

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SPRINGFIELD, ILLINOIS

_____	)	
In the Matter of:	)	
	)	
CITIZENS COMMUNITY BANK OF DECATUR	)	ORDER TO CEASE AND
	)	DESIST
DECATUR, ILLINOIS	)	
	)	
(Illinois Chartered	)	FDIC-04-213b
Insured Nonmember Bank)	)	DBR-BTC-2004-65
_____	)	

Citizens Community Bank of Decatur, Decatur, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or regulations alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code, section 392.30, regarding hearings before the Illinois Department of Financial and Professional Regulation ("Department"), Division of Banks and Real Estate, ("BRE") and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST

("CONSENT AGREEMENT") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Department, dated September 16, 2004, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law, and regulation, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the Department.

The FDIC and the Department considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and regulations. The FDIC and the Department, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of law, rule, or regulation:

- A. Operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits.
- B. Operating with a board of directors which has failed to provide adequate supervision over and direction to the

management of the Bank to prevent unsafe or unsound banking practices and violations of law, rule, or regulation.

- C. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- D. Operating with inadequate internal routines and controls.
- E. Operating in such a manner as to produce operating losses.
- F. Engaging in hazardous lending and lax collection practices, including, but not limited to:
  - The failure to obtain proper loan documentation;
  - The failure to establish and enforce adequate loan repayment programs;
  - The failure to obtain current and complete financial information;
  - The failure to place loans on nonaccrual in a timely manner.
- G. Operating with an excessive level of adversely classified assets, delinquent loans, and nonaccrual loans.
- H. Operating with an inadequate loan policy.
- I. Operating in violation of law, rule, or regulation as

more fully described on page 22 of the Joint Report of Examination as of December 31, 2003, including:

- Section 314(b) of the U.S. Patriot Act
  - Section 326.4 of the FDIC Rules and Regulations, 12 C.F.R. § 326.4.
  - Section 350.3(a)(b) of the FDIC Rules and Regulations, 12 C.F.R. § 350.3.
- J. Operating with excessive overhead costs and an inadequate net interest margin.
- K. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- L. Operating with an inadequate asset/liability policy and procedures.

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

1. The Bank shall have and retain qualified management.
  - (a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's board of directors to implement the provisions of this ORDER.

(b) The 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 and regulations;
- and
- (iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and BRE in writing of any changes in any of the Bank's directors or senior executive officers. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b), and includes any person identified by the FDIC and BRE, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank.

(d) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.104. Further, the Bank shall request and obtain written approval from BRE prior to the addition of any individual to the board of directors and the employment of any individual as a senior executive officer.

2. (a) From the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses, new, overdue, renewal, insider, charged off, and recovered loans, investment activity, operating policies, individual committee reports, audit reports, internal

control reviews including managements responses, reconciliation of general ledger accounts, and compliance with this Order. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

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

3. (a) From the effective date of this Order, the Bank must operate within the parameters of its business and strategic plan dated September 2, 2004. The Bank must submit any proposed changes of the plan to the FDIC and BRE, a minimum of 60 days before the proposed change is implemented. The proposed change shall not be implemented without the approval of the Regional Director and BRE.

(b) From the effective date of this Order, the Bank shall maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 7.0%. For purposes of this ORDER, Tier 1 capital and total assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(c) Any subsequent increase in Tier 1 capital may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 capital under Part 325; or
- (ii) The elimination of all or part of the assets classified "Loss" or "one-half of Doubtful" as of December 31, 2003 without loss or liability to the Bank, provided any such collection on a partially charged-off asset shall first be applied to that portion of the asset which was not charged off pursuant to this ORDER; or
- (iii) The collection in cash of assets previously charged off; or
- (iv) The direct contribution of cash by the directors and/or the shareholders of the Bank; or
- (v) Any other means acceptable to the Regional Director and BRE; or
- (vi) Any combination of the above means.

(d) If all or part of any subsequent increase in capital required by this paragraph is to be accomplished by the sale of new securities, the board



of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to BRE, 500 East Monroe, Springfield, Illinois 62701, for their review. Any changes requested to be made in the materials by the FDIC or BRE shall be made prior to their dissemination.

(e) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

4. Within 60 days from the effective date of this ORDER, the Bank shall correct the deficiencies in internal routines and controls which are listed on pages 3 through 5 of the Joint Report of Examination as of December 31, 2003. Additionally, the Bank shall establish policies to prevent the recurrence of any deficiencies noted.
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 Joint Report of Examination as of December 31,2003 so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard" or "Doubtful" or is listed for Special Mention in the Joint Report of Examination as of December 31,2003, and is uncollected unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. A copy of the statement shall be placed in the appropriate loan file and shall be incorporated in the minutes of the applicable board of directors' meeting.

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to reduce the Bank's risk position in each asset in excess of \$25,000 which is classified "Substandard" In the Joint Report of Examination as of

December 31, 2003. The written plan shall be acceptable to the Regional Director and Commissioner as determined at subsequent examinations. In developing such plan, the Bank shall, at a minimum:

(i) Review the financial position of each such borrower, including source of repayment, repayment ability, and alternative repayment sources; and

(ii) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

(b) Such plan shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each asset within six months from the effective date of this ORDER; and

(ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(c) As used in this paragraph, "reduce" means to:

(1) collect; (2) charge off; or (3) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the Department.

7. Within 90 days from the effective date of this ORDER, the Bank shall correct the loan administration exceptions and technical exceptions listed in the Joint Report of Examination as of December 31, 2003.
8. Within 60 days from the effective date of this ORDER, the Bank shall formulate adopt and implement a written plan for the reduction and collection of delinquent loans. The plan shall include, but not be limited to, provisions which:
  - (a) prohibit the extension of credit for the payment of interest;
  - (b) delineate areas of responsibility for collections;
  - (c) establish acceptable guidelines for the collection of delinquent credits;
  - (d) establish dollar levels to which the Bank shall reduce delinquencies within six months and twelve months from the effective date of this ORDER; and
  - (e) provide for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

The plan shall be acceptable to the Regional Director and Commissioner as determined at subsequent examinations.

9. (a) Within 90 days from the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for adequacy and, based upon this review, shall make all appropriate revisions to the policy necessary to strengthen lending procedures and abate additional loan deterioration. Thereafter the Bank shall take all necessary steps to implement the policy, its revisions, and any subsequent modifications. The revised written loan policy and any subsequent modifications thereto shall be acceptable to the Regional Director and BRE as determined at subsequent examinations.

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

- (i) Addressing the deficiencies listed in the December 31, 2003 Joint Report of Examination.
- (ii) Establishing review and monitoring procedures to ensure that all lending

personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

- (iii) Requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in the Joint Report of Examination as of December 31, 2003

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

11. (a) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In

making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or BRE.

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

12. (a) Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, regulation and contraventions of policy listed on pages 22-23 of the Joint Report of Examination as of December 31, 2003.

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

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate adopt, and implement a new written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2005. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's



overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components. The plan and budget shall be acceptable to the Regional Director and BRE as determined at subsequent examinations.

(b) Within 30 days from the end of each calendar quarter following completion of the profit plan(s) and budget(s) required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect within 30 days of the end of each year. The plan and budget shall be acceptable to the Regional Director and BRE as determined at subsequent examinations.

14. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate adopt and implement a written plan addressing liquidity, the Bank's

relationship of volatile liabilities to temporary investments, rate sensitivity objectives, and asset/liability management. Annually thereafter during the life of this ORDER, the Bank shall review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. The plan and each revision thereof shall be acceptable to the Regional Director and BRE. The initial plan shall include, at a minimum:

- (i) Establishing a desirable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;
- (ii) Identifying the source and use of borrowed and/or volatile funds;
- (iii) Establishing appropriate lines of credit at correspondent banks, including the Federal Reserve Bank, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (iv) Requiring the retention of securities and/or other identified categories of investments

that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;

- (v) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (vi) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (vii) Addressing the proper use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for appropriate tenor commensurate with the use of the borrowed funds, addressing concentration of funding sources, pricing and collateral requirements with specific allowable funding channels identified (i.e., Fed funds purchased and other correspondent borrowings); and
- (viii) Establishing procedures for managing the Bank's sensitivity to interest rate risk which comply with the Joint Agency Statement

of Policy on Interest Rate Risk (June 26, 1996), and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(ix) Providing for an independent review of the interest rate risk management process to comply with the Joint Policy Statement on Interest Rate Risk (June 26, 1996).

(x) Establishing procedures for documenting and supporting all assumptions used when measuring the Bank's interest rate risk.

15. (a) During the life of this ORDER, the Bank shall have an audit of its financial statements conducted by a public accountant annually. The Bank shall furnish a copy of each audit report (including any management letters) to the Regional Director and Commissioner within 15 days after receipt by the Bank, and notify the Regional Director and BRE within 15 days when a change in its independent auditor occurs.

(b) Within 90 days from the effective date of this ORDER, the Bank shall formulate adopt and implement procedures to ensure that Bank responses to audit findings, as well as Bank corrective actions in

response to audit findings, are documented and reported to the Board of Directors.

16. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy or description of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, notice or statement shall be sent to the FDIC Registration and Disclosure Section 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 and to BRE, 500 East Monroe, Springfield, Illinois 62701, for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and BRE shall be made prior to dissemination of the description, communication, notice or statement.
17. From the effective date of the ORDER, the Bank shall not accept, renew or roll over any brokered deposit unless it has applied for and been granted a waiver of this prohibition by the FDIC in accordance with the provisions detailed in Part 337.6 (12.C.F.R. 337.6) of the FDIC Rules and Regulations. *Brokered deposit* shall

have the same meaning as set forth in section 337.6 (2) of the FDIC's Rules and Regulations, (12 C.F.R. 337.6 (2)).

18. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and BRE written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and BRE have, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be 10 calendar days after its issuance by the FDIC and the Department.

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 Department.

Pursuant to delegated authority.

Dated: October 6, 2004.

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Scott M. Polakoff  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance  
Corporation

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Department of Financial and  
Professional Regulation  
of the State of Illinois  
FERNANDO E. GRILLO, SECRETARY

DIVISION OF BANKS AND REAL ESTATE

D. Lorenzo Padron  
Director of Banks and Real Estate

By:  
Scott D. Clarke  
Assistant Director