

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

_____	)	
In the Matter of	)	ORDER TO CEASE AND DESIST
	)	
EDGEBROOK BANK	)	FDIC-09-092b
CHICAGO, ILLINOIS	)	2009-DB-15
	)	
(State Chartered	)	
Insured Nonmember Bank)	)	
_____	)	

Edgebrook Bank, Chicago, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices 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, The 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 ("CONSENT AGREEMENT")

with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated \_\_\_\_\_, 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, and, or violations of law. 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 and unsound banking practices.

- C. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- D. Operating in a manner which has resulted in loss to the institution.
- E. Engaging in hazardous lending and lax collection practices.
- F. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.
- G. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- H. Operating with an inadequate allowance for loan and lease losses ("ALLL").
- I. Operating with an inadequate loan policy.
- J. Operating with inadequate policies to monitor and control asset growth.
- K. Operating with an inadequate funds management policy
- L. 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:

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management, including appropriate

numbers and types of senior loan officers with proven ability in upgrading a low quality loan portfolio. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall be provided the necessary written authority 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;
- (ii) Operate the Bank in a safe and sound manner;
- (iii) Comply with applicable laws, rules, and regulations;
- (iv) Comply with the Bank's approved policies and procedures; and
- (v) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, 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 request and obtain the Division's written approval. 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).

#### BOARD PARTICIPATION

2. (a) 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. 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: reports of income and expenses; loan reports including new, overdue, renewed, extended, restructured, insider, non-accrual, charged off, and recovered loans; investment activity; asset/liability and funds management reports; operating policies; personnel actions; and audit and supervisory reports. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) As of the effective date of this ORDER, the board of directors shall ensure that complete and accurate minutes of the Board and committee meetings are maintained, including

documentation of the areas reviewed and approved and names of any dissenting directors and that the minutes adequately address the areas covered in this ORDER. The board of directors shall ensure that management reports are sufficient to provide the Board with timely and adequate information necessary for making business decisions on the basis of fully informed and meaningful deliberation.

(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.

#### LOAN POLICY

3. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise its loan policy. The revised policy shall include specific guidelines for placing loans on non-accrual, and require adequate and current documentation for all loans in the Bank's loan portfolio.

(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 2 through 6 and pages 19 through 25 of the Report of Examination dated December 1, 2008 ("ROE").

(c) The policies and revisions thereto required by this paragraph shall be submitted to the Regional Director and

the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division, and after consideration of any such comments, the Bank shall adopt, implement, and adhere to the policies.

LOSS CHARGE-OFF

4. As of the effective date of this Order the Bank shall charge off from its books and records any asset classified "Loss" in the ROE. Rebooking of these assets is not appropriate without prior approval of the Regional Director and the Division.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (a) Within 45 days from the effective date of this ORDER, the Bank shall formulate a written plan to reduce the Bank's risk position in each asset in excess of \$500,000 which is delinquent or classified "Substandard" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources;
- (ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's position;

- (iii) Prohibit an extension of credit for the payment of interest;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets 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) As used in this paragraph, "reduce" means to:

(1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the Division.

(c) While this Order remains in effect, the plan shall be revised to include assets which become delinquent or are adversely classified at any subsequent examinations.

(d) The plan required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division, and after consideration of any such comments, the Bank shall adopt, implement, and adhere to the plan.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (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" in the ROE.

(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", "Doubtful", or is listed for Special Mention in the ROE, 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, signed by each Director, and shall be incorporated in the minutes of the applicable board of directors' meeting.

SPECIAL MENTION

7. Within 60 days from the effective date of this ORDER, the Bank shall implement procedures to reduce the incidence of

loan underwriting deficiencies resulting in loans being listed for "Special Mention."

LOAN PARTICIPATIONS

8. Following the effective date of this ORDER, the Bank shall not repurchase any loan participations unless legally obligated to do so, if:

(a) the loan has been adversely classified by the FDIC and/or the Division and remains classified as of the date a repurchase is considered; or

(b) the loan exhibits any of the following characteristics:

(i) the loan is, or should be, in non-accrual status as defined in the instructions for the preparation of Reports of Condition and Reports of Income;

(ii) principal or interest payments are more than 30 days past due;

(iii) the terms of the loan have been renegotiated or compromised due to the deteriorating financial condition of the borrower.

CREDIT DATA/COLLATERAL DOCUMENTATION EXCEPTIONS

9. Effective immediately, the Bank shall require complete loan documentation, realistic repayment terms and current

financial information adequate to support the outstanding indebtedness of each borrower. Such financial information shall include, at a minimum, detailed balance sheets, profit and loss statements, or copies of tax returns, and cash flow projections.

LOAN COMMITTEE

10. (a) As of the effective date of this ORDER, the Bank's loan committee shall meet as frequently as necessary to carry out the responsibilities assigned to the committee, but in no event less frequently than once a month. The loan committee shall include at least three independent directors. For purposes of this ORDER, a person who is an independent director shall be any individual:

- (i) who is not an officer of the Bank, any subsidiary of the Bank, or any of its affiliated organizations;
- (ii) who does not own more than three percent of the outstanding shares of the Bank;
- (iii) who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than three percent of the Bank's outstanding shares, and who does not otherwise share a common financial interest with such officer, director or shareholder; and

- (iv) 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 three percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or
- (v) who is deemed to be an independent director for purposes of this ORDER by the Regional Director and the Division.

(b) 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, as revised and amended in compliance with this ORDER. The loan committee shall provide a thorough written explanation of any deviations from the loan policy, and such explanation shall address how the deviations 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" or "doubtful" in the ROE 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 \$500,000. 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.

(c) All loan committee minutes shall be reviewed by the Bank's board of directors during the next scheduled meeting.

#### LOAN REVIEW

11. (a) Within 60 days of the effective date of this ORDER, the board of directors shall revise its written loan review procedures. Loan review procedures shall be designed to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio.

(b) The plan required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division, and after consideration of any such comments, the Bank shall adopt, implement, and adhere to the policies.

CONCENTRATIONS OF CREDIT

12. (a) Within 30 days from the effective date of this ORDER the Bank will formulate a written plan to reduce the loan concentrations of credit identified on pages 61 and 62 of the ROE. Such plan shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each concentration; and
- (ii) Provision for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the board of directors' meetings.

(b) The plan required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division, and after consideration of any such comments, the Bank shall adopt, implement, and adhere to the plan.

PROFIT PLAN AND BUDGET

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and implement a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2009 and 2010. 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) Realistic and comprehensive budgets, including growth and margin assumptions;
- (ii) Maintenance of an adequate allowance for ALLL;
- (iii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iv) Identification of major areas in, and means by which, earnings will be improved;
- (v) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components; and

(vi) Clear assignment of responsibility for implementing the written profit plan.

(c) Within 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 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 ORDER is in effect.

(e) The plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division, and after consideration of any such comments, the Bank shall adopt, implement, and adhere to the plans.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

14. (a) Within 30 days from the effective date of this ORDER the Bank shall have and thereafter maintain an adequate ALLL.

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

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

#### ETHICS POLICY

15. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written ethics policy ("Ethics Policy") and program ("Ethics Program") designed to bring to the attention of each member of the board of directors conflicts of interest which may exist in approving loans or other transactions in which officers, directors or principal stockholders of the Bank ("Insiders") are involved. The Ethics Policy will state the ethical conduct and

other standards expected of directors, officers, employees, agents and other persons participating in the conduct of the affairs of the Bank ("Covered Individuals"), in the performance of their duties and responsibilities, and establish the definitions, instructions and format to be followed by Covered Individuals in the preparation of comprehensive conflict disclosure statements ("Statements") to be filed for review by an Ethics Counselor and/or Ethics Committee. The Ethics Counselor or Ethics Committee shall administer the Ethics Program. At a minimum, the Ethics Program will prohibit self-dealing by insiders or their interests advancing personal, business, or other interests, or those of others, at the expense of the Bank.

(b) The Ethics Program shall, at a minimum, ensure that each member of the board of directors has been apprised of any potential conflict prior to making a decision, and shall ensure specific action is taken by the board of directors on any loan or other transaction in which Insiders and/or their business associates are, directly or indirectly, involved. The results of any deliberations by the board of directors regarding potential conflicts shall be reflected in the minutes of its meetings. The Ethics Program shall also address other conduct and responsibilities of Covered Individuals.

## CAPITAL

16. (a) Within 60 days of the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of eight percent (8%) and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the board of directors of the Bank shall adopt, implement, and adhere to 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 17th Street, N.W., Washington, D.C. 20429 and to Jorge A. Solis, Director, Illinois Department of Financial and Professional Regulation, Division of Banking, 122 South Michigan Avenue, Suite 1900, Chicago, Illinois 60603, 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.

(c) 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.

DIVIDEND RESTRICTION

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

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT

18. (a) Within 60 days of the effective date of this ORDER, the Bank shall revise and adopt a liquidity and funds management program that incorporates:

- (i) Items identified on pages 8 through 10 and page 25 of the ROE;
- (ii) Reduction of the Bank's reliance on high cost certificates of deposit and other non-core funding sources;
- (iii) Maintenance of net liquid assets to total assets ratio of at least 10%;  
and
- (iv) Development of an improved Contingency Funding Plan that identifies alternative courses of action designed to meet the Bank's liquidity needs.

(b) The program required by this paragraph shall be submitted to the Regional Director and the Division for review and comment. Within 30 days of receipt of any comments from the Regional Director or the Division, and after consideration of

any such comments, the Bank shall adopt, implement, and adhere to the program.

#### CORRECTION OF VIOLATIONS

19. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed on pages 30 through 32 of the ROE.

#### NOTIFICATION

20. Following the effective date of this ORDER, the Bank shall send a copy of this ORDER:

(a) to its shareholder (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting; and

(b) to all institution-affiliated parties as such term is defined in section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

#### PROGRESS REPORTS

21. 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

