

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
SOUTHERNTRUST BANK )	
GOREVILLE, ILLINOIS )	FDIC-11-507b
)	2011-DB-76
(State Chartered )	
Insured Nonmember Bank) )	
_____ )	

SouthernTrust Bank, Goreville, 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 (the "Division"), and having waived those rights, by and through its duly elected and acting Board of Directors ("Board"), 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 December 9, 2011, 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, asset quality, management, and 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 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 actions as follows:

#### MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include: a chief executive officer with proven ability in managing a bank of comparable size and experience and in upgrading a low quality loan portfolio; a senior lending officer with an appropriate level of lending, collection, and loan

supervision experience for the type and quality of the Bank's loan portfolio; and a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on 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 FDIC and the Division. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the FDI Act ("section 32"), 12

U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

MANAGEMENT PLAN

2. (a) Within forty five (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's 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 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. 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 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; and
- (viii) A provision for unrestricted examiner access to workpapers.

(c) The Management Study shall be developed within ninety (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 all Bank 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 all Bank officers' 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) Within thirty (30) days after receipt of the Management Study, the Bank shall formulate a plan to implement the recommendations of the Management Study.

(e) 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.

#### CAPITAL

3. (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 eight percent (8.0%), 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, 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) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its Board 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. In addition, within thirty (30) days of the effective date of this ORDER, the Board shall develop and submit to the FDIC and the Division a capital plan to ensure compliance with Paragraph 3(a). The capital plan shall include a contingency plan in the event that the Bank has:

- (i) Failed to maintain the minimum capital ratios required by this paragraph;
- (ii) Failed to submit an acceptable capital plan as required by this paragraph; or
- (iii) Has failed to implement or adhere to a capital plan to which the FDIC and the Division have taken no written objection

pursuant to this paragraph. Said contingency plan shall include a plan to sell or merge the Bank. The Bank shall implement the contingency plan upon written notice from the FDIC and the Division.

(c) Any increase in Tier 1 capital may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual or preferred stock constituting Tier 1 capital under Part 325; or
- (ii) The elimination of all or part of the assets classified as "Loss" as of March 31, 2011 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; or
- (iii) The collection in cash of assets previously charged off; or
- (iv) The direct contribution of cash by the directors or the shareholders of the Bank; or
- (v) Any other means acceptable to the Regional Director and the Division; or



(vi) Any combination of the above means.

(d) 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 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.

(e) 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 assets classified "Loss" in the Joint FDIC and State of Illinois Report of Examination dated July 11, 2011 ("ROE") that have not been previously collected or charged-off.

#### 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 extension of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss," 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 listed for "Special Mention" in the ROE, and is uncollected, unless the Bank's 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 with their approval or disapproval noted thereon. A copy of the statement shall be placed in the appropriate loan file and shall be incorporated into the minutes of the applicable board of directors' meeting.

#### REDUCTION OF CLASSIFIED ASSETS

6. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the Division a written plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is classified "Substandard" or "Doubtful" in the ROE, or internally by management. 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 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 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) 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.

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

#### LENDING POLICIES

7. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the Division written lending 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. The revised policies shall, at a minimum, establish realistic repayment terms and include provisions to address the issues identified in the ROE. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio.

(b) The policies and revisions thereto 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 policies.

#### LOAN REVIEW AND GRADING SYSTEM

8. Within forty five (45) days from the effective date of this ORDER, the Bank shall implement revised comprehensive loan grading and review procedures. The procedures shall require such loan grading and review be performed by a qualified individual who is not a member of the lending staff. The loan review shall at a minimum:

(a) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;

(b) Identify loans or relationships that warrant special attention of management;

(c) Identify violations of law, rules, or regulations and credit and collateral documentation exceptions and track corrective measures;

(d) Identify and review of the Bank's methodology for calculating ALLL and its adequacy based upon the assigned factor values and impaired credits as outlined under Financial Accounting Standard Board Accounting Standards Codification

("FASB ASC") Subtopic 450-10 and FASB ASC Subtopic 310-10 (which now supersedes prior FAS 5 and FAS 114 guidance); and

(e) Identify loans not in conformance with the Bank's loan policy.

ALLOWANCE FOR LOAN AND LEASE LOSSES

9. (a) Within ten (10) days of the effective date of this ORDER, the Bank shall increase its Allowance for Loan and Lease Losses ("ALLL") from the March 31, 2011 amount by \$216,000.

(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 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 shall require the review to address the following factors: the results of internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure on significant credits, concentrations of credit, present and prospective economic conditions, frequency of review, and the Federal Financial Institutions Examination Council's ("FFIEC") Instructions for the Preparation of Reports

of Condition and Income, as well as any analysis of the Bank's ALLL provided by the FDIC or the Division.

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

(d) Within thirty (30) days of the effective date of this ORDER, the Bank shall take all necessary steps to comply with the Interagency Policy Statement on the ALLL.

#### PROFIT PLAN AND BUDGET

10. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall submit to the Regional Director and the Division a written profit plan and a realistic, comprehensive budget for all categories of income and expense for the remainder of calendar year 2012 and all subsequent years that this ORDER is in effect. 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, including projected growth in total assets;
- (ii) Funding sources to support projected growth;



- (iii) Anticipated use of funds and anticipated capital to assets ratio;
- (iv) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (v) Identification of major areas in, and means by which, earnings will be improved; and
- (vi) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) During each monthly meeting of the Bank's Board 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 and shall be completed at least thirty (30) days prior to the beginning of the applicable calendar year.

(e) The plans and budgets 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 plans and budgets.

#### DIVIDEND RESTRICTION

11. The Bank shall not pay or declare any dividends without the prior written consent of the Regional Director and the Division.

#### LIQUIDITY

12. Within thirty (30) days from the effective date of this ORDER, the 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 TECHNICAL EXCEPTIONS

13. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all technical exceptions listed in the ROE.

NOTIFICATION TO SHAREHOLDER

14. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy or description 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 thirty (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.

WRITTEN PROGRESS REPORTS

16. Within thirty (30) days following each calendar quarter following the effective date of this ORDER, 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 each provision of this ORDER and the results thereof. All progress reports and other written responses to this ORDER shall be reviewed by the Bank's Board and made a part of the minutes of the board meeting.

