

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

_____ )	
IN THE MATTER OF )	ORDER TO CEASE AND DESIST
EDGEBROOK BANK, )	
CHICAGO, ILLINOIS )	FDIC-07-223b
(Illinois Chartered )	DB NO.2007-DB-27
Insured Nonmember Bank) )	
_____ )	

Edgebrook 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 38 Ill. Adm. Code, Section 392.30, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (the "Division"), and having waived those rights, entered into a STIPULATION AND

CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation (the "FDIC") and Division, dated December 3, 2007, 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 the Division.

The FDIC and the Division considered the matter and determined that there was reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws, rules, or regulations. The FDIC and the Division, therefore, accepted the STIPULATION 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. 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;

- B. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of deposits;
- C. Violating provisions of the FDIC ORDER granting deposit insurance to the Bank, effective June 7, 2004;
- D. Violating provisions of the Division ORDER Issuing Charter numbered 2005-BTC-06 effective, March 9, 2005;
- E. Engaging in hazardous lending and lax collection practices including but not limited to:
  - (i) Failing to establish and enforce adequate loan repayment programs;
  - (ii) Failing to provide for the type and quality of loan underwriting and credit analysis consistent with prudent industry standards;
  - (iii) Failing to identify problem credits in a timely manner; and
  - (iv) Extending credit to borrowers without adequate repayment capacity or sufficient cash flow from the project financed.
- F Operating with an inadequate interest rate risk management system;
- G. Violating laws, rules, or regulations, including:
  - (i) The unfavorable features prohibitions of Section 215.4(a)(1) of Federal Reserve Board Regulation

- O of the Board of Governors of the Federal Reserve System ("Regulation O") 12 C.F.R. § 215.4(a)(1);
- (ii) The prior approval requirements for loans to bank insiders as set forth in section 215.4(b) of Regulation O, 12 C.F.R. § 215.4(b);
  - (iii) The general purpose loan limitations of Section 215.5(c)(4) of Regulation O, 12 C.F.R. § 215.5(c)(4);
  - (iv) The low-quality asset prohibition of section 23A of the Federal Reserve Act ("section 23A"), 12 U.S.C. § 371c(a)(3);
  - (v) The substantially same terms requirement of section 23B of the Federal Reserve Act ("section 23B"), 12 U.S.C. § 371c-1(a)(1)(A).
  - (vi) Failing to comply with Part 304 of the FDIC Rules and Regulations ("Part 304"), 12 C.F.R. Part 304, with respect to the preparation and submission of Consolidated Reports of Condition and Income; and
  - (vii) Failing to comply with Part 337.6 of the FDIC Rules and Regulations, ("Part 337.6"), 12 C.F.R. Part 337.6, with respect to interest rates paid on deposit accounts.

- H. Operating with inadequate net interest margins.
- I. Operating with an inadequate level of capital protection in relation to earnings and for the kind and quality of assets held.

IT IS FURTHER 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, take affirmative action as follows:

1. Within 60 days from the effective date of this ORDER, the Bank shall formulate and implement a written Profit Plan. The Profit Plan should be consistent with the Bank's loan, investment, and funds management policies. This plan shall be submitted to the FDIC and the Division, for review and comment, and shall address, at a minimum, goals and strategies for improving and sustaining the earnings of the Bank, including:

(a) An identification of the major areas in, and means by which, the Bank's board of directors ("Board") will seek to improve the Bank's operating performance;

(b) Realistic and comprehensive budgets;

(c) Specific goals to improve the net interest margin,

(d) A description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components;

(e) A budget review process to monitor the revenue and expenses of the Bank whereby actual performance is compared against budgetary projections not less than quarterly; recording 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; and

(f) Individual(s) responsible for implementing each of the goals and strategies of the Profit Plan.

2. While this ORDER is in effect, the Bank shall maintain Tier 1 capital at a level equal to or exceeding 8% of the Bank's total assets which shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations.

3. While this ORDER is in effect, the Bank shall not declare or pay any dividends without the prior written consent of the FDIC and Division.

4. Within 60 days from the effective date of this ORDER, the Board shall ensure the development of written Market Risk review procedures and submit them to the FDIC and Division for review and comment. After consideration of all such comments, the Board shall approve the procedures, which approval shall be recorded in the minutes of a board of directors meeting. The Market Risk review procedures, at a minimum, shall utilize an adequate model for managing and monitoring the Bank's sensitivity to market risk.

5. Within 60 days from the effective date of this ORDER, the Bank shall initiate steps to correct the deficiencies in those loans listed for Special Mention in the FDIC Report of Examination dated May 14, 2007 ("Report").

6. Effective immediately, the Bank shall require complete loan documentation, realistic repayment terms and current financial information adequate to support the outstanding indebtedness of each borrower. Such financial information shall include, as a minimum, detailed balance sheets, profit and loss statements, or copies of tax returns, and cash flow projections.

7. Within 30 days from the effective date of this ORDER, the Bank shall take all steps necessary to correct the violations scheduled in the Report. In addition, the Bank shall adopt procedures to assure future compliance with all applicable laws, rules and regulations.

8. Within 60 days from the effective date of this ORDER, the Board shall develop a written Code of Conduct and submit it to the FDIC and the Division for comment. Within 30 days from the receipt of any comments from the FDIC and Division and after the adoption of any recommended changes, the Bank shall approve the Code of Conduct, 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 Code of Conduct and/or any subsequent modification. As a minimum, the Code of Conduct should do the following:

- (a) Address conflicts of interest and self-dealing;
- (b) Define acceptable behavior, encourage ethical conduct, and establish mechanisms to monitor and enforce the policy;
- (c) Implement a system to validate compliance with the Code of Conduct;
- (d) Provide for an ongoing program to educate and raise the awareness of the entire institution regarding its Code of Conduct; and
- (e) Provide an independent avenue, such as a whistle blower policy, for reporting suspicious activity directly to the Board.

9. Prior to the addition of any director or the employment of any senior executive officer, the Bank shall comply with the requirements of Section 32 of the Act, 12 U.S.C. § 1831(i), and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. Part 303, Subpart F. In addition, the Bank shall comply with the provisions of Section 13(a) of the Illinois Banking Act, 205 ILCS 5/13, prior to effecting any change in the Bank's senior management personnel or directors.

10. Within 60 days from the effective date of this ORDER, the Board shall ensure that the Bank takes all steps necessary,



consistent with sound banking practices, to eliminate and/or correct all contraventions of Policy Statements scheduled in the Report. In addition, the Board shall ensure adoption and implementation by the Bank of appropriate procedures to ensure future compliance with all applicable Policy Statements.

11. (a) Within 30 days from the end of every calendar quarter following the effective date of this ORDER, the Board shall furnish to the FDIC and the Division written progress reports, signed by each member of the Board, detailing the actions taken to secure compliance with this ORDER and the results thereof.

(b) Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the FDIC and Division have, in writing, released the Bank from making further reports.

12. (a) After the effective date of this ORDER, the Bank shall send a copy of this ORDER or otherwise furnish a description of this ORDER to the shareholders of the Bank:

- (i) In conjunction with the next shareholder communication; and
- (ii) In conjunction with its notice or proxy statement preceding the next shareholder meeting.

(b) The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, notice, or statement shall be sent to Scott D. Clarke, Assistant Director, Division of Banking, 122 South Michigan Avenue, Suite 1900, Chicago, Illinois 60603, and to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the Division or the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

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

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 Division and the FDIC.

Pursuant to delegated authority.

Dated: December 20, 2007.

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Scott D. Clarke  
Assistant Director  
Division of Banking  
Illinois Department of  
Financial and  
Professional Regulation

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Sylvia H. Plunkett  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance Corporation