

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

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In the Matter of	)	
	)	AMENDED ORDER TO
STRATEGIC CAPITAL BANK	)	CEASE AND DESIST
CHAMPAIGN, ILLINOIS	)	
	)	FDIC-08-205b
(Insured State Nonmember Bank)	)	2008-DB-44
	)	

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Strategic Capital Bank, Champaign, 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 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 AMENDED ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with representatives of the Federal

Deposit Insurance Corporation ("FDIC") and the Division, dated December 8, 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 AMENDED ORDER TO CEASE AND DESIST ("AMENDED ORDER") by the FDIC and the Division, as a restatement of the ORDER TO CEASE AND DESIST previously issued by the FDIC and the Division on August 14, 2008 ("AUGUST 14, 2008 ORDER").

The FDIC and the Division considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe and unsound banking practices and violations of law, rule, or regulation. The FDIC and the Division, therefore, accepted the CONSENT AGREEMENT 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. Engaging in rapid asset growth funded through the acceptance of an inordinate volume of brokered deposits that jeopardize the financial condition of the Bank.

B. Operating with an excessive concentration of risk in securities backed by nontraditional mortgages with less than full documentation on underlying loans.

C. Operating with an inadequate level of capital protection for the kind and quality of assets held.

D. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- Extending credit with inadequate diversification of risk;
- Extending credit with poor selection of risk.

E. Operating in such a manner as to produce an excessive level of adversely classified securities, and adversely classified and special mention loans (including delinquent and nonaccrual loans.

F. Operating in such a manner as to produce inadequate liquidity in light of the Bank's asset and liability mix.

G. Operating in such a manner as to produce an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held and

failing to make provision for an adequate reserve for possible loan losses.

H. Operating with an inadequate asset/liability strategy and policy.

I. Engaging in hazardous and speculative security activities/transactions.

J. Violating law and regulations and contravening Statements of Policy including:

- Section 23A of the Federal Reserve Act (Transactions with Affiliates);
- Part 323 FDIC Rules and Regulations (Appraisals); Part 365 FDIC Rules and Regulations and Appendix A (Real Estate Lending Standards); and
- Contravention of Joint Policy Statement of Interest Rate Risk.

K. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

L. Operating with a board of directors that does not provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices.

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

1. While this AMENDED ORDER is in effect, the Bank shall not engage in any transactions that have the effect of increasing its total assets from the balance as of the effective date of this AMENDED ORDER, without the prior written approval of the Regional Director of the FDIC's Chicago Regional Office ("Regional Director") and of the Division. 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.

2. (a) While this AMENDED ORDER is in effect, the Bank shall not accept, renew, or roll over any "brokered deposits," as that term is defined in section 337.6(a)(2) of the Rules, 12 C.F.R. § 337.6(a)(2), or solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the Bank's normal market area or in the market area in which such deposits are being solicited.

(b) While this AMENDED ORDER is in effect, the Bank shall adhere to a written contingency funding plan as

required by the AUGUST 14, 2008 ORDER. The plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, three months, six months, and twelve months. At a minimum, the liquidity plan shall include provisions:

- (i) Establishing appropriate secured lines of credit at correspondent banks, including the Federal Reserve Bank of Chicago, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for contingency funding prove to be inadequate;
- (ii) 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; and
- (iii) Conducting liquidity stress testing to simulate varying market conditions to aid in identifying alternative courses of action to meet the Bank's funding needs.

(c) While this AMENDED ORDER is in effect, the Bank shall adhere to its written plan to reduce the volume of brokered deposits held by the Bank as of the AUGUST 14, 2008 ORDER in this matter within three months, six months, and twelve months.

3. Within 30 days from the effective date of this AMENDED ORDER, the Bank shall continue to maintain an account relationship with the Federal Reserve Bank of Chicago as a contingency means of exchanging and settling payment transactions through a clearing account balance.

4. While this AMENDED ORDER is in effect, the Bank shall adhere to its written plan as required by the AUGUST 14, 2008 ORDER to reduce the concentration of risk in securities backed by nontraditional mortgages with less than full documentation on underlying loans. The plan shall prohibit any additional purchases of such securities and shall include, but not be limited to:

- (a) Dollar levels to which the Bank shall reduce the concentration within three, six, and twelve months from the AUGUST 14, 2008 ORDER; and
- (b) 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.

5. While this AMENDED ORDER is in effect, the Bank shall maintain its ratio of Tier 1 capital to total assets at or above 8.0 percent and its total risk-based capital ratio at or above 12.0 percent. For purposes of this AMENDED ORDER, Tier 1 capital, total assets, and total risk-based capital ratio shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

6. As of the effective date of this AMENDED ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Division.

7. While this AMENDED ORDER is in effect, the Bank shall adhere to the policies and procedures adopted in response to the AUGUST 14, 2008 ORDER, which establish:

- (a) Independent pricing on its securities portfolio and written guidelines to quarterly assess for impairment in compliance with GAAP.
- (b) Risk-based capital treatment of securities, especially for those that have been downgraded by any of the Nationally Recognized Statistical Rating Organizations and/or are in below investment grade categories.

8. (a) As of the effective date of this AMENDED 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 AMENDED 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," "Doubtful," or is listed for Special Mention 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.

9. As of the effective date of this AMENDED ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" and 50 percent of all assets classified "Doubtful" as

of July 14, 2008 that have not been previously collected or charged off. Any such charged-off asset shall not be rebooked without the prior written consent of the Regional Director and the Division. 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.

10. (a) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall replenish its allowance for loan and lease losses ("ALLL") as required in the Report of Examination as of July 14, 2008 ("Report").

(b) Within 30 days from the effective date of this AMENDED 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 Federal Financial Institutions Examination Council ("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

AMENDED ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to July 14, 2008, but prior to the effective date of this AMENDED 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 after the effective date of this AMENDED 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 AMENDED ORDER.

(f) While this AMENDED ORDER is in effect, the Bank shall submit to the Regional Director and the Division a copy of all Reports of Condition and Income filed with the FDIC, including those Reports filed pursuant to this paragraph.

11. (a) Within 60 days from the effective date of this AMENDED ORDER, the Bank shall adopt and implement a written plan to reduce the Bank's risk position in each asset in excess of \$1,000,000 which is classified "Substandard" or "Doubtful" in the Report. A copy of the written plan shall be submitted to the Regional Director and the Division upon its completion.

(b) 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.

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

(i) Dollar levels to which the Bank shall reduce each asset within six and twelve months from

the effective date of this AMENDED 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.

(d) As used in this AMENDED ORDER, "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.

12. Within 90 days from the effective date of this AMENDED ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the Report.

13. Within 90 days from the effective date of this AMENDED ORDER, the Bank shall adopt, implement, and adhere to a written plan which is acceptable to the Regional Director and the Division to reduce its concentration of credit in commercial real estate loans to not more than 300 percent of the Bank's total Tier 1 capital. Such plan shall prohibit any additional extensions of credit that would increase the concentration or create new concentrations and shall include, but not be limited to:

- (a) Dollar levels to which the Bank shall reduce the concentration within six and twelve months from the effective date of this AMENDED ORDER; and
- (b) 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.

14. Within 60 days from the effective date of this AMENDED ORDER, the Bank shall adopt, implement, and adhere to a written plan which is acceptable to the Regional Director and the Division for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

- (a) Prohibit the extension of credit for the payment of interest;
- (b) Establish acceptable guidelines for the collection of delinquent credits;
- (c) Establish dollar levels to which the Bank shall reduce delinquencies within six and twelve months from the effective date of this AMENDED ORDER; and
- (d) 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.

15. Within 60 days from the effective date of this AMENDED ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to strengthen lending procedures and abate additional loan deterioration. The revised written loan policy shall, at a minimum, address the exceptions noted in the Report and shall be submitted to the Regional Director and the Division for review and comment upon its completion.

16. Within 60 days from the effective date of this AMENDED ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's investment policy for adequacy and shall make the necessary revisions to address the actual and contemplated condition of the investment portfolio and any trading account. The revised policy shall, at a minimum, address the exceptions noted in the Report and shall be consistent with the FFIEC's Instructions for Consolidated Reports of Condition and Income generally accepted accounting principles, and the Bank's loan, liquidity and asset/liability management policies. A copy of the revised policy shall be submitted

to the Regional Director and the Division for review and comment upon its completion.

17. Within 60 days from the effective date of this AMENDED ORDER, the Bank shall adopt, implement, and adhere to a written plan which is acceptable to the Regional Director and the Division addressing liquidity, the Bank's relationship of volatile liabilities to temporary investments, rate sensitivity objectives, and asset/liability management. Annually thereafter during the life of this AMENDED 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 strengthen funds management procedures, and maintain adequate provisions to meet the Bank's liquidity needs. The initial plan shall address the exceptions noted in the Report and shall be submitted to the Regional Director and the Division for review and comment upon its completion.

18. (a) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation listed in the Report.

(b) Within 30 days from the effective date of this AMENDED ORDER, the Bank shall implement procedures to ensure

future compliance with all applicable laws, rules, and regulations.

19. (a) While this AMENDED ORDER is in effect, the Bank shall not make any payment, directly or indirectly, to or for the benefit of the Bank's holding company or any other Bank affiliate, without the prior written consent of the Regional Director and the Division.

(b) While this AMENDED ORDER is in effect, the Bank shall not enter into any contract with its holding company or any other Bank affiliate without the prior written consent of the Regional Director and the Division.

20. While this AMENDED ORDER is in effect, 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, prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer. 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.

21. (a) Within 90 days from the effective date of this AMENDED ORDER, the Bank shall adopt, implement, and adhere to a realistic, comprehensive modified strategic plan which

is acceptable to the Regional Director and the Division. 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; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) Within 30 days from the end of each calendar quarter following the effective date of this AMENDED ORDER, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the modified 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 of directors' meeting at which such evaluation is undertaken.

(d) The strategic plan required by this AMENDED ORDER shall be revised and submitted to the Regional Director and the Division for review and comment 30 days

prior to the end of each calendar year for which this AMENDED ORDER is in effect.

22. (a) Within 90 days from the effective date of this AMENDED ORDER, the Bank shall adopt, implement, and adhere to a modified written profit plan and a realistic, comprehensive budget for all categories of income and expense for the current and following calendar years. 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) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (ii) An identification of the major areas in, and means by which, the board will seek to improve the Bank's operating performance;
- (iii) A budget review process to monitor the income and expenses of the Bank to

compare actual figures with budgetary projections;

- (iv) A description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components; and
- (v) An assessment of the source, volatility, and sustainability of earnings, including the effect of nonrecurring or extraordinary income or expense.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plan(s) and budget(s) 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) A written profit plan and budget shall be prepared for each calendar year for which this AMENDED 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.

23. (a) Within 30 days from the effective date of this AMENDED 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 effective date of this AMENDED ORDER. 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) Prudent salary ranges for all officer positions;
- (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 AMENDED ORDER.

24. Within 60 days from the effective date of this AMENDED ORDER, a majority of the Bank's directors shall be independent. For purposes of this AMENDED ORDER, an independent director shall be any individual: (a) who is not an officer of the Bank or any subsidiary of the Bank or any of its affiliated organizations; (b) who does not own more than 5 percent of the outstanding shares of the Bank; (c) who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, and who does not otherwise share a common financial interest with such officer, director or shareholder; and (d) who is not indebted to the Bank directly or indirectly by blood,

marriage or common financial interest, including the indebtedness of any entity in which the individual has a substantial financial interest in an amount exceeding 5 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or (e) who is deemed to be an independent director for purposes of this AMENDED ORDER by the Regional Director and the Division. The addition of any new Bank directors may be accomplished, to the extent permissible by state statute or the Bank's bylaws, by means of appointment or election at a regular or special meeting of the Bank's shareholder.

25. Following the effective date of this AMENDED ORDER, the Bank shall send to its shareholder a copy or description of this AMENDED 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 AMENDED 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 shareholder. 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.

26. (a) Within 30 days from the effective date of this AMENDED 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 AMENDED 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 AMENDED ORDER and record its review in the minutes of each regularly scheduled board of directors' meeting.

27. Within 30 days from the end of each calendar quarter following the effective date of this AMENDED 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 AMENDED ORDER and the results thereof. Such reports may be discontinued when the corrections required by this AMENDED ORDER have been accomplished and the Regional Director and the Division have, in writing, released the Bank from making further reports.

This AMENDED ORDER is effective 10 calendar days after its issuance by the FDIC and the Division.

The provisions of this AMENDED ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this AMENDED 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: December 15, 2008.

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

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