

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING
SPRINGFIELD, ILLINOIS
AND
FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

In the Matter of)	
)	
HOMESTAR BANK AND FINANCIAL)	CONSENT ORDER
SERVICES)	
)	DB No. 2009-DB-96
MANTENO, ILLINOIS)	
)	FDIC-09-580b
(Illinois Chartered)	
Insured Nonmember Bank))	
)	

HomeStar Bank and Financial Services, Manteno, 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 38 Ill. Adm. Code, section 392 et seq., regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking ("**Division**"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE

ISSUANCE OF A CONSENT ORDER ("**STIPULATION**") with representatives of the Federal Deposit Insurance Corporation ("**FDIC**") and the Division, dated May 19, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices, the Bank consented to the issuance of a CONSENT ORDER ("**ORDER**") by the Division and the FDIC.

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

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) During the life 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 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. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

CAPITAL

2. (a) Within 120 days from the effective date of this ORDER, the Bank shall achieve and maintain its level of Tier 1 capital as a percentage of its total assets ("**capital ratio**") at a minimum of 8.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("**total risk based capital ratio**") at a minimum of 12.0 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) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to this paragraph shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Division and the Regional Director, as determined at subsequent examinations.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

3. (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 June 30, 2009 Report of Examination ("ROE"), so long as such credit remains 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 approving 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.

(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", "Doubtful", or is listed for Special Mention 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 approving 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.

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 \$500,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the 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; source of repayment; repayment ability and alternative repayment sources.

- (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 Division and the Regional Director.

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

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become more than 90 days delinquent after the effective date of this ORDER or are adversely classified at any subsequent examinations.

OTHER REAL ESTATE

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written policy to manage the Bank's Other Real Estate ("ORE"). At a minimum, the policy shall provide for:

- (i) A review of the ORE portfolio, at least quarterly, by a committee appointed by the board of directors ("**ORE committee**");
- (ii) Documentation that taxes and insurance premiums are paid in a timely manner;
- (iii) Resolution of documentation exceptions;
- (iv) A realistic and comprehensive budget for each parcel of ORE with a book value in excess of \$500,000, including projections of the Bank's carrying costs (such as upkeep, repairs and insurance) and projections of the marketing costs;
- (v) An independent appraisal of each parcel at the time of foreclosure and periodically thereafter (but no more than 12 months from the date of the prior appraisal report);
- (vi) A determination by the ORE committee that each parcel of ORE is listed with a real estate broker or otherwise made widely

- available for sale within an appropriate timeframe and at a realistic selling price;
- (vii) Periodic progress reports from each real estate broker marketing the Bank's ORE, including projected timeframes; and
 - (viii) A detailed report from the ORE committee to the Bank's board of directors at least quarterly, with a copy of the report, including documentation of the action taken to facilitate the timely sale of ORE, made part of the board minutes.

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

LENDING AND COLLECTION POLICIES

6. (a) Within 90 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 placing loans on a non-accrual basis. 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 following:

- (i) Correct all loan underwriting, administration, and loan portfolio management weaknesses detailed in the ROE.
- (ii) Formulate and implement underwriting guidelines for unsecured and asset-based loans, including the development of a formal borrowing base certificate.
- (iii) Establish a process for the calculation for eligible and ineligible receivables/inventory and determine an appropriate advance rate on the collateral.
- (iv) Perform a collateral valuation on loans secured by business assets of \$200M or more by obtaining updated financial statements, accounts receivable aging; and based upon the valuation, the bank shall seek to secure additional collateral or charge-off the determined shortfall.
- (v) Establish guidelines for the use of interest reserves, including the types of loans for which reserves may be used, the amount and duration of such reserves; use of reserves in the case of renewals, refinancing, extensions, and loans with adverse grading; monitoring and documenting

the volume of reserves actually used; and prohibiting the replenishment of reserves through increases in balances.

(vi) Include policies and procedures addressing interest reserves including standards for the acceptability of and limits on the use of interest reserves.

(vii) Discuss restructured troubled debt, including guidelines and limits on its use, and appropriate reporting and accounting of loans once they are restructured;

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

DIVIDEND RESTRICTION

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

ALLOWANCE FOR LOAN AND LEASE LOSSES

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall establish a comprehensive policy and methodology for determining the adequacy of the allowance and include in the revised methodology the recommendations detailed in the ROE.

(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 Division or the FDIC.

PROFIT PLAN AND BUDGET

9. (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 45 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 Division and the Regional Director.

CONCENTRATIONS OF CREDIT

10. Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt and implement a written plan to systematically reduce, manage and monitor the Bank's portfolio of commercial real estate to an amount that is commensurate with the Bank's capital position, its size and business strategy, Bank management's expertise, safe and sound banking practices, and the overall risk profile of the Bank. Such plan shall prohibit any additional advances, except where the advance is pursuant to an existing loan agreement addressed in the plan, that would increase the commercial real estate concentration or create new concentrations, 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 approving 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. Further, the plan shall include, but not be limited to:

- (i) Dollar levels to which the Bank shall reduce the commercial real estate concentration;
- (ii) Timeframes for achieving the reduction in dollar levels of the commercial real estate concentration; and

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

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

NOTIFICATION TO SHAREHOLDER

11. 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.

MONITORING

12. 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.

PROGRESS REPORTS

13. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Division and the Regional Director 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.

This ORDER shall be effective on the date of issuance.

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 Division and the FDIC.

Pursuant to delegated authority.

Dated: May 24, 2010.

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

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