

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

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In the Matter of	)	ORDER TO CEASE AND DESIST
	)	
FAMILY BANK AND TRUST CO.	)	FDIC-08-009b
PALOS HILLS, ILLINOIS	)	2008-DB-09b
	)	
(ILLINOIS CHARTERED	)	
INSURED NONMEMBER BANK)	)	
_____	)	

Family Bank and Trust Co., Palos Hills, 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 or regulations 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 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 AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated

May 6, 2008, 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, and 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 they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and regulations. The FDIC and the Division, therefore, accepted the CONSENT AGREEMENT and issued the following:

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 management whose policies and practices are detrimental to the safety and soundness of the Bank.
- b. 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.

- C. Operating with an inadequate level of capital for the kind and quality of assets held.
- D. Operating with inadequate internal routines and controls.
- E. Operating in such a manner as to produce operating losses.
- F. Engaging in unsafe and unsound lending and inadequate collection practices.
- G. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.
- H. Operating in violation of law, rule, or regulation as more fully described on pages 33 through 36 of the Joint Report of Examination as of June 30, 2007 ("ROE").

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

1. The Bank shall have and retain qualified management.
  - (a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include a chief executive officer ("CEO") with proven ability in managing a bank of comparable size, improving earnings, and other matters needing particular attention. Management shall

also include a senior lending officer ("SLO") and chief financial officer ("CFO"). The SLO shall have significant appropriate lending, collection, and loan supervision experience, and experience in upgrading a low quality loan portfolio. The CFO shall have proven ability to manage the financial aspects of a bank of comparable size, and correcting other matters requiring particular attention. Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

(b) The CEO, CFO and SLO positions required by subparagraph 1(a) shall be designated within (60) sixty days of the effective date of this Order. Each position (CEO, CFO and SLO) shall be filled individually. The Bank may not split the duties of the 3 positions among 2 or less individuals.

(c) The qualifications of management shall be assessed on their 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 and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, and management effectiveness.

(d) 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 Division 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 the Division, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(e) 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 Division'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) From the effective date of this ORDER, the board of directors 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 activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses, new, overdue, renewal, insider, charged off, and recovered loans, investment activity, operating policies, individual committee reports, audit reports, internal control reviews including managements' responses, reconciliation of general ledger accounts, and compliance with this Order. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) 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.

3. (a) From 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 7.5%. 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) Any subsequent 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" in the ROE, 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 Division; or
- (vi) Any combination of the above means.

(c) If all or part of any subsequent 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 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 and to Scott D. Clarke, Assistant Director, Division of Banking, 122 South Michigan Avenue, Suite 2000, Chicago, Illinois 60603, for their review. Any changes requested to be made in the materials by the FDIC or the Division 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.

4. Within 30 days of the effective date of this Order the Bank shall charge off its books all assets classified Loss in the ROE.

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

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to reduce the Bank's risk position in each asset in excess of \$200,000 which is classified "Substandard" in the ROE. The written plan shall be acceptable to the Regional Director and Division as determined at subsequent examinations. 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 the Division.

7. Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:

(a) prohibit the extension of credit for the payment of interest;

(b) delineate areas of responsibility for collections;

(c) establish acceptable guidelines for the collection of delinquent credits;

(d) Establish dollar levels to which the Bank shall reduce delinquencies within six months and twelve months from

the effective date of this ORDER; and

(e) 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. The plan shall be acceptable to the Regional Director and Division as determined at subsequent examinations.

8. (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. Thereafter the Bank shall take all necessary steps to implement the policy, its revisions, and any subsequent modifications. The revised written loan policy and any subsequent modifications thereto shall be acceptable to the Regional Director and Division as determined at subsequent examinations.

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

- (i) Addressing the deficiencies listed in the ROE;
- (ii) 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; and

- (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 ROE.

9. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and Division.

10. (a) 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 Allowance for Loan and Lease Losses ("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 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 Division.

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

11. (a) Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation listed on pages 33-36 of the ROE.

(b) Within 90 days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

12. Within 90 days from the effective date of this ORDER, the Bank shall correct the contraventions of policy which are listed in more detail on pages 37-40 of the ROE.

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a new written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2008. 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. The plan and budget shall be acceptable to the Regional Director and Division as determined at subsequent examinations.

(b) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect. Each subsequent profit plan and budget shall be acceptable to the Regional Director and Division as determined at subsequent Examinations.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plan(s) and budget(s) 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.

14. (a) Within 120 days from the effective date of this ORDER, the Bank shall cause an external audit of its financial statements for the calendar year 2007 and all subsequent years while this ORDER is in effect to be performed by an independent public accounting firm acceptable to the Regional Director and Division. The contract or engagement letter with the public accounting firm, 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 public accounting firm;
- 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 time frame for completion of the work;
- vi. A provision for unrestricted examiner access to workpapers; and
- vii. A provision stating that the public accounting firm will present the findings of the audit directly to the Bank's board of directors.

(b) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement procedures 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 of Directors.

(c) Within 90 days from the effective date of this ORDER, the Bank's board of directors shall comply with the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations (October 15, 1999). Changes made by the Bank in its audit program as a result of complying with



this paragraph shall be recorded in the applicable board of directors' minutes and forwarded to the Regional Director and Division.

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 its 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 Registration and Disclosure Section 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to Scott D. Clarke, Assistant Director, Division of Banking, 122 South Michigan Avenue, Suite 2000, Chicago, Illinois 60603, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and the Division shall be made prior to dissemination of the description, communication, notice or statement.

16. 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.

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 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 Division 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 the Division.

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 9, 2008.

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

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