

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)	
)	
CITIZENS COMMUNITY BANK)	CONSENT ORDER
OF ILLINOIS)	
BERWYN, ILLINOIS)	FDIC-10-676b
)	2010-DB-95
)	
(ILLINOIS CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

The Citizens Community Bank of Illinois, Berwyn, 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 et seq., 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 A CONSENT ORDER ("**Stipulation**") with representatives of the Federal Deposit Insurance Corporation (the "**FDIC**") and Division, dated January 6, 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, rule, or regulation relating to weaknesses in Capital Adequacy, Asset Quality, Management Effectiveness, Earnings, Liquidity, 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 accepted 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. During the life of this ORDER, the Bank shall have and retain qualified management. 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.

MANAGEMENT STUDY

2. (a) Within sixty (60) 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 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 senior executive 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 senior executive Bank officers 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;

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

BOARD PARTICIPATION

3. (a) As of the effective date of this ORDER, the Bank's board of directors ("**Board**") shall continue to 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 continue to include meetings held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; overdue, renewal, and charged off loans; investment activity; operating policies; individual committee reports; audit reports; internal control reviews including management's 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) As of the effective date of this ORDER, the Board shall ensure that the minutes of Board meetings continue to accurately reflect the attendance of all parties, approvals of insider transactions, and sufficient detail to describe all matters discussed during the meeting, including abstentions or dissenting votes on proposals.

(c) Management shall provide the Board with timely and accurate financial data for the reporting at the monthly meetings. Timely and reliable information is necessary for appropriate decision making and monitoring of the institution by the Board. Reliable information must also include Reports of Income and Reports of Condition.

(d) Within sixty (60) 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

4. (a) Within sixty (60) 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 nine (9%) 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%) 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 17th 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.

(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.

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 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", "Doubtful", or is listed for Special Mention in the ROE, and is uncollected unless the Bank's Board, or a committee thereof, 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 meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (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 \$500,000 which is more than ninety (90) days delinquent or classified "Substandard" or "Doubtful" 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 for review and notation in minutes of the meetings of the Board.

(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 and the Division.

(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 at any subsequent visitation or examination.

LENDING AND COLLECTION POLICIES

7. (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.

(d) The Bank shall implement correction of the loan underwriting and administration deficiencies identified on the Risk Management pages of the ROE.

INTERNAL LOAN REVIEW

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall maintain an effective internal loan review and grading system to provide for the periodic review of the Bank's loan portfolio in order to identify and categorize the Bank's loans, and other extensions of credit which are carried on the Bank's books as loans, on the basis of credit quality. Such system and its implementation shall be satisfactory to the Regional Director and the Division as determined at their initial review and at subsequent examinations and/or visitations. At a minimum, the grading system shall provide for the following:

- (i) specification of standards and criteria for assessing the credit quality of the Bank's loans;
- (ii) application of loan grading standards and criteria to the Bank's loan portfolio;
- (iii) categorization of the Bank's loans into groupings based on the varying degrees

of credit and other risks that may be presented under the applicable grading standards and criteria, but in no case, will a loan be assigned a rating higher than that assigned by examiners at the last examination of the Bank without prior written notification to the Regional Director and the Division; and

(iv) identification of any loan that is not in conformance with the Bank's loan policy.

(b) The internal loan review system shall be in conformance with the guidance provided by the Interagency Policy Statement on the Allowance for Loan and Lease Losses, Attachment 1, and shall address the specific objectives set forth therein.

DIVIDEND RESTRICTION

9. 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 ("ALL")

10. (a) 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 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 and any analysis of the Bank's ALLL provided by the FDIC or the Division.

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

PROFIT PLAN AND BUDGET

11. (a) Within ninety (90) 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 the calendar year 2011. 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) A realistic and comprehensive budget;
- (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 meeting of the Bank's Board following completion of the profit plan and budget required by this paragraph, the Board members, 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 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.

CONCENTRATIONS OF CREDIT

12. (a) Within sixty (60) days from the effective date of this ORDER, the Bank will formulate, adopt, and implement a written plan to reduce the loan concentrations of credit identified in the ROE. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each concentration; and
- (ii) Provision for the submission of monthly written progress reports to the Bank's Board for review and notation in the minutes of the Board meetings.

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

AUDIT AND INTERNAL ROUTINE AND CONTROLS

13. Within ninety (90) days from the effective date of this ORDER, the Bank shall correct the deficiencies in its internal audit program and internal routines and controls which are listed on the Risk Management pages of the ROE. Additionally, the Bank shall establish procedures to prevent the recurrence of any deficiencies noted.

CORRECTION OF VIOLATIONS

14. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of laws, rules, and regulations listed in the ROE and shall adopt and implement appropriate procedures to ensure future compliance with all applicable federal and state laws, regulations, and/or statements of policy.

RESTRICTION ON GROWTH

15. During the life of this ORDER, the Bank shall not increase its total assets by more than five (5%) percent during any consecutive three-month period without providing, at least thirty (30) days prior to its implementation, a growth plan to the Regional Director and the Division. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent

of the Regional Director and the Division. In no event shall the Bank increase its total assets by more than ten (10%) percent during any consecutive twelve (12) month period. For the purpose of this paragraph, "total assets" shall be defined as in the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income.

ASSET AND LIABILITY MANAGEMENT

16. Within sixty (60) days from the effective date of this ORDER, the Bank shall revise, adopt, and implement its written asset/liability management policy to provide effective guidance and control over the Bank's funds management activities. The policy shall, at a minimum, address the deficiencies listed on the Risk Management Assessment pages of the ROE. Such policy and its implementation shall be in a form and manner acceptable to the Supervisory Authorities.

NOTIFICATION TO SHAREHOLDER

17. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy 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.

PROGRESS REPORTS

18. 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, detailing the actions taken to secure compliance with the ORDER and the results thereof.

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: January 13, 2011.

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

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