FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

In the Matter of	)	ORDER TO CEASE AND DESIST
	)	
HERITAGE BANK OF CENTRAL ILLINOIS	)	2009-DB-62
TRIVOLI, ILLINOIS	)	FDIC-09-329b
	)	
(STATE CHARTERED	)	
INSURED NONMEMBER BANK	)	

Heritage Bank of Central Illinois, Trivoli, 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"), 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 October 27, 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), 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 inadequate earnings and losses to the institution.

E. Engaging in hazardous lending and lax collection practices.

F. Operating with an inadequate loan policy.

G. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.

H. Operating with inadequate liquidity in light of the Bank’s asset and liability mix.

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. Such persons 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:

A. Comply with the requirements of this ORDER;

B. Operate the Bank in a safe and sound manner;

C. Comply with applicable laws, rules, and regulations; and

D. Restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, and liquidity.

(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. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

(c) 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; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; operating policies; individual committee reports; audit reports; internal control reviews including managements responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

CAPITAL

2. (a) Not later than December 31, 2009, the Bank shall increase and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio")to a minimum of seven and one-half percent (7.5%) and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") to a minimum of eleven percent (11%). By not later than March 31, 2010, the Bank shall further increase and maintain for the life of this ORDER its capital ratio to a minimum of 8 percent (8%) and its total risk based capital ratio to a minimum of 12 percent (12%). For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) Any subsequent increase in Tier 1 capital may be accomplished by the following:

(i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325;

(ii) The elimination of all or part of the assets classified "Loss" at the Joint Examination which began on April 13, 2009, without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER;

(iii) The collection in cash of assets previously charged off;

(iv) The direct contribution of cash by the directors and/or the shareholders of the Bank;

(v) Any other means acceptable to the Regional Director and the Division; or

(vi) Any combination of the above means.

(c) If all or part of any subsequent increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board of directors of the Bank 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 17th Street, N.W., Washington, D.C. 20429 and to Scott Clarke, Assistant Director, Illinois Department of Financial and Professional Regulation, Division of Banking, 320 West Washington Street, 6th Floor, Springfield, Illinois 62786, 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.

(d) 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.

REDUCTION OF SUBSTANDARD ASSETS

3. (a) Within 60 days from the effective date of this

ORDER, the Bank shall formulate, adopt, and implement, a written plan to reduce the Bank's risk position in each asset in excess of $500,000 which is classified "Substandard" or "Doubtful" in the Joint Examination which began on April 13, 2009. 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.

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

(i) Dollar levels to which the Bank shall reduce each asset within 6 and 12 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.

(c) 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.

(d) The plan shall be acceptable to the Regional Director and the Division.

(e) While this ORDER remains in effect, the plan shall be revised to include assets adversely classified and assets listed for Special Mention at each subsequent examination.

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” at the Joint Examination which began on April 13, 2009 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”, “Doubtful”, or is listed for Special Mention at the Joint Examination which began on April 13, 2009, 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.

RESTRICTION ON GROWTH

5. While this ORDER is in effect, the Bank shall not increase its total assets from the balance as of the effective date of this ORDER, without the prior written approval of the 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.

CONCENTRATION OF CREDIT

6. (a) Within 15 days of the effective date of this ORDER, the Bank shall determine specific limitations on concentrations of credit as a percentage of the Bank's Tier 1 capital to be implemented and adhered to by the Bank with respect to individual categories of credit described in the Joint Examination which began on April 13, 2009. The limitations shall be acceptable to the Regional Director and the Division.

(b) Within 90 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Division a written plan to reduce concentrations of credit. The plan shall identify concentrations by product type, geographic distribution, underlying collateral or other asset groups which are considered economically related and in the aggregate represent a large portion of Bank's capital account.

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 the concentrations within 6 and 12 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.

(c) Within 30 days from the receipt of any comments from the Regional Director and the Division, and after the adoption of any recommended changes, the board of directors shall approve the written plan and any subsequent modification thereto, which approval shall be recorded in the minutes of the board of directors’ meeting. Thereafter, the Bank shall implement and adhere to the written plan.

ALLOWANCE FOR LOAN AND LEASE LOSS

7. (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 board of directors of the Bank shall continue to 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

continue to 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 continue to consider the Federal Financial Institutions Examination Council's ("FFIEC") Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or the Division.

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

CONTINGENCY FUNDING PLAN

8. (a) Within 30 days of the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("Liquidity Plan") which is acceptable to the Regional Director and the Division. The 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. At a minimum, the liquidity plan shall be prepared in conformance with the Liquidity Risk Management Guidance found in FIL-84-2008 and include provisions:

(i) Establishing appropriate secured lines of credit at correspondent banks 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) Establishing, if necessary, and maintaining an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through a clearing account balance.

(iii) 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

(iv) Conducting liquidity stress testing to simulate varying market conditions to aid in identifying alternative courses of actions to meet the Bank’s funding needs.

(b) During the life of this ORDER the Bank shall submit to the Regional Director and the Division weekly liquidity analysis reports, in a format that is acceptable to the Regional Director and Division.

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

(d) Within 60 days of the effective date of this ORDER, the Bank shall submit a written plan which is acceptable to the Regional Director and the Division to reduce the volume of brokered deposits held by the Bank on the effective date of this ORDER within three months, six months, and twelve months. For purposes of this ORDER, brokered deposits are defined as described in Part 337.6 of the FDIC's Rules and Regulations.

BUDGET AND PROFIT PLAN

9. (a) Within 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 years 2009 and 2010. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, 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 realistic growth and margin assumptions;

(ii) Maintenance of an adequate ALLL;

(iii) Clear assignment of responsibilities for implementing the written profit plan;

(iv) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;

(v) Identification of major areas in, and means by which, earnings will be improved; and

(vi) 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 plan 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 and shall be completed at least 30 days prior to the beginning of the applicable calendar year.

(e) The profit plans and budgets required by this paragraph shall be acceptable to the Regional Director and the Division.

DIVIDEND RESTRICTION

10. 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.

DISCLOSURE TO SHAREHOLDER

11. 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.

COMPLIANCE WITH ORDER

12. Within 30 days from the effective date of this ORDER, the Bank shall establish a compliance committee comprised of at least 3 directors. No committee member may be an executive officer or principal shareholder, as those terms are defined in sections 215.2 (e) (1) and (m) of Regulation O, 12 C.F.R. 215.2 (e) (1) and (m). The committee shall monitor compliance with this ORDER and, within 30 days from the effective date of this ORDER and every 30 days thereafter, shall submit to the board of directors for consideration at its regularly scheduled meeting a written report detailing the Bank’s compliance with this ORDER. The compliance report shall be incorporated into the minutes of the board of directors’ meeting. Establishment of this committee does not in any way diminish the responsibility of the entire board of directors to ensure compliance with the provisions of this ORDER.

PROGRESS REPORTS

13. 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 been accomplished and the Regional Director and the Division have, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be 10 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 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: November 2, 2009.

/s/	/s/
M. Anthony Lowe Regional Director Chicago Regional Office Federal Deposit Insurance Corporation	Jorge A. Solis Director Division of Banking Illinois Department of Financial and Professional Regulation