

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF ILLINOIS

OFFICE OF BANKS AND REAL ESTATE

BUREAU OF BANKS AND TRUST COMPANIES

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In the Matter of)	
FAIRVIEW STATE BANKING COMPANY)	ORDER TO CEASE AND DESIST
FAIRVIEW, ILLINOIS)	
(Insured State Nonmember Bank))	FDIC-03-047b
<hr/>)	OBRE No. 2003-BBTC-10

Fairview State Banking Company, Fairview, 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 392.30, regarding hearings before the Office of Banks and Real Estate for the State of Illinois ("OBRE"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and OBRE, dated April 8, 2003, 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, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and OBRE.

The FDIC and OBRE considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The FDIC and OBRE, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, 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, cease and desist from the following unsafe or unsound banking practices and violations of law, rule, or regulation:

A. Engaging in hazardous lending and lax collection practices, including, but not limited to:

- The failure to obtain proper loan documentation;
- The failure to obtain adequate collateral;
- The failure to establish and monitor collateral margins of secured borrowers;
- The failure to establish and enforce adequate loan repayment programs;
- The failure to obtain current and complete financial information;

- The failure to maintain an effective watch list;
- The failure to enforce loan policy guidelines;
- The failure to implement timely corrective measures to resolve continuing loan administration and asset concerns; and
- The failure to follow acceptable credit administration practices.

B. Violating law, rule, or regulation.

C. Operating with an excessive level of adversely classified assets, delinquent loans and nonaccrual loans.

D. Operating with excessive loan losses.

E. Operating with an inadequate investment policy.

F. Operating with an inadequate allowance for loans and lease losses ("ALLL") for the volume, kind, and quality of loans and leases held.

G. Operating with an inadequate loan policy.

H. Operating with poor earnings.

I. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.

J. Operating with a board of directors which has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices and violations of law, rule, or regulation.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

1. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank. The Management Plan 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; and

(iv) 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.

(b) The Management Plan shall be submitted to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Commissioner of OBRE ("Commissioner") for review and comment upon its completion. Within 30 days from the receipt of any comments and recommended changes from the Regional Director and Commissioner, the Bank shall consider such comments and changes and shall document its consideration in the minutes of the board of directors' meeting. The Bank shall approve the Management Plan and any amendments thereto, 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 modification.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Commissioner of OBRE ("Commissioner") in writing of any changes in any of the Bank's directors or senior executive officers. 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 Rules and Regulations, 12 C.F.R. § 303.101(b) and includes any person identified by the FDIC and OBRE, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(d) 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 comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. Further, the Bank shall request and obtain the Commissioner's written approval prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

2. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written plan to reduce the Bank's risk position in each asset in excess of \$20,000 which is classified "Substandard" or "Doubtful" in the FDIC Report of Examination as of November 18, 2002 ("Report"). In developing such plan, the Bank shall, at a minimum:

- (i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each asset within six months from the effective date of this ORDER; and

(ii) Provisions 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.

(c) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and OBRE.

(d) Within 30 days from the receipt of any comment from the Regional Director and Commissioner, and after the adoption of any recommended changes, the Bank shall approve the written plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow this written plan.

3. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written plan

for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

- (i) prohibit the extension of credit for the payment of interest;
- (ii) prohibit the extension of loan maturities without the full collection (in cash) of accrued and unpaid interest;
- (iii) delineate areas of responsibility for lending and collection staff;
- (iv) establish acceptable guidelines for the collection of delinquent credits;
- (iv) establish dollar levels to which the Bank shall reduce delinquencies within six and twelve 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) Within 30 days from receipt of any comment from the Regional Director and Commissioner, and after the adoption of any recommended changes, 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 and follow the plan.

4. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the Report.

5. Within 90 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed in the Report.

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" 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" or is listed for Special Mention 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 placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors' meeting.

7. As of the effective date of this ORDER, the Bank shall

eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" in the Report that have not been previously collected or charged off. Any such charged-off asset shall not be rebooked without the prior written consent of the Regional Director and Commissioner. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

8. (a) Within 10 days from the effective date of this ORDER, the Bank shall make a provision for its ALLL which, after review and consideration by the board of directors, reflects the potential for further losses in the remaining loans or leases classified "Substandard" and all other loans and leases in its portfolio. In making this determination, the board of directors shall consider the Federal Financial Institutions Examination Council ("FFIEC") Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or OBRE.

(b) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to November 18, 2002, but prior to the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank's loan portfolio, and which, at a minimum, incorporate the

adjustments required by this paragraph.

(c) 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 OBRE.

(d) While this ORDER is in effect, the Bank shall submit the analysis supporting the determination of the adequacy of its ALLL to the Regional Director and Commissioner. These submissions may be made as part of the written progress reports required in this ORDER.

(d) ALLL entries required by this paragraph shall be made prior to any Tier 1 capital determinations required by this ORDER.

9. (a) As of the effective date of this ORDER, the Bank's loan committee shall meet on a regular basis between board meetings, and shall include at least one director who is

"independent." For purposes of this ORDER, "independent" is defined as any director who is not an officer of the Bank.

(b) The loan committee shall, at a minimum, perform the following functions:

- (i) Evaluate, grant and/or approve loans in accordance with the Bank's loan policy amended to comply with this ORDER. The loan committee shall provide a thorough written explanation of any deviations from the loan policy, which explanation shall address how said exceptions are in the Bank's best interest. The written explanation shall be included in the minutes of the corresponding committee meeting.
- (ii) Review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in the Report or any subsequent FDIC or OBRE Report of Examination during the life of this ORDER, or that are included on the Bank's internal watch list.
- (iii) Review all applications for new loans and renewals of existing loans to Bank directors, executive officers, and their

related interests, and prepare a written opinion as to whether the credit is in conformance with the Bank's loan policy and all applicable laws, rules, and regulations. Such applications, renewals, and written opinions shall be referred to the Bank's board of directors for consideration.

- (iv) Maintain written minutes of the committee meetings, including a record of the review and status of the aforementioned loans. Such minutes shall be made available at the next Bank board of directors' meeting.

10. (a) Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to strengthen lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and Commissioner for review and comment upon its completion.

(b) The initial revisions to the Bank's loan policy required by this paragraph, at a minimum, shall include provisions:

- (i) Establishing review and monitoring procedures to ensure that all lending

personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

- (ii) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a clearly defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and cash flow projections, and shall be maintained throughout the term of the loan;
- (iii) Requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in the Report;

- (iv) Prohibiting the capitalization of interest or loan-related expenses unless the board of directors provides, in writing, a detailed explanation of why said deviation is in the best interest of the Bank;
- (v) Requiring that extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such person, be thoroughly reviewed for compliance with all provisions of Regulation O;
- (vi) Requiring prior written approval by the Bank's board of directors for any extension of credit, renewal, or disbursement in an amount which, when aggregated with all other extensions of credit to that person and related interests of that person, exceeds an amount established by the board of directors. For the purpose of this paragraph "related interest" is defined as in section 215.2(n) of Regulation O, 12 C.F.R. § 215.2(n);
- (vii) Requiring accurate reporting of past due loans to the loan committee on at least a monthly basis;

- (viii) Establishing standards for extending unsecured credit;
- (ix) Incorporating collateral valuation requirements, including: (A) maximum loan-to-collateral-value limitations; (B) a requirement that the valuation be completed prior to a commitment to lend funds; (C) a requirement for periodic updating of valuations; and (D) a requirement that the source of valuations be documented in Bank records;
- (x) Establishing standards for initiating collection efforts;
- (xi) Establishing guidelines for timely recognition of loss through charge-off;
- (xii) Prohibiting the extension of a maturity date, advancement of additional credit or renewal of a loan to a borrower whose obligations to the Bank were classified "Substandard," "Doubtful," or "Loss," whether in whole or in part, in the Report or in a subsequent FDIC or OBRE Report of Examination, without the full collection in cash of accrued and unpaid interest, unless the loans are well secured and/or are

adequately supported by current and complete financial information, and the renewal or extension has first been approved in writing by a majority of the Bank's board of directors;

(xiii) Establishing officer lending limits and limitations on the aggregate level of credit to any one borrower which can be granted without the prior approval of the Bank's loan committee;

(xiv) Requiring that collateral appraisals be completed prior to the making of secured extensions of credit, and that periodic collateral valuations be performed for all secured loans listed on the Bank's internal watch list, criticized in any internal or outside audit report of the Bank, or criticized in any regulatory report of examination of the Bank.

(c) Within 60 days from the receipt of any comments from the Regional Director and Commissioner, and after the adoption of any recommended changes, the board of directors shall approve the written loan policy and any subsequent modification thereto, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank

shall implement and follow the amended written loan policy. The Bank shall inform the Regional Director and Commissioner, in writing, of the manner in which it intends to implement this policy and ensure compliance therewith.

11. Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's investment policy for adequacy and shall make the necessary revisions to address the actual and contemplated condition of the investment portfolio and any trading account. The revised policy shall, at a minimum, address the exceptions noted in the Report and shall be consistent with the FFIEC's Instructions for Consolidated Reports of Condition and Income generally accepted accounting principles, and the Bank's loan, liquidity and asset/liability management policies. A copy of the revised policy shall be submitted to the Regional Director and Commissioner upon its adoption.

12. (a) Within 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 Report.

(b) Within 60 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

13. Within 90 days from the effective date of this ORDER, the Bank shall project realistic provision expenses and include

these in the bank's written profit plan.

14. (a) Within 30 days from the last day of each calendar quarter following the effective date of this ORDER, the Bank shall determine from its Report of Condition and Income its level of Tier 1 capital as a percentage of its total assets ("capital ratio") for that calendar quarter. If the capital ratio is less than 8.0 percent, the Bank shall, within 90 days of the date of the required determination, increase its capital ratio to not less than 8.0 percent calculated as of the end of that preceding quarterly period. 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) The capital ratio analysis 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.

(c) 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; or
- (ii) The elimination of all or part of the assets classified "Loss" as of September 30, 2002

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 and/or the shareholders of the
Bank; or
- (v) Any other means acceptable to the Regional
Director and the Commissioner; or
- (vi) Any combination of the above means.

(d) 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 and State 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 17th Street, N.W., Washington, D.C. 20429 and to Scott D. Clarke, Assistant Commissioner, Office of Banks and Real Estate, 500 East Monroe, Springfield, Illinois 62701, for their review. Any changes requested to be made in the materials by the FDIC or OBRE 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.

15. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder

communication; and (2) in conjunction with the Bank's notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Accounting and Securities Disclosure Section 550 17th Street N.W., Washington, D.C. 20429 and to OBRE, 500 East Monroe, Springfield, Illinois 62701, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and OBRE shall be made prior to dissemination of the description, communication, notice or statement.

16. (a) 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.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, 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 board of directors' meeting.

17. 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 Commissioner 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 Commissioner have, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be 10 calendar days after its issuance by the FDIC and OBRE.

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 provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and OBRE.

Pursuant to delegated authority.

DATED THIS 24TH DAY OF April 2003.

Scott M. Polakoff
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

Scott D. Clarke
Assistant Commissioner
Office of Banks and Real
Estate for the State of
Illinois