

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
STATE BANK OF NAUVOO)	
NAUVOO, ILLINOIS)	FDIC-19-0205b
)	2020-DB-01
(STATE CHARTERED INSURED)	
NONMEMBER BANK))	
_____)	

State Bank of Nauvoo, Nauvoo, Illinois (“Bank”), having been advised of its rights 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 rights to a hearing on the charges under 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code Part 392 regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (“Division”), and having waived those rights, entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”) with representatives of the Federal Deposit Insurance Corporation (“FDIC”) and the Division, dated March 24, 2020, 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 weaknesses in asset quality and management, the Bank consented to the issuance of a CONSENT ORDER (“ORDER”) by the FDIC and the Division.

The FDIC and the Division have determined 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) of the Illinois Banking Act, 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. § 1818(u), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) As of the effective date 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.

(b) During the life of this ORDER, prior to the addition of any individual to the Bank's board of directors ("Board") or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and the Division's written approval. For purposes of this ORDER, "senior executive officer" is defined as in 12 U.S.C. § 1831(i) and Part 303 of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

(c) Within 90 days from the effective date of this ORDER, the Board shall assess all Bank officers and staff members to determine whether these employees possess the ability, experience, and other qualifications required to perform present and anticipated duties, including adherence to the Bank's policies and practices, and restoration and maintenance of the Bank's operation in a safe and sound condition.

BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, be responsible 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 and complexity. This participation shall 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; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of 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) Within thirty (30) days from the effective date of this ORDER, the Board shall develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

3. (a) As of 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 ("community bank leverage

ratio”) at a minimum of eight percent (8%). For purposes of this ORDER, Tier 1 capital shall be calculated in accordance with Part 324 of the FDIC Rules and Regulations, 12 C.F.R. Part 324.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the Board 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 and to the Division at its Chicago Office, located at 100 West Randolph, 9th Floor, Chicago, Illinois 60601 for its review. Any changes requested to be made in the materials by the FDIC or the Division 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.

(d) Should the Bank be unable to reach the required capital levels within the time frames specified in subparagraph (a) above, or be unable to maintain those levels, then within sixty (60) days of receipt of written direction from the Regional Director of the Chicago Regional Office of the FDIC (“Regional Director”) and the Division, the Bank shall develop, adopt, and implement a written plan that will cause the Bank to promptly meet the capital requirements of this paragraph. A copy of the plan required by this paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the Division.

LOSS CHARGE-OFF

4. As of the effective date of this ORDER, the Bank shall charge off from its books and records any loan classified as “Loss” in the Report of Examination dated September 30, 2019 (“ROE”).

RESTRICTION ON ADVANCES TO ADVERSELY CLASSIFIED BORROWERS

5. (a) While this ORDER is in effect, 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 on the books of the Bank or classified “Loss” in the ROE, so long as such credit remains uncollected.

(b) While this ORDER is in effect, the Bank shall not renew or 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 “Doubtful” in the 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 meeting. A copy of the statement shall also be placed in the appropriate loan file.

(c) For the purposes of this paragraph, the term “credit” shall also include overdrafts of deposit accounts.

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, delinquent or classified “Substandard” or “Doubtful” in the ROE and in any future Reports of Examination or Visitations subsequently issued by the FDIC or the Division. 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 conditions of each delinquent or classified borrower, including reviews of borrower cash flows and collateral values;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish target 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 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) The plan required by this paragraph shall be acceptable to the Regional Director and the Division.

LOAN REVIEW AND GRADING SYSTEM

7. Within ninety (90) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to comprehensive loan grading and review procedures. The procedures shall require that a review will be performed by a qualified independent third party. The loan review shall include a reasonable sampling of loans of under \$100,000. The review must specifically address the adequacy of credit quality and the appropriateness of loan terms, loan structure, renewals, refinances, extensions, modifications, and any other file maintenance changes. The loan review shall, at a minimum:

(a) Require 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 and ASC Subtopic 450 (which now supersede prior FAS 114 and FAS 5 guidelines); and

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

LENDING AND COLLECTION POLICIES

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall review, revise as necessary, and adhere to 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 lending and collection policies required by this paragraph, at a minimum, shall incorporate the recommendations discussed in the ROE.

CAPITALIZATION OF INTEREST

9. As of the effective date of this ORDER, the Bank shall not capitalize interest or loan-related expenses unless the Board has adopted a prior, detailed, written statement of the reasons why such capitalization of interest or loan-related expense 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) From the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC and the Division, the Board shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and thereafter maintain 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 develop, adopt, implement and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2020 and 2021. 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 Board 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.

(f) While this ORDER remains in effect, the plans required by this paragraph shall be revised to include assets which become delinquent after the effective date of this ORDER or are adversely classified at any subsequent examination or visitation.

LIQUIDITY PLAN

12. Within thirty (30) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written contingency funding plan (“Liquidity 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 FDIC’s Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions that fully address the liquidity issues identified in the ROE.

STRATEGIC PLAN

13. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank’s current financial

condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

- (b) The written strategic plan shall address, at a minimum:
 - (i) Strategies for pricing policies and asset/liability management;
 - (ii) Forecasts for maintaining a sound funds management position;
 - (iii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and
 - (iv) Realistic and reasonable assessments, given the nature of the Bank's operations and the condition of the Bank, for any growth or expansion.

(c) The Board shall approve the plan and record the approval in the minutes of the Board meeting.

(d) Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Board shall evaluate the Bank's actual performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

(e) The strategic plan required by this paragraph shall be revised thirty (30) days prior to the end of each calendar year for which this ORDER is in effect and, thereafter, shall be revised as needed to reflect the Bank's changing financial conditions and market area.

(f) While this ORDER is in effect, the strategic plan and any revisions thereto shall be submitted to the Regional Director and the Division.

DIVIDEND RESTRICTION

14. 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.

CORRECTION OF VIOLATIONS

15. Within thirty (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 ROE and implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

INTERNAL ROUTINES AND CONTROLS

16. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a policy for the operation of the Bank in such a manner as to provide adequate routine and controls consistent with safe and sound banking practices.

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

NOTIFICATION TO SHAREHOLDERS

17. Following the effective date of this ORDER, the Bank shall send to its shareholders 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 Board, detailing the actions taken to secure compliance with this ORDER and the results thereof.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of issuance by the FDIC and 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 DIVISION.

Pursuant to delegated authority.

Dated this 2nd day of April, 2020.

Christopher J. Newbury
Deputy Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation

Chasse Rehwinkel
Acting Director
Division of Banking
Illinois Department of Financial and
Professional Regulation
Division of Banking