

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 PALATINE	)	
PALATINE, ILLINOIS	)	FDIC-10-780b
	)	2010-DB-110
(ILLINOIS CHARTERED	)	
INSURED NONMEMBER BANK)	)	
_____	)	

Bank of Palatine, Palatine, 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 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 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 February 7, 2011, 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 or regulation relating to Capital, Asset Quality, Management, Earnings, 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 that they had reason to believe the Bank had engaged in unsafe or unsound banking practices and therefore accepted 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.

MANAGEMENT STUDY

2. (a) Within thirty (30) days after the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director and the Division. The independent third party shall develop a written analysis and assessment of the Bank's senior executive management and staffing needs ("**Management Plan**") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director of the FDIC Chicago Regional Office ("**Regional Director**") and the Division with a copy of the proposed engagement letter or

contract with the independent third party for review before it is executed.

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

- (i) Identification of both the type and number of senior executive 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 senior executive officers 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; and

- (iv) Evaluation of all Bank officer's compensation, including salaries, director fees, and other benefits; and
- (v) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those senior executive officer positions identified in the Management Plan.

(d) Within thirty (30) days after receipt of the Management Plan, the Bank Board of Directors shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modifications.

(e) A copy of the Management Plan shall be submitted to the Regional Director and the Division for review and comment upon its completion.

#### 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; concentration of credit monitoring reports; investment activity; liquidity monitoring; capital enhancement planning; operating policies; individual committee reports; audit reports; internal control reviews including management's 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 develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

(c) Following the required date of compliance with subparagraph (b) above, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled monthly board of directors' meeting.

DIRECTORS AND SENIOR EXECUTIVE OFFICERS

4. During the life of the 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. § 1831 (i), and section 303.101 (b) of the FDIC Rule and Regulations, 12 C.F.R. § 303.101 (b).

CAPITAL

5. (a) Within sixty (60) 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**") to a minimum of eight percent (8%) and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of twelve 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 FDIC and Division Examination which began on July 19, 2010 ("**ROE**"), 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 Division and Regional Director; or
- (iv) 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 twenty (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 for its review. Any changes requested to be made in the materials by the FDIC 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 ten (10) calendar days of the date any material

development or change was planned or occurred, which is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

LOSS CHARGE OFF

6. (a) As of the effective date of this ORDER, the Bank shall charge off from its books and records any asset classified "Loss" in the ROE that has not been previously collected or charged off.

(b) Upon any other asset being identified as "Loss" by the Bank's loan review and grading system, the Bank shall immediately charge the asset off from its books and records.

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 \$100,000 which is, 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 six (6) and twelve (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 become delinquent after the effective date of this ORDER or 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 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," "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 of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (a) Within ten (10) days of the effective date of this ORDER, the Bank shall book a provision for the inadequate Allowance for Loan and Lease Losses ("**ALLL**") of at least \$290,000 as specified in the ROE. Thereafter, the Bank shall ensure that the ALLL is adequately funded at all times.

(b) Within sixty (60) days from the effective date of this ORDER, the Board shall ensure the establishment of a comprehensive policy and methodology for determining the adequacy of the ALLL. The Bank shall address ALLL methodology deficiencies identified in the ROE, within the policy. The policy shall provide for a review of the ALLL at least once each calendar quarter and be completed at least ten (10) days prior to the end of each quarter in order that the results of the review conducted by the board may be properly reported in the quarterly Reports of Condition and Income. Such reviews shall, at a minimum, ensure compliance with the following:

- (i) The Federal Financial Banks Examination Council's Instructions for the Reports of Condition and Income;
- (ii) The Interagency Statement of Policy on the Allowance for Loan and Lease Losses; applicable accounting guidance, including Financial Accounting Standards Board

Accounting Standards Codification ("FASB ASC") Subtopic 450-10 and FASB ASC Subtopic 310-10 (which now supersede prior FAS 5 and 114 guidelines; and (iii) Other applicable regulatory guidance that addresses the adequacy of the Bank's allowance.

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

#### VIOLATIONS

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

(b) The Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

#### LENDING AND COLLECTION POLICIES

11. (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 Bank shall obtain adequate and

current documentation for all loans in the Bank's loan portfolio.

(b) The revisions to the Bank's loan policy and practices required by this paragraph shall, at a minimum, include specific plans and proposals to effect the correction of all loan underwriting, loan administration, and loan portfolio management weaknesses detailed in the ROE.

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

#### RESTRICTIONS ON DIVIDENDS AND AFFILIATE TRANSACTIONS

12. (a) 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.

(b) The Bank shall not make any payment, directly or indirectly, to or for the benefit of the Bank's holding company or any other Bank affiliate, without the prior consent of the Regional Director and the Division.

(c) The Bank shall not enter into any contract with its holding company or any other Bank affiliate or increase payment under any existing contract without submitting the new contract to the Regional Director and Division for review and comment.

PROFIT PLAN AND BUDGET

13. (a) Within sixty (60) 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 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.

#### STRATEGIC PLAN

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

(b) The written strategic plan shall address, at a

minimum:

- (i) Strategies for increasing and maintaining adequate capital;
- (ii) Strategies for pricing policies and asset/liability management;
- (iii) Strategies for maintaining adequate liquidity; and
- (iv) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) 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.

(d) 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 Board 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.

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

AUDIT PROGRAM

15. (a) Within sixty (60) days from the effective date of this ORDER, the Bank's board of directors shall comply with the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations (October 15, 1999). Changes made by the Bank in its audit program as a result of complying with this paragraph shall be recorded in the applicable board of directors' minutes and forwarded to the Regional Director and the Division.

(b) The Bank shall cause an external audit of its financial statements and operating procedures to be performed by an independent public accounting firm acceptable to the Regional Director and the Division. The audit report shall be a full audit for which an opinion is rendered and not a "Directors Audit".

(c) The Bank shall provide the Regional Director and the Division with a copy of all external audit reports, management letters, and qualifications within ten (10) days of the Bank's receipt of such report(s). The Bank board of directors shall address all findings of the external audit reports at its next regular meeting after receipt of the

reports. Any action or inaction taken as a result of addressing the audit reports shall be noted in the minutes of the board of directors' meeting at which it is considered and each individual director's vote recorded.

(d) The audit program 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 into the program any changes required by the Regional Director or the Division and thereafter adopt, implement, and adhere to the program.

#### INTEREST RATE RISK

16. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall adopt and implement a written plan addressing rate sensitivity objectives. Annually thereafter during the life of the ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures. The Bank's plan shall include procedures for managing the Bank's sensitivity to interest rate risk. 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 written plan required by this paragraph shall be submitted to the Regional Director and the Division.

#### INFORMATION SYSTEMS

17. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall complete a full assessment of its information systems activities and prepare a written Information Technology ("IT") Risk Management Plan to fully address and correct all noted IT risk management deficiencies noted in the ROE and the Bank's assessment.

(b) A copy of the Bank's written IT Risk Management Plan required by this paragraph, including all proposed or completed corrective actions, shall be submitted to the Regional Director and the Division.

#### NOTIFICATION OF SHAREHOLDER

18. 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 of proxy statement preceding the Bank's next shareholder meeting.

#### PROGRESS REPORTS

19. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Division and Regional Director 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 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: February 10, 2011.

\_\_\_\_\_/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  
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