

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

CHICAGO, ILLINOIS

_____	)	
In the Matter of	)	CONSENT ORDER
	)	
	)	
HIGHLAND COMMUNITY BANK	)	
CHICAGO, ILLINOIS	)	FDIC-11-044b
	)	2011-DB-10
	)	
(STATE CHARTERED	)	
INSURED NONMEMBER BANK)	)	
_____	)	

Highland Community Bank, Chicago, 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 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 April 25, 2011, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices or violations of law, rule, or regulation, 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) 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.

(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 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, including analysis and assessment of the

composition of the Bank's board of directors ("Management Study"), 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;
- (iii) Evaluation of all Bank directors, 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 the Bank's use of third-party consultants, including review and documentation of services performed, quality of these services, compensation and costs,

- and security and confidentiality agreements;
- (v) Evaluation of all Bank officer's compensation, including salaries, director fees, and other benefits;
  - (vi) 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 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 required by this paragraph shall be submitted to the Regional Director and The Division.

#### CAPITAL

3. (a) Immediately upon 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 8 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 10 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, with the exception of deferred tax assets, which shall be disallowed in full.

(b) Within 90 days from the effective date of this ORDER, the Bank shall develop a plan to increase capital to the levels required by this document.

(c) 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 for 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 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.

LOSS CHARGE-OFF

4. As of the effective date of this ORDER, the Bank shall charge off from its books and records any asset or portions of assets classified "Loss" in the Report of Examination dated May 3, 2010 ("ROE") that have not been previously collected or charged off, and shall further charge off any assets or portions of assets classified "Loss" at subsequent examinations or visitations during the life of this ORDER within ten (10) days of receipt of the report.

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, 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (a) Immediately upon the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a revised written plan to reduce the Bank's risk position in each asset of \$250,000 or more which is more than 90 days delinquent or



classified "Substandard" 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 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 visitations or examinations.

#### LENDING AND COLLECTION POLICIES

7. (a) Immediately upon the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a revised 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, at a minimum, shall incorporate and address the deficiencies discussed 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.

#### DIVIDEND RESTRICTION

8. 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.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (a) Immediately upon the effective date of this ORDER, the Bank shall replenish its Allowance for Loan and Lease Losses ("ALLL") in accordance with the recommendations made in the ROE.

(b) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, 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 Division.

#### PROFIT PLAN AND BUDGET

10. (a) Immediately upon the effective date of this ORDER, the Bank shall maintain and adhere to a realistic written

profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2011 and 2012. 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) Within 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 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

11. (a) Immediately upon the effective date of this ORDER, the Bank shall maintain and adhere to 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 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 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.

#### CORRECTION OF VIOLATIONS

12. Within 30 days from the effective date of this ORDER, the Bank shall take steps to eliminate and/or correct all violations of law, rule, or regulation listed on the Violations of Laws and Regulations pages of the ROE or in any subsequent ROE.

#### RESTRICTION OF GROWTH

13. 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.

#### 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.

### MONITORING

15. 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.

### PROGRESS REPORTS

16. 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. 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.

This ORDER shall be effective on the date of issuance.

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: May 4, 2011.

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

\_\_\_\_\_/s/\_\_\_\_\_  
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Manuel Flores  
Director  
Illinois Department of  
Financial and Professional  
Regulation, Division of  
Banking