

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
VALLEY COMMUNITY BANK,)	
ST. CHARLES, ILLINOIS)	FDIC-09-214b
)	DB NO. 2010-DB-07
(ILLINOIS CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

Valley Community Bank, St. Charles, Illinois ("**Bank**"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law, rule or regulation 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 38 Ill. Adm. Code, Section 392 et seq., regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (the "**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 (the "FDIC") and Division, dated April 16, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law, rule, or regulation relating to weaknesses in asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk, 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) Within ninety (90) days from the effective date 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 these management personnel shall be assessed on their 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 asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(b) During the life of this ORDER, the Bank shall notify the Regional Director of the FDIC's Chicago Regional Office ("**Regional Director**") and the Division in writing of the resignation or termination of any Bank director or senior executive officer. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831 (i), and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. The Bank shall also request and obtain the Division's prior written approval.

MANAGEMENT PLAN

2. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's management needs ("**Management Study**"), which is acceptable to the Regional Director and the Division, for the purpose of providing qualified management for the Bank.

(b) 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;
- (iv) 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.

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

(d) A copy of the plan and Management Study 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 Bank's 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 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.

(b) Within thirty (30) days from the effective date of this ORDER, the Board shall establish a Board committee ("**Directors' Committee**"), consisting of at least four members responsible for ensuring compliance with the ORDER, overseeing corrective measures with respect to the ORDER, and reporting to the Board. Three members of the Directors' Committee shall not be Bank officers. Bank management shall provide the Directors' Committee with monthly reports detailing the Bank's actions with respect to compliance with the ORDER. The Directors' Committee shall present a report detailing the Bank's adherence to the ORDER to the Board at each regularly scheduled Board meeting. This report and any discussion related to the report or the ORDER shall be recorded in the appropriate minutes of the

meeting of the Board and shall be retained in the Bank's records. Nothing contained herein shall diminish the entire Board's responsibility to ensure compliance with the provisions of this ORDER.

CAPITAL

4. (a) Within ninety (90) days from 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 9.0% percent and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of 13.0% 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 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 D. Clarke, Assistant 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (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 of \$350,000 or more which is, delinquent or classified "Substandard" in the joint Report of Examination dated October 13, 2009 ("**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 six (6), twelve (12), and eighteen (18) 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 become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examination or visitation.

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 extension 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" 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.

LOSS CHARGE-OFF

7. As of the effective date of this Order, the Bank shall charge off from its books and records any loan or asset, or portions thereof, classified "Loss" in the ROE that has not been previously collected or charged off.

INTERNAL LOAN REVIEW

8. Within sixty (60) days from the effective date of this ORDER, the Bank shall revise its internal loan review grading system to provide for a periodic and accurate review of the Bank's loan portfolio in order to identify and categorize the Bank's loans on the basis of credit quality. This system and

its implementation shall be subject to approval by the FDIC and Division as determined at their initial review and at subsequent examinations and visitations.

CONCENTRATIONS OF CREDIT

9. Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to manage each of the concentrations of credit identified in the ROE in a safe and sound manner. At a minimum, the plan must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, and a limit on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

LENDING AND COLLECTION POLICIES

10. Within ninety (90) days from the effective date of this ORDER, the Bank shall implement correction of the loan underwriting and administration concerns listed in the Risk Management Assessment pages of the ROE.

LIQUIDITY

11. On each Friday the Bank is open for business during the life of this ORDER, the Bank shall submit to the Regional Director and the Division a liquidity analysis report in a format that is acceptable to the Regional Director and the Division.

DIVIDEND RESTRICTION

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

PROFIT PLAN AND BUDGET

13. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall revise, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2010. The Bank shall also adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 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) During each monthly board meeting 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) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

SENSITIVITY TO MARKET RISK

14. (a) Within ninety (90) days of the effective date of this ORDER, the Bank shall revise its Asset Liability Management Policy and monitoring procedures to fully address the recommendations in the Risk Management Assessment pages of the ROE. These revisions shall be reported to the Regional Director and the Division.

ALLOWANCE FOR LOAN AND LEASE LOSSES

15. (a) Within ten (10) days from the effective date of this ORDER, the Bank shall increase its Allowance for Loan and Lease Losses ("**ALLL**") in an amount of at least \$480,000 as specified in the ROE unless already expensed.

(b) After the effective date of this ORDER, and prior to the submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this Order, the Board shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and shall report such allowance on the Bank's Reports of Condition and Income. The minutes of the board meeting at which such review is undertaken shall indicate the results of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of the 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) The Bank shall revise its methodology used to determine the adequacy of the ALLL to address the deficiencies noted in the ROE. The Bank should also ensure that the methodology employed fully complies with all current outstanding regulatory guidance, including Financial Accounting Standard Board Accounting Standards Codification ("**FASB ASC**") Subtopic 450-10 and FASB ASC Subtopic 310-10 (which now supersedes prior FAS 5 and FAS 114 guidance), and the FDIC's Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions.

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

DISCLOSURE TO SHAREHOLDER

16. 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 its next Board of Directors meeting.

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 Board, 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.

CLOSING PARAGRAPHS

The effective date of this Order shall be the date of its issuance by the Division and the FDIC.

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 Division and the FDIC.

Pursuant to delegated authority.

Dated: April 29, 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