

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

_____	)	
In the Matter of	)	
	)	
FARMERS' AND TRADERS'	)	CONSENT ORDER
STATE BANK	)	
SHABBONA, ILLINOIS	)	FDIC-11-308b
	)	2011-DB-46
(Illinois Chartered	)	
Insured Nonmember Bank)	)	
_____	)	

Farmers' and Traders' State Bank, Shabbona, 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 related to its Compliance Management System 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, 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 counsel for the Federal Deposit Insurance Corporation ("FDIC")

and the Division, dated August 18, 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, rule, or regulation relating to its Compliance Management System as set forth in the FDIC's Compliance Report of Examination of the Bank as of March 24, 2011 ("Compliance Report"), 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 decided 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:

BOARD OVERSIGHT

1. From the effective date of this ORDER, the Bank's Board of Directors ("Board") 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 compliance management activities.

(a) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall appoint a compliance committee ("Compliance Committee") that shall include at least two (2) directors who are not active officers of the Bank and at least one (1) member of senior management, plus the Compliance Officer retained pursuant to this ORDER.

(b) The existence of the Compliance Committee in no way diminishes the responsibility of the entire Board for ensuring compliance with the provisions of this ORDER.

(c) The Bank's Board, in conjunction with the Compliance Committee, shall allocate resources to the compliance area that are:

- (i) commensurate with the level of complexity of the Bank's operations to ensure the establishment and implementation of an adequate Compliance Management System as described in the FDIC's Compliance Examination Manual, Section II-2.1 - 2.4 ("Compliance Management System Guidance"), including procedures ensuring the Bank's compliance with applicable federal consumer protection and compliance laws and regulations relating to financial

transactions and services ("Consumer Laws"); and

- (ii) sufficient to ensure the Bank's timely compliance with the provisions of this ORDER.

(d) The Bank's Board shall ensure that the Compliance Officer:

- (i) has and retains sufficient authority and independence to implement policies related to Consumer Laws and to institute corrective action as needed. This authority shall include the ability to cross departmental lines, have access to all areas of the Bank's operations, and effectuate corrective action upon discovering deficiencies; and
- (ii) receives ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's Compliance Management System.

(e) The Bank's Board, in conjunction with the Compliance Committee, shall:

- (i) ensure that the duties and responsibilities of the Compliance Officer are clearly defined and provide for accessibility to both the Board and senior management;
- (ii) require that the Compliance Officer prepare monthly written reports on all aspects of the Compliance Management System and present the reports to the Board;
- (iii) require that the Compliance Officer review and respond promptly in writing to audit reports relating to all areas of the Bank's Compliance Management System; and
- (iv) require that the Compliance Officer prepare a schedule of requirements for Consumer Laws (such as the type and timing of disclosures), so that Bank employees will be informed of the requirements relating to their duties.

(f) Within sixty (60) days from the effective date of this ORDER, the Bank's Board shall have in place a procedure that will provide for monitoring of the Bank's compliance with this ORDER.

- (i) the procedure shall include, but not be limited to, meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: minutes of the Compliance Committee, Compliance Officer reports, Compliance Management Program audit reports, compliance program policies, and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors;
- (ii) the Compliance Committee shall report to the Board at each regularly scheduled Board meeting held while this ORDER is in effect. The minutes of the Compliance Committee shall be reviewed by the Board at its monthly meeting, and the minutes of the Board shall document these reviews and approvals, including the names of any dissenting directors; and
- (iii) all progress reports and other written responses to this ORDER shall be reviewed and signed by each member of the Board,

and such reviews shall be recorded in the minutes of the applicable Board meeting. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division have released, in writing, the Bank from making additional reports.

(g) The Board shall ensure proper follow-up and resolution to audit and examination findings.

(h) The Board shall hold employees accountable for following adopted policies, procedures and regulatory requirements related to the Bank's Compliance Management System and develop an internal monitoring system of employees' performance to ensure that such policies, procedures and regulatory requirements are adequately implemented.

#### MANAGEMENT

2. (a) While this ORDER is in effect, the Bank shall have and retain management that meets the qualifications set forth in (b) below regarding the Bank's Compliance Management System. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank relating to its Compliance Management System. Each

applicable member of management shall be provided appropriate written authority from the Bank's Board to implement the provisions of this ORDER.

(b) 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 in the area of consumer compliance;
- (iii) comply with Consumer Laws; and
- (iv) develop, implement and administer a satisfactory Compliance Management System.

COMPLIANCE OFFICER

3. Within sixty (60) days from the effective date of this ORDER, the Bank shall have and retain a Compliance Officer who possesses the requisite knowledge and experience to administer an effective Compliance Management System. The Compliance Officer, together with other Bank personnel performing compliance duties under the Compliance Officer's direction, shall constitute, at a minimum, one full-time equivalent position.

(a) The responsibilities of the Compliance Officer shall, at a minimum, include:

- (i) developing compliance policies and procedures, and conducting regular reviews



to ensure that updates are accomplished as necessary;

- (ii) administering a compliance training program and providing training in Consumer Laws to the Bank's Board, Bank management and employees on a continuing basis; and
- (iii) coordinating responses to consumer complaints.

(b) The ongoing determination of whether the Bank has retained a qualified Compliance Officer within the meaning of this ORDER shall be based upon the continued effectiveness of the Bank in achieving compliance with the requirements of this ORDER and with the Consumer Laws.

#### COMPLIANCE CONSULTANT

4. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall have and retain a qualified consultant with the requisite knowledge and experience to assist the Bank in developing an effective Compliance Management System and the policies and procedures to administer an effective Compliance Management System.

(b) The Bank shall provide the Regional Director and the Division with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum should include:

- (i) a description of the work to be performed under the contract or engagement letter;
- (ii) the responsibilities of the consultant;
- (iii) an identification of the professional standards covering the work to be performed;
- (iv) identification of the specific procedures to be used when carrying out the work to be performed;
- (v) the qualifications of the consultant's employee(s) who are to perform the work;
- (vi) the time frame for completion of the work;
- (vii) any restrictions on the use of the reported findings;
- (viii) a provision for unrestricted examiner access to workpapers; and
- (ix) a provision stating that the Compliance Consultant required by this Paragraph shall work independently from the external auditor required by Paragraph 7 of this Order.

(c) At a minimum, the Compliance Management System developed with the assistance of the consultant shall address

those items described in the Compliance Management System Guidance.

COMPLIANCE POLICY AND PROCEDURES

5. Within ninety (90) days from the effective date of this ORDER, the Bank shall develop and implement a compliance policy ("Compliance Policy"). The Compliance Policy shall be acceptable to the Regional Director and the Division as determined at subsequent examinations or visitations. At a minimum, this Compliance Policy shall require the adoption of a comprehensive compliance program in conformity with the Compliance Management System Guidance, which will be reviewed and approved annually by the Board.

COMPLIANCE MONITORING

6. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall ensure that effective compliance monitoring procedures are developed and incorporated into the normal activities of every department. The procedures required by this paragraph shall be acceptable to the Regional Director and the Division as determined at subsequent examinations or visitations of the Bank. At a minimum, monitoring procedures should include ongoing reviews of:

- (i) applicable departments;
- (ii) disclosures and calculations for various loan and deposit products;

- (iii) document filing and retention procedures;
- (iv) marketing literature and advertising; and
- (v) an internal compliance communication system that provides updates resulting from revisions to Consumer Laws to Bank appropriate personnel.

(b) The internal monitoring procedures shall ensure that:

- (i) the Bank's actual practices reflect the Compliance Policy;
- (ii) all Consumer Laws are being followed;
- (iii) compliance monitoring procedures are incorporated into the normal activities of every department or operating unit of the Bank; and
- (iv) reviews are conducted on a regular basis, but not less often than monthly, at the transactional level during the normal daily activities of employees in all operating units of the Bank.

#### EXTERNAL AUDIT

7. (a) Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall cause an external audit to be conducted to ensure compliance with Consumer Laws.

Further, the audit will assess the Bank's Compliance Management System in conjunction with the Compliance Management System Guidance, and at a minimum, shall:

- (i) define a comprehensive audit scope;
- (ii) identify the number of transactions sampled by category or product type;
- (iii) identify deficiencies;
- (iv) provide descriptions of or suggestions for corrective actions and time frames for correction; and
- (v) establish follow-up procedures to verify that corrective actions were implemented and effective.

(b) Audit findings, deficiencies, and recommendations must be documented in a written report and provided to the Board within ten (10) days after completion of the external audit.

(c) Within thirty (30) days of receipt of the external auditor's written report, the Board shall take action to address the audit findings, correct any deficiencies noted, and implement any recommendations or explain in a writing signed by all Board members, why a particular recommendation has not been implemented.

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

the external auditor for review before it is executed. The engagement letter, at a minimum, should include:

- (i) a description of the work to be performed under the engagement letter;
- (ii) the responsibilities of the external auditor;
- (iii) an identification of the professional standard covering the work to be performed;
- (iv) identification of the specific procedures to be used when carrying out the work to be performed;
- (v) the qualifications of the employee(s) who are to perform the work;
- (vi) the time frame for completion of the work;
- (vii) any restrictions on the use of the reported findings;
- (viii) a provision for unrestricted examiner access to work papers;
- (ix) a provision stating that the external auditor will present the audit findings directly to the Board; and
- (x) a provision stating that the external auditor required by this Paragraph shall

work independently from the Compliance Consultant required by Paragraph 4 of this Order.

(e) After receipt of the external audit, the Bank shall, on a quarterly basis, have subsequent external audits conducted. The subsequent audits shall comply with all of the provisions of this paragraph.

(g) A copy of any external audit received by the Bank and the Bank's response thereto shall be submitted to the Regional Director and the Division within forty five (45) days of receipt.

#### DOCUMENTATION OF AUDIT FINDINGS

8. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement procedures, acceptable to the Regional Director and the Division as determined at subsequent examinations or visitations, to ensure that Bank responses to audit findings, as well as Bank corrective actions in response to audit findings, are documented and reported to the Board.

#### TRAINING PROGRAM

9. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall establish and implement a training program. The program, at a minimum, shall address the violations

contained in the Compliance Report and any deficiencies found through internal monitoring or external audits.

(b) The training program shall provide for training to all Bank personnel, including senior management and the Board, commensurate with their individual job functions and duties.

(c) The training program required by this paragraph shall be acceptable to the Regional Director and the Division as determined at subsequent examinations or visitations.

#### CORRECTION OF VIOLATIONS

10. Within thirty (30) days from the effective date of this ORDER, the Bank shall eliminate or correct all violations of Consumer Laws identified in the Compliance Report.

#### DISCLOSURE TO SHAREHOLDER

11. Within sixty (60) days from the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER.

#### PROGRESS REPORTS

12. Within thirty (30) days from the end of the first calendar quarter following the effective date of this ORDER, and within thirty (30) days after the end of each successive calendar quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Division detailing the form and manner of any action taken to secure compliance with this ORDER and the results thereof.



The effective date of this ORDER shall be the date of its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, successors, and assigns.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the Division.

Pursuant to delegated authority.

Dated this 31<sup>st</sup> day of August, 2011.

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

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