

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 )	CONSENT ORDER
)	
BANK OF SHOREWOOD )	FDIC-09-392b
SHOREWOOD, ILLINOIS )	2009-DB-84
)	
( ILLINOIS CHARTERED )	
INSURED NONMEMBER BANK )	
_____ )	

Bank of Shorewood, Shorewood, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code, section 392.30, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking ("Division"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated

November 24, 2009, whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices relating to weaknesses in asset quality, earnings, capital, and liquidity, the Bank has consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and 38 Ill. Adm. Code, section 392.30 have been satisfied, the FDIC and the Division HEREBY ORDER 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. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

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

- (iii) Comply with applicable laws, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including 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 ("Board") 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 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; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; risk management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Bank's Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

#### CAPITAL

3. (a) Within 90 days of the effective date of the 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 8.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 11.0 percent. Within 180 days of the effective date of the ORDER, the Bank shall have and maintain a minimum capital ratio of 9.0 percent and a minimum total risk based capital ratio of 12.0 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 Bank's Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to Scott D. Clarke, Assistant Director, Division of Banking, Illinois Department of Financial and Professional Regulation, 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

4. (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 Report of Examination of June 15, 2009 ("ROE"), so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other

credit has been classified "Substandard" or is listed for Special Mention in the ROE, and is uncollected unless the Bank's Board 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 signed by each director, and incorporated in the minutes of the applicable Board meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$400,000 which is delinquent or classified "Substandard" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;

- (iii) Delineate areas of responsibility for loan officers;
- (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 for review and notation in minutes of the meetings of the Board.

(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) A copy of the plan required by this paragraph shall be submitted to the Regional Director and Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

#### SPECIAL MENTION

6. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the ROE.

#### TECHNICAL EXCEPTIONS

7. Within 90 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the ROE.

#### LOAN REVIEW AND GRADING

8. Within 30 days from the date of this ORDER, the Bank shall implement revised comprehensive loan grading and review procedures in order to effectively manage and control risks in the loan portfolio. The procedures shall require that such loan grading and review will be performed by a qualified individual who is not a member of the Bank's lending staff. The loan review procedures shall, at a minimum:

(a) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;

(b) Identify loans or relationships that warrant special attention of management;

(c) Identify credit and collateral documentation exceptions and track corrective measures;

(d) Identify violations of law, rules, or regulations and track corrective measures; and

(e) Identify loans not in conformance with the Bank's loan policy.

LIQUIDITY AND ASSET/LIABILITY MANAGEMENT

9. (a) Within 60 days of the effective date of this ORDER, the Bank shall formulate and adopt revisions to its asset liability management policy and contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. The Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008.

(b) The revisions to the Bank's Liquidity Plan shall, at a minimum, incorporate a reduced reliance upon brokered deposits and high rate Certificate of Deposits ("CDs"), and the items discussed on pages 4 and 13 of the ROE.

(c) The revisions to the Bank's Liquidity Plan shall also require Bank to establish, if necessary, and maintain an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through a clearing account balance.

(d) A copy of the plan required by this paragraph shall be submitted to the Regional Director and Division.

INTEREST RATE RISK

10. (a) Within 90 days of the effective date of this Order the Bank shall enhance its procedures for managing the Bank's sensitivity to interest rate risk, including, at a

minimum, the items discussed on pages 10 through 11 of the ROE. The procedures shall comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(b) A copy of the revised procedures required by this paragraph shall be submitted to the Regional Director and Division.

#### DIVIDEND RESTRICTION

11. 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 Division.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

12. (a) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the Bank's Board 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 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 Division.

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

(c) The ALLL methodology shall be improved to address the requirements of FAS 114 and FAS 5. In particular, the Bank shall account for a decline in real estate trends for non-farm, non-residential properties in its FAS 5 analysis.

PROFIT PLAN AND BUDGET

13. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, and implement revisions to, its written profit plan and adopt a realistic, comprehensive budget for all categories of income and expense for calendar years 2010 and 2011. 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;
- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;

- (iii) Identification of major areas in, and means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(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 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 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) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and Division.

#### STRATEGIC PLAN

14. (a) Within 90 days from the effective date of this ORDER, the Bank shall revise, and implement revisions to, its 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. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management;
- (ii) Strategies for identifying and monitoring risk and improving underwriting, loan portfolio management, and credit administration practices; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's Board 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 meeting at which such evaluation is undertaken.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the

minutes of a Board meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and Division.

#### CONCENTRATIONS OF CREDIT

15. (a) Within 60 days from the effective date of this Order, the Bank will formulate, adopt and implement a written plan to reduce the loan concentrations of credit identified on page 31 of the ROE. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and 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 for review and notation in the minutes of the Board meetings.

(b) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

#### INTERNAL ROUTINE AND CONTROLS

16. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a policy for the operation of the Bank in such a manner as to provide

adequate internal routine and controls consistent with safe and sound banking practices. The policy shall, at a minimum, incorporate internal controls to ensure compliance with laws and regulations and statements of policies and provide adequate oversight over the credit administration function.

(b) A copy of the policy required by this paragraph shall be submitted to the Regional Director and the Division.

#### NOTIFICATION TO SHAREHOLDER

17. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (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.

#### PROGRESS REPORTS

18. 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 Division written progress reports signed by each member of the Bank's Board, detailing the actions taken to secure compliance with the ORDER and the results thereof.

The effective date of this ORDER shall be upon 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.

Issued Pursuant to Delegated Authority.

Dated: November 24, 2009.

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

\_\_\_\_\_/s/\_\_\_\_\_  
Jorge A. Solis  
Director  
Division of Banking  
Illinois Department of Financial  
and Professional Regulation