

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

_____)	
In the Matter of)	
ARCOLA HOMESTEAD SAVINGS BANK)	CONSENT ORDER
Arcola, Illinois)	FDIC-10-167b
(ILLINOIS CHARTERED INSURED)	2010-DB-44
NONMEMBER SAVINGS BANK))	
_____)	

Arcola Homestead Savings Bank, Arcola, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices 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 sections 9009, 9015, 9016, 9018, 11001, and 11002 of the Savings Bank Act ("SBA"), 205 ILCS 205/9009, 9015, 9016, 9018, 11001, and 11002, 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 State of Illinois Department of Financial and Professional Regulation, Division of Banking ("Division"), dated April 20, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to capital, asset quality and management, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and sections 9015 and 11001 of the SBA, 205 ILCS §§ 205/9015 and 11001, 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), or in sections 1007.05 or 11005 of the SBA, 205 ILCS §§ 205/1007.05 and 11005, and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. Within 90 days, and thereafter during the life of this ORDER, the Bank shall have and thereafter retain qualified management. Each member of management shall have

the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. At a minimum, such management shall include a senior lending officer or collection officer with an appropriate level of lending, collection and loan supervision experience for loans of the type and quality of the Bank's loan portfolio, including commercial real estate loans in the Chicago metropolitan area. 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, 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 Division's written approval. 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).

BOARD PARTICIPATION

2. As of 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.

(a) 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:

- (i) Reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity;

- (ii) Operating policies; individual committee actions; and
- (iii) Compliance with this ORDER.

(b) Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(c) 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.

CAPITAL

3. (a) On May 13, 2010, 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 10 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 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 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., 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 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

4. (a) Within 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 \$150,000 which is more than 90 days delinquent or classified "Substandard" in the FDIC Report of Examination as of September 30, 2009 ("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 6 and 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) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

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" in the ROE, 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 signed by each Director, 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 and a copy shall be provided to the Regional Director and Division in the Bank's next progress report required under paragraph 19 of this ORDER.

LOSS CHARGE-OFF

6. As of the effective date of this Order the Bank shall charge off from its books and records any asset classified "Loss" in the ROE.

ALLOWANCE FOR LOAN AND LEASE LOSSES

7. (a) Within 30 days of the effective date of this ORDER the Bank shall increase its Allowance for Loan and Lease Losses ("ALLL") to a minimum balance of \$1,172,000, subsequent to the recognition of losses required by paragraph 6 of this ORDER.

(b) 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 the Division.

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

LENDING AND COLLECTION POLICIES

8. (a) Within 60 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, which policies shall include specific guidelines for loan review and improving watch list identification procedures. 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.

CONCENTRATIONS OF CREDIT

9. Within 60 days from the effective date of this ORDER the Bank shall formulate, adopt and implement a written plan to develop reasonable limitations on and monitoring of concentrations of credit, including, but not limited to out-of-area and commercial real estate credits. At a minimum, the concentration management program must provide for written procedures for the ongoing measurement

and monitoring of the concentrations of credit and for a limit on concentrations in terms of the Bank's capital position that is commensurate with safe and sound banking practices and the overall risk profile of the Bank.

RESTRICTION ON GROWTH

10. (a) At any time during the life of this ORDER when the Bank is not in compliance with or has not yet complied with the capital requirements of paragraph 3 of this ORDER, the Bank shall not increase its total assets from the balance as of the effective date of this ORDER, without the prior written approval of the Regional Director and the Division.

(b) At any time during the life of this ORDER when the Bank is in compliance with the capital requirements of paragraph 3 of this ORDER, the Bank shall not increase its total assets by more than five percent (5%) 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 consent of the Regional Director and Division. In no event shall the Bank

increase its total assets by more than 15% percent annually. For purposes 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.

LIQUIDITY PLAN

11. (a) Within 60 days of the effective date of this ORDER, the Bank shall adopt 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 Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions to address the issues identified in the ROE.

(b) On each Friday the Bank is open for business during the life of this ORDER the Bank shall submit to the Regional Director and the Division a liquidity analysis report, in a format that is acceptable to the Regional Director and the Division.

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

DIVIDEND RESTRICTION

12. 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.

LOAN PRODUCTION OFFICE

13. As of the effective date of this ORDER, the Bank shall not establish any loan production office without the prior written consent of the Regional Director and the Division.

PROFIT PLAN AND BUDGET

14. (a) Within 60 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 calendar years 2010 and 2011. 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) Within 30 days from the end of each calendar quarter 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.

(e) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Division.

STRATEGIC PLAN

15. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate adopt, and implement 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. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management; and
- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(b) Within 30 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.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions thereto required by this paragraph shall be submitted to the Regional Director and the Division.

VIOLATIONS OF LAW

16. Within 60 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. The Bank shall implement procedures to ensure future compliance with all applicable laws, rules and regulations.

RESIDENTIAL MORTGAGE LENDING

17. (a) As of the effective date of this ORDER, the Bank shall terminate any agreement it has with any entity for the purpose of residential mortgage lending activity and shall ensure that any entity whose contract is so terminated discontinues the use of the Bank's name in any

of its signage, advertising, forms, or other printed material.

(b) As of the effective date of this ORDER, the Bank shall terminate any agreement relating to dual employees that the Bank may have with any entity involved in residential mortgage lending.

(c) Within 30 days of the effective date of this ORDER, the Bank shall submit to the FDIC and the Division a written report identifying and detailing the status of all work or loans in progress with any third party residential mortgage banking service provider that exist as of the date of this ORDER. Thereafter, the Bank shall submit additional reports on activity with third party residential mortgage banking service providers as requested by the FDIC and the Division.

(d) During the life of this ORDER and prior to entering into any third party services contract with any entity for residential mortgage lending activity, the Bank shall: (i) ensure that any entity has complied with the registration and licensing requirements set forth in the Residential Mortgage License Act of 1987, 205 ILCS § 635/1-1 et seq.; and (ii) ensure that proper controls and safeguards are established to govern the third party service agreement to address, at a minimum, the

deficiencies and recommendations noted in the ROE, the June 12, 2009 and June 19, 2009 letters from the FDIC and the Division, respectively, and the following guidance: Expanded Guidance for Subprime Lending; Guidance for Managing Third-Party Risk; and, Interagency Advisory on Mortgage Banking.

AUDIT

18. (a) Within 15 days of the effective date of this ORDER, the Bank shall engage an independent third party acceptable to the FDIC and the Division to obtain loan confirmations and to conduct an audit of certain payments received by the Bank and certain payments made by the Bank.

(b) Within 30 days of the effective date of this ORDER, the third party engaged by the Bank shall begin the process of obtaining loan confirmations and an audit of payments relating to: any payment received by the Bank on loans classified in the ROE; any payment received by the Bank from any entity that has provided services to the Bank relating to its residential mortgage banking operation or activity; and any payment made by the Bank to any entity that has provided services to the Bank relating to its residential mortgage banking operation or activity. The scope of the audit shall be those payments received by the

Bank or made by the Bank that occurred on or after January 1, 2008 and prior to the effective date of this ORDER.

(c) The written report(s) of audit findings shall be reported directly to the Bank's board of directors and any action taken as a result of the findings shall be recorded in the Bank's board of directors' minutes. A copy of the audit findings shall be forwarded to the Regional Director and the Division within 10 days from the Bank's receipt of the report(s).

PROGRESS REPORTS

19. 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 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.

NOTIFICATION TO SHAREHOLDER

20. 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.

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: April 22, 2010,

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

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