

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING - THRIFT SECTION

\_\_\_\_\_) )  
In the Matter of ) )  
ARCOLA HOMESTEAD SAVINGS BANK ) ORDER TO CEASE AND DESIST  
Arcola, Illinois ) FDIC-09-078b  
( ILLINOIS CHARTERED ) 2009 THRIFT NO. 1  
INSURED NONMEMBER BANK ) )  
\_\_\_\_\_)

Arcola Homestead Savings Bank, Arcola, 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 sections 9009, 9015, 9016, 9018, 11001, and 11002 of the Savings Bank Act ("SBA"), 205 ILCS 205/9009, 9015, 9016, 9018, 11001, and 11002, 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 State of Illinois Department of Financial and Professional Regulation, Division of Banking ("Division"), dated June 4, 2009, 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), or in sections 1007.35 or 11005 of the SBA, 205 ILCS 205/1007.35 and 11005, 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 safety and soundness of the Bank.
- 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 unsatisfactory lending and collection practices.
- D. Operating with an excessive level of adversely classified loans.
- E. Operating with an inadequate allowance for loan and leases losses for the volume, kind and quality of loans and leases held.
- F. Operating in such a manner which has resulted in inadequate earnings.
- G. Operating with inadequate policies to monitor and control asset growth.
- H. Operating with inadequate levels of liquidity in light of the Bank's asset and liability mix.
- I. Violating laws, rules or regulations.

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

1. Within 90 days, and thereafter during the life of this ORDER, the Bank shall have and thereafter retain qualified management.

(a) Each member of management shall have the qualifications and experience commensurate with his or her

duties and responsibilities at the Bank. At a minimum, such management shall include:

- (i) A president 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 loans of the type and quality of the Bank's loan portfolio, including commercial real estate loans in the Chicago metropolitan area.

Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

(b) The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER; and
- (ii) Operate the Bank in a safe and sound manner; and

- (iii) Comply with applicable laws and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) 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.

(d) 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.

2. As of the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(a) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved:

- (i) Reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; and
- (ii) Operating policies; individual committee actions; and
- (iii) Compliance with this ORDER.

(b) Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(c) 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.

3. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written plan to reduce the Bank's risk position in each asset in excess of \$150,000 which is classified "Substandard" in the FDIC Report of Examination as of September 30, 2008 ("ROE") and to correct "Special Mention" deficiencies identified in the ROE.

(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; and

(iii) Prohibit the extension of credit for the payment of interest.

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

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

(d) 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.

(e) The plan shall be in a form and manner acceptable to the Regional Director and Division as determined at subsequent examinations and/or visitations.

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide



effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for placing loans on a non-accrual basis and improving watch list identification procedures. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio, including participations purchased.

(b) The revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall incorporate the items discussed on pages 7 through 8 of the ROE.

(c) The policies and revisions thereto, required by this paragraph shall be acceptable as determined at subsequent examinations or visitations.

5. Within 60 days from the effective date of this ORDER the Bank shall adopt and implement a written plan to develop reasonable limitations on and monitoring of concentrations of credit, including, but not limited to out-of-area and commercial real estate credits. At a minimum, the concentration management program must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit and for a limit on concentrations in terms of the Bank's capital position

that is commensurate with safe and sound banking practices and the overall risk profile of the Bank.

6. After the effective date of this ORDER, and prior to submission or publication of all Reports of Condition and Income required by the FDIC, 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.

7. During the life of this ORDER, the Bank shall not increase its total assets by more than five percent (5%) during any consecutive three-month period without providing, at least 30 days prior to its implementation, a growth plan to the Regional Director and the Division. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the

Regional Director and Division. In no event shall the bank increase its total assets by more than 15% percent annually. For purposes 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.

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate, adopt and implement a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2009. Thereafter, for every calendar year during the life of this ORDER, and beginning with calendar year 2010, the Bank shall prepare a written profit plan and a realistic, comprehensive budget for all categories of income and expense and shall complete each plan and budget at least 30 days prior to the beginning of the applicable calendar year. 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. A copy of each such plan and

budget shall be submitted to the Regional Director and Division upon its completion.

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

- (i) Realistic growth and margin assumptions;
- (ii) Realistic core deposit growth projections and strategies associated therewith;
- (iii) Maintenance of an adequate Allowance for Loan and Lease Losses ("ALLL");
- (iv) Periodic salary review; and
- (iv) Clear assignment of responsibilities for implementing the written profit plan.

(c) Within thirty (30) days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(d) The plan shall be in a form and manner acceptable to the Regional Director and Division as determined at subsequent examinations and/or visitations.

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) An assessment of the Bank's current financial condition;
- (ii) Strategies for pricing policies and asset/liability management; and
- (iii) 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 Division for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting.

(d) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(e) The strategic plan required by this ORDER shall be revised and submitted to the Regional Director and Division for review and comment 30 days prior to the end of each calendar year for which this ORDER is in effect. Within 30 days of receipt of all such comments from the Regional Director and Division, and after consideration of all such comments, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

10. Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate and adopt, and forward to the Regional Director and the Division, a plan for improving liquidity. The Plan shall be in a form and manner acceptable to the Regional Director and Division as determined at subsequent examinations and/or visitations.

(a) The Plan shall include, but not be limited to the following:

- (i) Strategies to maintain acceptable liquidity levels; and
- (ii) A plan to increase funding sources to replace maturing brokered deposits, and
- (iii) A detailed contingency liquidity plan outlining possible sources of funds to be utilized when the Bank's liquidity ratio falls below acceptable levels, including appropriate written secured lines of credit at correspondent banks to allow the Bank to borrow funds if other provisions for contingency funding prove to be inadequate.

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule and regulation listed in the ROE.

(b) Within 60 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules and regulations.

12. (a) 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.

(b) 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.

13. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) 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 17th Street, N.W., Washington, D.C. 20429 and to Roger Copley, Manager of Thrift Regulation, Division of Banking, 122 South Michigan Avenue, Suite 1900, Chicago, Illinois 60603, 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.

The effective date of this ORDER shall be 10 calendar days after 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: June 9, 2009.

\_\_\_\_\_/s/\_\_\_\_\_  
M. Anthony Lowe  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance  
Corporation

\_\_\_\_\_/s/\_\_\_\_\_  
Jorge A. Solis  
Director  
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