

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
)	
MERCANTILE BANK )	FDIC-11-012b
QUINCY, ILLINOIS )	2011-DB-02
)	
(STATE CHARTERED )	
INSURED NONMEMBER BANK) )	
_____ )	

Mercantile Bank, Quincy, 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, 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

March 28, 2011, whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices relating to asset quality, management or earnings, 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 the 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 the 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 PLAN

1. (a) Within 45 days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director of the FDIC Chicago Regional Office ("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 ensuring qualified management for the Bank.

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

contract with the independent third party for review and comment.

(c) The Management Study shall be completed within 75 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 including, but not limited to, the management and supervision of the Bank's loan department;
- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all 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;

- (iv) Evaluation of all Bank officer 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 officer or staff member positions identified by this paragraph of this ORDER.

(d) The plan required by this paragraph shall be submitted to the Regional Director and the Division.

MANAGEMENT

2. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the bank. 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, FDIC and Federal Financial Institutions Examination Council policy statements, and the Bank's approved policies and procedures; 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 of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and 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).

#### 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 or 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; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 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.

#### CAPITAL

4. (a) During the life 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 8.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12.0 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) Within 30 days, the Bank shall submit a Capital Plan for review and comment to the Regional Director and the Division to achieve and maintain a Tier 1 Capital Ratio of at least 8.0 percent and Total Risk Based Capital ratio of at least 12.0 percent.

(c) At a minimum, the Capital Plan shall include:

- (i) specific plans to achieve the capital levels required under the plan and this ORDER;
- (ii) projections for asset growth and capital requirements based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan, as amended and required in this ORDER;
- (iii) the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs; and
- (iv) contingency plans that identify alternative sources of capital should the primary source(s) above not be available, including

but not limited to a sale, merger, or self-liquidation of the Bank.

(d) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to this paragraph shall be in addition to a fully-funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Division as determined at subsequent examinations.

(e) Any 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" as of November 29, 2010, 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.

(f) Within 30 days of receipt of all such comments from the Regional Director and the Division, and after consideration of all such comments, the Bank shall approve the revised Capital Plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the Capital Plan. The board will review the Bank's Capital Plan monthly and update the Plan as needed. All updates to the Plan shall be submitted to the Regional Director and the Division.

(g) If all or part of the 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 Accounting and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429. Any changes requested to be made in the materials by the FDIC shall be made prior to their dissemination.

(h) 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 or subscriber of the Bank's securities.

(i) The capital ratios required by this paragraph shall not negate the responsibility of the Bank and its board of

directors for maintaining throughout the year an adequate level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

DIVIDEND RESTRICTION

5. 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.

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 extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the Joint Report of Examination as of November 29, 2010 ("ROE"), so long as such credit remains uncollected.

(b) During the life 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" or is listed for Special Mention in the ROE or subsequent examination or visitation reports, 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within 30 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 \$1,000,000 which is more than 90 days delinquent or adversely classified 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, source of repayment, repayment ability and alternative repayment sources;

- (iii) Evaluate the available collateral, including possible actions to improve the collateral position;
- (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 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 more than 90 days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

CONCENTRATIONS OF CREDIT

8. (a) Within 60 days from the effective date of this Order the Bank will formulate, adopt and implement a written plan to systematically reduce, manage and monitor the Bank's concentration of commercial real estate to an amount that is commensurate with the Bank's capital position, its size and business strategy, Bank management's expertise, safe and sound banking practices, and the overall risk profile of the Bank. In any case, the Bank's written plan must provide for a reduction in the Bank's concentration of commercial real estate to an amount that is not more than 300 percent of the Bank's total risk based capital. Further, such plan shall prohibit any additional advances that would increase the concentration or create new concentrations and shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each concentration; and
- (ii) Provision for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the board of directors' meetings.

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (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 of directors of the Bank shall 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 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 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.

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

PROFIT PLAN AND BUDGET

10. (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 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) At each monthly board meeting following completion of the profit plan and budget 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.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(d) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

#### STRATEGIC PLAN

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise its comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, incorporate the Bank's projected capital needs and its plans for maintaining adequate capital, and a description of the operating assumptions that form the basis for major projected income and expense components.



(b) The written strategic plan shall include, at a minimum:

- (i) clear guidance on acceptable levels of commercial real estate (CRE) by type, geography, appropriate borrower characteristics, or other defined risk characteristics;
- (ii) rationale for CRE levels in relation to the Bank's overall growth objectives, financial targets, and capital plan;
- (iii) strategies to respond to declines in market conditions, including implementing a sufficient risk grading and reserving program;
- (iv) re-evaluation of the strategy of purchasing out-of-territory participations; and
- (v) a process for identifying a merger partner.

(c) The Bank will submit the strategic plan to the Regional Director and the Division for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the plan.

(d) The strategic plan required by this ORDER shall be revised 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. Copies of the revised plan shall be submitted to the Regional Director and the Division.

#### LIQUIDITY

12. From the effective date of this ORDER, Bank shall establish and maintain an account relationship with the Federal Reserve Bank of St. Louis to exchange and settle payment transactions through a clearing account balance.

#### CORRECTION OF VIOLATIONS

13. 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.

#### NOTIFICATION TO SHAREHOLDER

14. 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.

PROGRESS REPORTS

15. 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.

The effective date of this ORDER shall be upon 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 31, 2011.

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

          
Manuel Flores  
Acting Director  
Division of Banking  
Illinois Department of  
          Financial and Professional  
          Regulation