

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

SPRINGFIELD, ILLINOIS

In the Matter of)	ORDER TO CEASE AND DESIST
)	
SAN JOSE TRI-COUNTY BANK)	DBR No. 2004-BTC-74
SAN JOSE, ILLINOIS)	
(Illinois Chartered)	
State Nonmember Bank))	

San Jose Tri-County Bank, San Jose, 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 laws or regulations alleged to have been committed by the Bank, and of its right to a hearing on the charges under 38 Ill. Adm. Code, section 392.30, regarding hearings before the Department of Financial and Professional Regulation ("Department"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("STIPULATION") with the Department, dated December 9th, 2004 whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices or violations of laws or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the Department.

The Department considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and violations of laws or regulations. The Department, therefore, accepted the STIPULATION 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 Federal Deposit Insurance 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 laws or regulations:

A. Operating with an inadequate level of capital protection for the kind and quality of assets held.

B. Operating with an excessive level of adversely classified assets.

C. Operating with an inadequate Allowance for Loan and Lease Losses ("ALLL") for the volume, kind, and quality of loans and leases held.

D. Operating with inadequate diversification of risk.

E. Violating Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. Part 215.

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

1. (a) By March 31, 2005, the Bank shall increase its Leverage Capital Ratio, as that term is defined in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. Part 325, to not less than 8.0 percent.

(b) Within 30 days from the last day of each calendar quarter following the date of required compliance with paragraph 1(a) of this ORDER, the Bank shall determine from its Report of Condition and Income its Leverage Capital Ratio for that calendar quarter. If the Leverage Capital Ratio is less than 8.0 percent, the Bank shall, within 60 days of the date of the required determination, increase its Leverage Capital Ratio to not less than 8.0 percent calculated as of the end of that preceding quarterly period.

(c) Any 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 November 1, 2004, 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 or Acting Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Department; or
- (vi) Any combination of the above means.

(d) If all or part of the 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 and State 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 Scott D. Clarke, Assistant Director, Division of Banks and Real Estate, Department of Financial and Professional Regulation, 500 East Monroe, Springfield, Illinois 62701, for review. Any changes requested to be made in the materials by the Department 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.

(f) The capital ratio analysis required by this paragraph shall not negate the responsibility of the Bank and its board of directors for maintaining throughout the year an adequate

level of capital protection for the kind, quality and degree of market depreciation of assets held by the Bank.

2. (a) Within 30 days from the effective date of this ORDER, the Bank shall formulate and submit to the Department for review and comment a written plan to eliminate the amount of loans or other extensions of credit advanced, directly or indirectly, which were identified in a list of loans provided to the Bank by Department examiners on or about December 7, 2004. No new loans or other extensions of credit shall be granted to or for the benefit of such obligors without first providing the Department 15 days prior written notification of the anticipated action. Such plan shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce each extension of credit within six and twelve 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. As used in this ORDER, "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 Department.

(b) Within 30 days from receipt of any comment from the Department on any written plan required by this ORDER, and after the adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

3. The Bank shall not enter into any transactions with any affiliate, as that term is defined in section 2(k) of the Bank Holding Company Act, 12 U.S.C. § 1841(k), without the prior written approval of the Department.

4. The Bank shall not enter into any transactions with Earl F. McNaughton, any member of Earl F. McNaughton's immediate family, as that term is defined in section 225.41(b) (3) of Regulation Y of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 225.41(b) (3), Anne M. Mounts, or any related interest of those individuals , as that term is defined in section 215.2(n) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(n), without the prior written approval of the Department.

5. The Bank shall not declare or pay any cash dividend without the prior written consent of the Department.

6. (a) Within 30 days from the effective date of this ORDER, the Bank shall replenish its ALLL in the amount of at least \$460,000.

(b) Within 60 days from the effective date of this ORDER, the Bank shall make an additional provision for loan and lease losses which, after review and consideration by the board of directors, reflects the potential for further losses in the remaining loans or leases classified "Substandard" and all other loans and leases in its portfolio. In making this determination, the board of directors shall consider the Federal Financial Institutions Examination Council ("FFIEC") Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the Department.

(c) Within 30 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and filed by the Bank subsequent to November 1, 2004, but prior to the effective date of this ORDER, shall be amended and refiled if they do not reflect a provision for loan and lease losses and an ALLL which are adequate considering the condition of the Bank's loan portfolio, and which, at a minimum, incorporate the adjustments required by this paragraph.

(d) 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 Department.

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

7. Within 60 days of the effective date of this ORDER, the Bank shall obtain an appraisal of all antiques, collectibles and artwork owned by the Bank from an independent appraiser. The Bank shall not sell or otherwise transfer ownership or possession of any of these objects at less than the value of such objects as reflected in this appraisal without the prior written approval of the Department.

8. (a) By March 31, 2005, the Bank shall eliminate or correct all violations of law, rule, and regulation listed in the Department and Federal Deposit Insurance Corporation Joint Report of Examination of the Bank as of November 1, 2004.

(b) By March 31, 2005, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

9. (a) As of the effective date of this ORDER, the Bank will

not solicit or knowingly accept any uninsured deposits. For purposes of this ORDER, the phrase "uninsured deposits" will include any deposit account(s) exceeding the FDIC deposit insurance limits as set forth in Part 330 of the FDIC's Rules and Regulations, 12 C.F.R. Part 330. Provided, however, that such deposits in excess of FDIC deposit insurance limits that are fully secured by marketable investment securities, as that term is defined under Section 33 of the Illinois Banking Act, [205 ILCS 5/1](the "Act") shall not be subject to the above referenced provision.

(b) As of the effective date of this Order, the Bank shall, initiate procedures to identify all deposit accounts that exceed the FDIC deposit insurance limits as set forth in Part 330 of the FDIC's Rules and Regulations, 12 C.F.R. Part 330. In the event that the bank identifies uninsured deposit accounts, the Bank shall, within five business days initiate and complete procedures with the account holder to establish a reasonable alternative account relationship, including but not limited to any of the following:

- (i) Reduction of the account balance so as not to exceed the FDIC deposit insurance limit;
- (ii) Developing an alternative account ownership relationship;

(iii) Fully securing public funds in excess of FDIC deposit insurance limits with marketable investment securities, as that term is defined under Section 33 of the Act, as authorized by Section 1 of the Public Funds Deposit Act, [30 ILCS 225/1];

(iv) Fully securing, by means of repurchase agreements or any other means acceptable to the Department, such other deposits in excess of FDIC deposit insurance limits with marketable investment securities, as that term is defined under Section 33 of the Act; or

(v) Any combination of the above means.

(c) Within 10 days of the end of each month while this ORDER is in effect, the Bank will provide the Department with written notice (including depositor name, account number and uninsured dollar amount) of its uninsured deposits as of each month-end.

10. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, or at any time upon request of the Department, the Bank shall furnish to the Department 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 Department has, in writing, released the Bank from making further reports.

This ORDER is effective immediately.

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 Department.

Pursuant to delegated authority.

DATED THIS FOURTEENTH DAY OF DECEMBER, 2004.

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

By:

SCOTT D. CLARKE
Assistant Director