank shall be prepared and implemented in a manner acceptable to the Regional Director

and Division as determined at subsequent examinations or visitations of the Bank.

CORRECTION OF VIOLATIONS

13. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law or regulation detailed in the Joint Report of Examination dated February 4, 2008 ("Joint Report").

DISCLOSURE TO SHAREHOLDERS

14. 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 Scott D. Clarke, Assistant Director, Division of Banking, 122 South Michigan Avenue, Suite 1900, Chicago, Illinois 60603, and to the FDIC's 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 FDIC shall be made prior to dissemination of the description, communication, notice or statement.

PROGRESS REPORTS

15. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Division written progress reports signed by each member of the Board, detailing the actions taken to secure compliance with the ORDER and the results thereof. Along with each progress report, the Bank shall also provide reports on the Look Back Review, detailing the findings and actions taken as required under this ORDER. 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.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the day of 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: October 2, 2008.

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

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