

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	)	
	)	CONSENT ORDER
PRINCEVILLE STATE BANK	)	
PRINCEVILLE, ILLINOIS	)	FDIC-10-491b
	)	2010-DB-75
(ILLINOIS CHARTERED	)	
INSURED NONMEMBER BANK)	)	
_____	)	

Princeville State Bank, Princeville, 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 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, § 392 et seq., 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 representatives of the

Federal Deposit Insurance Corporation ("FDIC") and the Division, dated September 10, 2010, 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 or regulation relating to Capital, Asset Quality, Management, Earnings, and Sensitivity to Market Risk, 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 that they had reason to believe the Bank had engaged in unsafe or unsound banking practices and therefore 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), 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:

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Such management shall be provided the necessary written authority to implement the

provisions of this ORDER. 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;
- (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 of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and Division's written approval. 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).

## BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the Board of Directors of the Bank ("**Board**") shall assume 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. The Board's 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: the credit grading system and accurate identification of risk in the loan portfolio; the methodology for accurately assessing appropriate levels of the Allowance for Loan and Lease Losses ("**ALLL**") and ensuring adequate funding thereof; the monitoring of levels of adversely classified assets, delinquent and non-accrual loans, portfolio concentrations, and the establishment of appropriate policies and guidelines to limit or reduce them; reports of income and expenses; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within thirty (30) days from the effective date of this ORDER, the Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

#### CAPITAL

3. (a) Within thirty (30) days 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 eight (8.00%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of twelve (12.00%) percent. Additionally, within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall further increase and maintain for the life of this ORDER its capital ratio at a minimum of nine (9.00%) percent and its total risk based capital ratio at a minimum of thirteen (13.00%) percent. 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) If, while this ORDER is in effect, the Bank increases capital 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 twenty (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 review. Any changes requested to be made in the materials by the FDIC shall be made prior to their dissemination.

(c) 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 ten (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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

4. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$100,000 which is, delinquent or classified "Substandard" in the ROE. 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 delinquent or 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 delinquencies and 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) A copy of the plan required by this paragraph shall be submitted to the Regional Director of the FDIC's Chicago Regional Officer ("**Regional Director**") and the Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.



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" 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," "Doubtful," or is listed for "Special Mention" in the March 22, 2010 Report of Examination ("ROE") and is uncollected unless the 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, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

CONCENTRATIONS OF CREDIT

6. (a) Within forty-five (45) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to reduce and manage the Bank's Triad

Portfolio and the out of area loan concentration of credit identified in the ROE in a safe and sound manner. At a minimum the plan must provide for written procedures which conform in all respects with the Commercial Real Estate Lending Joint Guidance, found in FIL-104-2006, dated December 12, 2006, and which provide for the ongoing measurement and monitoring of the concentrations of credit, performance of portfolio stress testing analysis to assess the impact of changing economic conditions, and the setting of limits on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

(b) Such plan shall prohibit any advances that would increase the concentration unless the advance is pursuant to an existing loan agreement and shall include, but be limited to:

- (i) dollar levels and percent of capital to which the Bank shall reduce the concentration;
- (ii) time frames for achieving the reduction in dollar levels in response to (1) above;
- (iii) provisions for controlling and monitoring of concentrations,

including plans to address the rationale for concentration levels as they relate to growth and capital targets;

(iv) inclusion of concentration risks in the methodology for determining the adequacy of the Allowance for Loan and Lease Losses; and

(v) provision for the submission of monthly progress reports to the Board of Directors for review and notation in the minutes of Board meetings.

(c) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

#### LOAN REVIEW AND GRADING SYSTEM

7. Within sixty (60) days from the date of this ORDER, the Bank shall implement revised comprehensive loan grading and review procedures. The procedures shall require that such loan grading and review will be performed by a qualified individual. 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) Review the bank's application of Financial Accounting Standards Board Accounting Standards Codification FASB ASC Subtopic 310-10 (which now supersedes prior FAS 114 guidelines); and

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

#### LENDING AND COLLECTION POLICIES

8. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio.

(b) The revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall incorporate the items discussed in the ROE.

(c) Copies of the policies and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Division.

CONSOLIDATED REPORTS OF CONDITION AND INCOME

9. (a) During the life of this Order, the Bank shall file with the FDIC Consolidated Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the date of each such Report. Amended Reports of Condition and Income must be filed if previously submitted Reports were not filed in accordance with the Instructions for Preparation of Consolidated Reports of Condition and Income.

(b) In addition, and during the life of this ORDER, the Bank shall file with the FDIC Consolidated Reports of Condition and Income that accurately reflect the financial condition, including an adequate allowance for loan and lease losses as determined by the Board of Directors, of the Bank as of the Reporting period specified. In particular, such Reports shall incorporate any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC or Department examination of the Bank during that Reporting period.

DIVIDEND RESTRICTION

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

11. (a) Within ten (10) days of the effective date of this ORDER, the Bank shall book two separate provisions for inadequate **ALLL**: (1) a provision of at least \$100,000 which shall be reflected on the December 31, 2009 call report; and (2) an additional provision of at least \$200,000 which shall be reflected on the March 31, 2010 call report.

(b) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, 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 shall consider the FFIEC Instructions for the Reports of Condition and Income, fully address the comments in the ROE concerning ALLL methodology, and any analysis of the Bank's ALLL provided by the FDIC or the Division.

(c) The bank shall revise its methodology used to determine the adequacy of the ALLL to address the deficiencies noted in the ROE. The bank should also ensure that the

methodology employed fully complies with all current outstanding regulatory guidance, including FASB ASC Subtopic 450-10 and FASB ASC Subtopic 310-10 (which now supersedes prior FAS 5 and FAS 114 guidance), and the FDIC's Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions.

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

#### PROFIT PLAN AND BUDGET

12. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2010. The plans 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;

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

(c) During each monthly Board meeting 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 meeting at which such evaluation is undertaken.

(d) A written profit plan and budget (as described in (a), (b), and (c)) shall be prepared for each calendar year for which this ORDER is in effect.



(e) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

INTERNAL EXPENSES

13. (a) Within ten (10) days from the effective date of this ORDER, the Bank's Board of Directors shall establish a policy to control internal Bank expenses and procedures. At a minimum the policy shall require the submission of receipts along with expense reports to monitor and account for Bank credit card usage, cash reimbursements, and other compensation matters, and shall be fully consistent with the joint guidance provided by FIL-21-2003, "Interagency Policy Statement On Internal Audit Function And Its Outsourcing", dated March 17, 2003.

(b) While this ORDER is in effect, the Bank shall not make any payment or transfer any asset, directly or indirectly, to or for the benefit of any Bank insider or any spouse or any child of a Bank insider, without the prior written approval of a majority of the disinterested members of the Board of Directors. For purposes of this paragraph, the term "insider" shall be defined as it is in Regulation O, 12 C.F.R. Part 215.

### LIQUIDITY PLAN

14. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall adopt a written contingency funding plan. The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008.

(b) Weekly during the life of this ORDER the Bank shall submit to the Regional Director and Division a liquidity analysis report, in a format that is acceptable to the Regional Director and the Division.

(c) From the effective date of this ORDER, Bank shall establish and maintain an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through a clearing account balance.

(d) A copy of the plan required by this paragraph shall be submitted to the Regional Director and Division.

### SALARY STUDY

15. Within thirty (30) days from the effective date of this Order, the Bank shall engage an independent third party to perform a salary review for all officers and employees. Such a review shall be conducted within ninety (90) days from

the effective date of this Order and be submitted to the Regional Director and the Department for approval along with the Board of Director's response to the review and any planned salary changes.

SENSITIVITY TO MARKET RISK

16. (a) Within ninety (90) days of the effective date of this Order, the Bank shall formulate, adopt, and implement a revised Interest Rate Risk plan which shall fully address the comments set forth in the ROE and shall provide for the regular preparation of interest rate sensitivity reports. The reports shall document all significant assumptions made, which should be tailored to the Bank's risk characteristics, and address the steps being taken to reduce the level of long term interest rate risk caused by the large volume of long term assets. The Bank shall further provide the Board of Directors with status reports of the corrective action(s) being undertaken and clearly document all discussion in the minutes.

BANK OWNED LIFE INSURANCE POLICY

17. (a) Within sixty (60) days after the effective date of this ORDER, the Bank shall develop a written policy providing specific procedures for controlling the Bank's purchase and holding of Bank-owned life insurance products ("BOLI POLICY"). The BOLI POLICY shall:

- (i) Contain specific pre-purchase guidelines and analysis which justify the Bank's investment in specific insurance products;
- (ii) Provide an appropriate system for the ongoing assessment of risk associated with the Bank's holding of each insurance product;
- (iii) Provide appropriate cash surrender value limits, both by individual insurance company and total aggregate investments;
- (iv) Require the Board of Directors to review and approve in its minutes all BOLI investments not less frequently than semi-annually; and
- (v) Adequately consider and address all other potential risk management concerns outlined in FIL-127-04, "Interagency Statement on the Purchase and Risk Management of Life Insurance," dated December 7, 2004.

(b) The Bank shall submit the BOLI Policy to the Regional Director and the Division for review and comment.

Within thirty (30) days of receipt of all such comments from the Regional Director and Division, and after consideration of all such comments, the Bank shall adopt the BOLI Policy, which approval shall be recorded in the minutes of the board of directors meeting at which approved. Thereafter, the Bank shall implement and adhere to the BOLI Policy.

#### CORRECTION OF VIOLATIONS

18. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed in the ROE; and

(b) Implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

#### NOTIFICATION TO SHAREHOLDER

19. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (a) in conjunction with the Bank's next shareholder communication; or (b) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

#### PROGRESS REPORTS

20. Within thirty (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 the 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.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of 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: September 16, 2010.

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M. Anthony Lowe  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance  
Corporation

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Jorge A. Solis |  
Director  
Illinois Department of Financial  
and Professional Regulation  
Division of Banking