

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)	
)	
KINDERHOOK STATE BANK)	CONSENT ORDER
KINDERHOOK, ILLINOIS)	
)	
(Illinois Chartered)	FDIC-10-015b
Insured Nonmember Bank))	DB NO. 2010-DB-08
_____)	

Kinderhook State Bank, Kinderhook, 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, § 392 et seq., 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 March 15, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to earnings and management, the Bank 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 Section 48(6), 205 ILCS 5/48(6), 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.

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 written approval of the Regional Director of the FDIC's Chicago Regional Office ("**Regional Director**") and the Division. 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).

MANAGEMENT PLAN

2. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director and the Division who will develop a written analysis and assessment of the Bank's management needs ("**Management Study**") 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 independent third party for review.

(c) The Management Study shall be developed within ninety (90) days from the effective date of this ORDER. The Management Study shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all Bank officers and staff members 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;
- (iv) Evaluation of all Bank officer's

compensation, including salaries, director fees, and other benefits.

(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 ORDER.

(vi) A management succession plan.

(d) Within thirty (30) days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study.

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

BOARD PARTICIPATION

3. (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; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management 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.

(b) Within thirty (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.

PROFIT PLAN AND BUDGET

4. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written profit plan and 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.
- (v) a periodic salary and staffing review

(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 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 thirty (30) days prior to the end of 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 the Division.

STRATEGIC PLAN

5. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement 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. 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.

(b) Within thirty (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.

(c) The strategic plan required by this ORDER shall

be revised thirty (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 of directors' 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 the Division.

LOSS CHARGE-OFF

6. As of the effective date of this Order the Bank shall charge off from its books and records any loan classified "Loss" in the Report of Examination dated November 30, 2009 ("ROE").

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within sixty (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 \$50,000 which is classified "Substandard" or "Doubtful" 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 and specific strategies to 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) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which are adversely classified at any subsequent examinations.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

8. (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, 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 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 signed by each Director, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

LOANS LISTED FOR SPECIAL MENTION

9. (a) Within sixty (60) days from the date of this ORDER, the Bank shall initiate steps to correct the deficiencies

in those loans listed for Special Mention in the ROE.

(b) To the extent that any of the deficiencies noted in the items listed for Special Mention cannot be corrected within sixty (60) days, the Bank shall provide the Regional Director and Division with a written statement indicating the identity of the borrower and giving an explanation of why the deficiencies could not be corrected.

LENDING AND COLLECTION POLICIES

10. (a) Within sixty (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. In addition, the revised policies shall require complete loan documentation, realistic repayment terms, and current financial information adequate to support the outstanding indebtedness of each borrower. With respect to commercial loans with balances in excess of \$50,000, such financial information shall include, at a minimum, detailed balance sheets, profit and loss statements, or copies of tax returns, and cash flow projections.

(b) The revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall address concentrations of credit and diversification of risk,

including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers.

LIQUIDITY CONTINGENCY PLAN

11. Within sixty (60) days of the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("**Liquidity Plan**"). The Liquidity Plan shall include requirements to test secured lines of credit with correspondent banks that allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for contingency funding prove to be inadequate. Also, the Bank will establish and maintain an account relationship with the Federal Reserve Bank of Saint Louis to exchange and settle payment transactions through a clearing account balance.

INTERNAL CONTROLS

12. Within thirty (30) days from the effective date of this ORDER, the Bank shall implement and enforce an effective system of internal controls which are consistent with the comments in the ROE.

BROKERED DEPOSITS

13. While this 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 FDIC Rules and Regulations, or solicit deposits by offering an effective yield that exceeds limits defined by Sections 337.6.

DIVIDEND RESTRICTION

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

CORRECTION OF VIOLATIONS

15. Within thirty (30) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed in the ROE.

NOTIFICATION TO SHAREHOLDERS

16. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description 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. 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, for review at least twenty (20) days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the

description, communication, notice or statement.

PROGRESS REPORTS

17. Within thirty (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.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of 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: March 30, 2010

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

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