

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING

_____)	
In the Matter of)	CONSENT ORDER
)	
First Bank and Trust Company of Illinois)	FDIC-10-875b
Palatine, Illinois)	2010-DB-118
)	
(STATE CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

First Bank and Trust Company of Illinois, Palatine, 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, et seq., regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (“Division”), and having waived those rights, by and through its duly elected and acting Board of Directors (“Board”) entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”) with representatives of the Federal Deposit Insurance Corporation (“FDIC”) and the Division, dated December 23, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to weaknesses in capital, earnings, asset quality, management, and liquidity, 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) of the Illinois Banking Act, 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) While this ORDER is in effect, 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 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 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, 12 U.S.C. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

MANAGEMENT PLAN

2. (a) Within 30 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 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 “executive officers,” as defined in Regulation O, 12 C.F.R. § 215.2, of the Bank 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 compensation, including salaries, director fees, and other benefits, of “executive officers”, as defined in Regulation O, 12 C.F.R. § 215.2 ; and
- (v) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer positions identified by this paragraph of this ORDER.

(d) Within 30 days after completion 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 Director.

BOARD PARTICIPATION

3. (a) As of the effective date of this ORDER, the Board shall continue to 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 continue to include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall continue to be reviewed and approved: reports of condition, reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; internal loan classification and watch list reports, investment activity; reports on liquidity, 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 continue to document these reviews and approvals, including the names of any dissenting directors.

CAPITAL

4. (a) Within 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 9.5 percent and its level of qualifying total capital as a percentage of risk-weighted assets (“total risk based capital ratio”) at a minimum of 13.5 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 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 for review. Any changes requested to be made in the materials by the FDIC 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

5. (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 and is uncollected, unless the 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 submitted to the Regional Director and the Division and placed in the appropriate loan file.

(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 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

6. (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 of \$1,000,000 or more which is more than 90 days delinquent or 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 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 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 the Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become more than 90 days delinquent after the effective date of this ORDER or are adversely classified at any subsequent visitations or examinations.

LIQUIDITY PLAN

7. (a) Within 90 days of the effective date of this ORDER, the Bank shall revise its written contingency funding plan (“Liquidity Plan”). The Liquidity Plan shall establish appropriate lines of credit and identify sources of liquid assets to meet the Bank’s contingency funding needs over time horizons of one month, two months, and three months. In addition, the Liquidity Plan shall require the Bank to establish and/or maintain an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through a clearing account balance.

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

(c) The Liquidity Plan shall be acceptable to the Regional Director and the Division as determined at subsequent visitations or examinations.

(d) During the life of this ORDER the Bank shall submit to the Regional Director and the Division a weekly liquidity analysis report, in a format that is acceptable to the Regional Director and the Division. The liquidity analysis report shall be submitted by the close of business each Friday.

SPECIAL MENTION

8. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loan listed for “Special Mention” in the ROE.

CORRECTION OF VIOLATIONS

9. 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 in the ROE.

DIVIDEND RESTRICTION

10. 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.

COMPENSATION COMMITTEE

11. Within 90 days from the effective date of this ORDER, the Board shall form a Compensation Committee that includes three outside directors to review the compensation of all Bank executive officers. The Compensation Committee shall review written job descriptions, job duties, and time spent on bank affairs. The Compensation Committee shall review at least two independent compensation studies and determine a recommended level of compensation taking into consideration the Bank's asset size, financial condition, complexity of operations, and duties and responsibilities of each position. The Board shall act upon the recommendations provided by the Compensation Committee. The results of the review and the actions taken by the Board shall be forwarded to the Regional Director and Division within 120 days from the effective date of this ORDER.

ALLOWANCE FOR LOAN AND LEASE LOSSES

12. (a) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("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.

CONCENTRATIONS OF CREDIT

13. (a) Within 60 days from the effective date of this ORDER, the Bank will formulate and submit to the Regional Director and Division a written plan to reduce all loan concentrations of credit identified in the ROE. Such plan shall prohibit any additional advances that would increase the concentrations above the levels identified in the ROE or create new concentrations and shall include, but not be limited to:

- (i) specific levels to which the Bank shall reduce each concentration within six and twelve months from the effective date of the ORDER; and
- (ii) provision for the submission of monthly written progress reports to the Board for review and notation in the minutes of the Board meetings.

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

RESTRICTION ON GROWTH

14. During the life of this ORDER, the Bank shall not increase its total assets by more than 3 percent during any consecutive three-month period without providing, at least 30 days prior to its implementation, a growth plan to the Regional Director and the Division. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as

well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the Regional Director. In no event shall the Bank increase its total assets by more than 10 percent annually. 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.

PROFIT PLAN AND BUDGET

15. (a) Within 45 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 year 2011. The plan 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 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 and be acceptable to them.

NOTIFICATION 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 the Bank's next shareholder meeting.

MONITORING

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

