

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING
SPRINGFIELD, ILLINOIS

In the Matter of)	
)	
)	CONSENT ORDER
)	
SAINTE MARIE STATE BANK)	FDIC-20-084b
SAINTE MARIE, ILLINOIS)	2020-DB-04
)	
(INSURED STATE NONMEMBER BANK))	
)	
)	
)	

Sainte Marie State Bank, Sainte Marie, 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 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 December 28, 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, rule, or regulation, the Bank consented to the issuance of this 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. § 1813(u), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) Within 120 days of the effective date of this ORDER, the Bank shall hire an executive officer and a new senior lender, which may be accomplished through the use of consultants. A new employee or consultant may function in both capacities. 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, 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 Bank's 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; adoption or modification of operating policies; 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 30 days from the effective date of this ORDER, the Bank's board of directors shall develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

(c) Within 120 days of the effective date of this ORDER, the Bank shall retain two additional directors who are independent with respect to the Bank. For purposes of this ORDER, a person who is an independent director shall be an individual: (i) who is not an officer of the Bank; (ii) who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning or possessing a controlling interest in the Bank; and (iii) who does not otherwise share a common financial interest with such officer, director or shareholder.

(d) For purposes of this Order, the terms "insider" and "extension of credit" shall have the meanings ascribed to them in Regulation O, 12 C.F.R. Part 215. 6.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

3. (a) As of the effective date of this ORDER, the Bank shall not extend or renew, directly or indirectly, any existing credit or 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 Reports of Examination dated April 2, 2018 (“2018 ROE”), May 31, 2019 (“2019 ROE”) or in any future Reports of Examination or Visitation Transmittal Letters (“Visitations”) subsequently issued by the FDIC or the Division, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend or renew, directly or indirectly, any existing credit or additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified “Substandard”, “Doubtful”, or was listed for “Special Mention” in the ROE, or in any future Reports of Examination or Visitations subsequently issued by the FDIC or the Division, 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. Such statement shall include an analysis of the borrower’s ability to repay the loan on a reasonable amortization period based on the type of loan and collateral position in accordance with Part 365, Appendix A of the FDIC Rules and Regulations. A copy of the statement shall be signed by each member of the Bank’s board of directors, 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.

(c) As of the effective date of this ORDER, the Bank shall submit a monthly report to the Regional Director and the Division indicating all loans extended or renewed to borrowers under this provision. The report shall include the amount and terms of the credit,

collateral, and overall credit analysis. Such report shall be accompanied by the statement required by subparagraph (b) above signed by the directors indicating their approval that the extension was in the best interest of the Bank.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

4. (a) Within 90 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" or "Doubtful" in the ROE. In developing such plan, the Bank shall, at a minimum:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed statement of why the extension is in the best interest of the Bank (see 3(b) and (c) for details and requirements of statement);
- (ii) Provide for review of the current financial condition of each such borrower, including source of repayment, repayment ability and alternative repayment sources;
- (iii) Delineate areas of responsibility for loan officers; and
- (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) The plan required by this paragraph shall be acceptable to the Regional Director and the Division.

CREDIT ADMINISTRATION AND UNDERWRITING

5. (a) As of the effective date of this ORDER, the Bank shall maintain appropriate loan records sufficient to document the underwriting analysis and perfected collateral position. Such documentation shall include: fully signed executed promissory note, complete copy of recorded mortgage(s) with recordation date identified by public records, complete signed and dated personal financial statements from individual borrowers and guarantors, full and current tax return documents, current business cash flow statements within 120 days of the business’ fiscal year end, title lien search, title policy and/or opinion, documentation of appropriate insurance, and complete real estate appraisals performed by licensed independent appraisers.

(b) As of the effective date of this ORDER, the Bank shall cease originating loans for which the borrowers are only required to make interest payments during the life of the loan and payment of the principal has been repeatedly deferred. The Bank shall also assign an appropriate amortization period for all loans, including periodic principal reduction consistent with the stated purpose of the loan.

(c) As of the effective date of this ORDER, the Bank shall engage licensed independent appraisers to value real estate collateral.

(d) Within 60 days from the effective date of this ORDER, the Bank shall obtain an independent legal analysis on the sufficiency of hypothecation agreements currently attempting to secure certain loans. If these agreements are determined to be insufficient, the Bank shall take immediate action to correct the deficiencies or to further collateralize the debt.

(e) As of the effective date of this ORDER, the Bank shall immediately take steps to cure the collateral deficiencies resulting from the subordination of debt in favor of conservation easements. Specifically, the Bank shall either reduce the debt through principal payments or obtain additional collateral.

(f) As of the effective date of this ORDER, the Bank shall incorporate into loan agreements going forward a provision that should collateral be encumbered by conservation easements, the borrower will be required to either reduce the debt or provide additional collateral so as to negate any impairment in the collateral value created by the easement. Further, the Bank shall cease the practice of subordinating any existing mortgage in favor of any conservation easement unless the debt is sufficiently secured.

(g) As of the effective date of this ORDER, the Bank shall track the number of loans originated with Loan Policy exceptions and report the number, dollar amount, and types of exceptions to the Board of Directors at least quarterly.

REAPPRAISALS AND REEVALUATION OF COLLATERAL

6. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall obtain from an appraiser independent of the Bank (meaning any individual who is not related to any Bank insider or employee by blood or marriage) and otherwise independent of the loan, a written appraisal or written collateral valuation for any classified loans and insider loans as well as any secured loan listed on the Bank's internal watch list, criticized in any internal or

external audit report of the Bank, or criticized in the May 31, 2019 ROE or any future report of examination or Visitation of the Bank by the FDIC or the Division, which has an outstanding principal balance in excess of \$50,000 and for which the existing appraisal or valuation is older than one year.

(b) Within thirty (30) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written reappraisal/reevaluation program ("Reappraisal Program") requiring that a collateral valuation shall be performed by an independent appraiser for any classified loan and insider loan as well as any secured loan listed on the Bank's internal watch list, criticized in any internal or external audit report of the Bank, or criticized in the May 31, 2019 ROE or any future report of examination or Visitation of the Bank by the FDIC or the Division, which has an outstanding principal balance in excess of \$50,000 and for which the existing appraisal is older than one year. Further, the Reappraisal Program will comply with the collateral monitoring requirements of 12 C.F.R. Part 323, Appendix A.

CONCENTRATIONS OF CREDIT

7. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to manage each of the concentrations of credit identified in the ROE in a safe and sound manner, and to reduce those certain concentrations of credit identified in the ROE in a safe and sound manner, consistent with the recommendations in the ROE. The plan shall provide for written procedures 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) Management shall provide for quarterly written concentration reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(c) The plan required by this paragraph shall be acceptable to the Regional Director and the Division.

LOAN REVIEW AND GRADING SYSTEM

8. (a) Within 90 days from the date of this ORDER, the Bank shall develop, adopt, implement, and adhere to comprehensive loan grading and review procedures. The procedures shall require that such loan grading and review will be performed by a qualified and independent individual who is not a family member, a party to the loan transaction, or a loan officer who was involved in the loan approval process. The loan review shall at a minimum:

(b) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;

(c) Identify loans or relationships that warrant special attention of management;

(d) Identify violations of law, rules, or regulations and credit and collateral documentation exceptions and track corrective measures;

(e) 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

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

LOAN POLICY

9. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to an acceptable loan policy.

(b) The loan policy required by this paragraph, at a minimum, shall include the following provisions:

- (i) Establishing review and monitoring procedures for compliance with the FDIC's regulation on appraisals, 12 C.F.R. Part 323;
- (ii) Providing for comprehensive insider lending guidelines in conformance with Part 215 of Federal Reserve Board Regulation O., 12 C.F.R. § 215.1 *et seq.* and 12 C.F.R. § 337.3.
- (iii) 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;
- (iv) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, have a clearly defined and stated purpose; and have a predetermined and realistic repayment source and schedule.
- (v) Incorporating collateral valuation requirements, including: maximum loan-to-collateral-value limitations; requirements for periodic updating of valuations; and a requirement that the source of valuations be documented in Bank records;

- (vi) Requiring the establishment and maintenance of an effective loan review and grading system and internal loan watch list;
- (vii) Correcting the loan underwriting and credit administration deficiencies noted in the ROE and any subsequent reports of examination or Visitations.

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, the board of directors of the Bank 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 of directors 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 provisions required by this paragraph shall be made prior to any capital determinations required by this ORDER.

(c) Within 90 days from the effective date of this ORDER, the bank shall develop, adopt, implement, and adhere to an ALLL methodology that accurately evaluates individual loans for impairment on a quarterly basis. Impairment analyses should be documented and supported by updated borrower financial information and real estate valuations. Additionally, loans individually analyzed for impairment should be removed from impairment analyses on groups of loans with similar risk characteristics.

PROFIT PLAN AND BUDGET

11. (a) Within 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, 2021 and 2022. 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 of directors' 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. Subsequent budgets will be prepared and submitted 30 days before the end of the calendar year.

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

(f) 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 or visitations.

LIQUIDITY PLAN

12. Within 60 days of 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 include viable provisions to provide for liquidity in various stress events. In addition, the Liquidity Plan shall require the Bank to maintain an account relationship with the Federal Reserve Bank of St. Louis to exchange and settle payment transactions through a clearing account balance.

CAPITAL

13. During the life of this ORDER, the Bank shall maintain a Leverage Capital Ratio in excess of 12%. For purposes of this ORDER, Leverage Capital Ratio shall be calculated in accordance with Part 324 of the FDIC Rules and Regulations ("Part 324"), 12 C.F.R. Part 324.

GROWTH RESTRICTION

14. 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 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 approval of the Regional Director and the Division. In no event shall the Bank increase its total assets by more than twelve (12.0%) percent annually. For the purpose of this paragraph, "total assets" is defined as in the Federal Financial Institutions Examination Council's Instructions for the Consolidated Reports of Condition and Income.

STRATEGIC PLAN

15. (a) Within 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; and
- (iii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) The Bank will submit the strategic plan to the Regional Director and the Division for review and comment. After consideration of all such comments, the Bank shall

approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting.

(d) Within 60 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors 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 of directors' meeting at which such evaluation is undertaken.

(e) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year for which this ORDER is in effect.

(f) The strategic plan and any revisions thereto shall be acceptable to the Regional Director and the Division.

CORRECTION OF VIOLATIONS

16. (a) Within 90 days from the effective date of this ORDER, and within 90 days after receipt of any future Report of Examination or Visitation subsequently issued by the FDIC or the Division, the Bank shall eliminate and correct all violations of law, rules, and regulations listed in the ROE or in any future Reports of Examination or Visitations.

(b) Within 120 days of the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws and rules and regulations.

IMPERMISSIBLE ACTIVITIES AND HOLDINGS

17. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a plan to divest of all impermissible holdings, and implement procedures to ensure future compliance with applicable laws, rules and regulations.

(b) Within 90 days from the effective date of this ORDER, the Bank shall obtain clear title to a non-booked real estate parcel that was received from a debt previously contracted and liquidate the property in accordance with applicable laws, rules, and regulations.

AUDIT PROGRAM

18. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a comprehensive internal audit program (“Internal Audit Program”). At a minimum, the Internal Audit Program shall provide for audit coverage of all significant risk areas of the bank including, but not limited to, lending, insider transactions, internal controls, general ledger accounts, and policy conformance.

(b) A copy of the Internal Audit Program shall be submitted to, and deemed acceptable by, the Regional Director and the Division.

(c) Within 60 days from the effective date of this ORDER, the Bank shall provide for an External Audit of its financial statements and operating procedures, to be performed by an independent accounting firm.

INTERNAL ROUTINE AND CONTROLS

19. (a) Within 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 internal routine and controls consistent with safe and sound banking practices.

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

EXPENSE DOCUMENTATION

20. As of the effective date of this ORDER, the Bank shall adhere to a policy that mandates supporting documentation for employee expenses paid by the Bank and establishes monthly Board approval for all employee expenses paid by the Bank.

DIVIDENDS

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

NOTIFICATION TO SHAREHOLDERS

22. Following the effective date of this ORDER, the Bank shall send to its shareholders 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

23. Within 45 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 or the Division.

Pursuant to delegated authority.

Dated: January 11, 2021.

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

Chasse Rehwinkel Digitally signed by Chasse
Rehwinkel
Date: 2020.12.24 09:21:18 -06'00'

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