

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

In the Matter of)	
)	CONSENT ORDER
)	
GRAND RIVERS COMMUNITY BANK)	2016-DB-07
GRAND CHAIN, ILLINOIS)	
)	
(STATE CHARTERED)	
INSURED NON-MEMBER BANK))	
)	

Grand Rivers Community Bank, Grand Chain, 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 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 TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with the Division, dated May 24, 2016, whereby, solely for the purpose of this proceeding and without admitting or denying any charges of unsafe or unsound banking practices relating to asset quality, management or earnings, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the Division.

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

Having also determined that the requirements for the issuance of an order under section 48(6) of the Illinois Banking Act, 205 ILCS 5/48(6), have been satisfied, the Division hereby issues this ORDER that the Bank, and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) Within 45 days from the effective date of this ORDER, the Bank shall have and retain a qualified President. The President shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of the President shall be assessed on his/her 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 market 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 303.101 of the Code of Federal Regulations (the "Code"), 12 CFR § 303.101.

BOARD PARTICIPATION

2. (a) 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. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed or approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; adoption or modification of operating policies; individual committee reports; audit reports; 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.

CAPITAL

3. (a) Within 120 days from the effective date of this ORDER the Bank shall have and maintain its leverage ratio at a minimum of nine percent (9.0%) and its total capital ratio at a minimum of thirteen percent (13.0%) For purposes of this ORDER, leverage ratio and total capital ratio shall be calculated in accordance with Part 324 of the FDIC Rules and Regulations, 12 C.F.R. Part 324

(b) Within 60 days from the effective date of this ORDER, the Bank shall submit a written capital plan for review and comment to the Division detailing how the Bank intends to achieve and maintain a leverage ratio of at least 9.0 percent and total capital ratio of at least 13.0 percent.

(c) At a minimum, the Capital Plan shall include:

- (i) specific plans to achieve the capital levels required under the plan and this ORDER;
- (ii) projections for asset growth and capital requirements based upon a detailed analysis of the Bank's current and projected assets, liabilities, earnings, fixed assets, and

off-balance sheet activities, each of which shall be consistent with the Bank's strategic business plan, as amended and required in this ORDER;

- (iii) the primary source(s) from which the Bank will strengthen its capital to meet the Bank's needs; and
- (iv) contingency plans that identify alternative sources of capital should the primary source(s) above not be available, including but not limited to a sale, merger, or self-liquidation of the Bank.

(d) The leverage ratio and the total capital ratio 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 as determined at subsequent examinations.

(e) Any increase in the leverage ratio may be accomplished by the following:

- (i) The sale of common stock and noncumulative perpetual preferred stock constituting Tier 1 Capital under Part 324;

(ii) The collection in cash of assets previously charged off;

(iii) The direct contribution of cash by the directors and/or the shareholders of the Bank or its holding company;

(iv) Any other means acceptable to the Division;
or

(v) Any combination of the above means.

(f) Within 30 days of receipt of any comments from the Division with respect to the Bank's proposed Capital Plan, and after consideration of all such comments, the Bank shall approve the revised Capital Plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Bank shall implement and fully comply with the Capital Plan. The board will review the Bank's Capital Plan monthly and update the Capital Plan as needed. All updates to the Capital Plan shall be submitted to the Division.

(g) 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 State and Federal securities laws.

(h) 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 or subscriber of the Bank's securities.

(i) The capital ratios 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.

DIVIDEND RESTRICTION

4. 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.

REMOVAL OF LENDING AUTHORITY

5. As of the effective date of this ORDER, the board of directors shall take such action to remove the Bank's Chief Financial Officer lending authority. Thereafter, the Bank shall obtain the Division's prior written approval before granting new individual lending authority to any of its existing or prospective lending staff. For purposes of this paragraph, lending authority shall be defined to include, but not be limited to, authority to make, renew, negotiate terms and conditions, or release, substitute or accept collateral for any loan, overdraft or other extension of credit, either individually, or in such person's capacity with the Bank.

The terms of this paragraph shall not limit any individual employee of the Bank, current or future, from issuing any loan the Bank is legally obligated to make as of the date of this ORDER.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (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" during the most recent Joint Examination conducted by examiners from the Division and the FDIC, or at any subsequent Division examination or visitation, 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 that was classified "Substandard", "Doubtful", or was listed for Special Mention during the most recent Joint Examination, or any subsequent Division examination or visitation, 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.

SPECIAL MENTION

7. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" during the most recent Joint Examination, or any subsequent examination or visitation conducted by the Division.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

8. (a) Within 30 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 more than 90 days delinquent or adversely classified during the most recent Joint Examination. 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) Evaluate the available collateral, including possible actions to improve the collateral position;
- (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.

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

(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 Division examination or visitation.

ALLOWANCE FOR LOAN AND LEASE LOSSES ("ALLL")

9. (a) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by law, 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.

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

TECHNICAL EXCEPTIONS

10. Within 60 days from the effective date of this ORDER, the Bank shall correct the technical exceptions listed during the most recent Joint Examination, or in any subsequent Division examination or visitation.

LOAN COMMITTEE

11. Within 30 days of the effective date of this ORDER, the Bank shall appoint a loan committee which shall meet, at a minimum, on a monthly basis. The loan committee shall, at a minimum, perform the following functions:

(a) Evaluate, grant, and/or approve loans in accordance with the Bank's loan policy as amended to comply with this ORDER. The loan committee shall provide a thorough written explanation of any deviations from the loan policy, which statement shall address how said exceptions are in the Bank's best interest and which shall be reflected in the minutes of the corresponding committee meeting.

(b) Review and monitor the status of repayment and collection of overdue and maturing loans, as well as all other loans that were classified "Substandard" during the most recent Joint Examination, or at any subsequent Division examination or visitation.

(c) Review and give prior written approval for all advances, renewals, or extensions of credit to any borrower or the borrower's related interests. For purposes of this ORDER the term "related interest" is defined pursuant to section 215.2(n) of the Code, 12 C.F.R. § 215.2(n).

(d) Maintain written minutes of the committee meetings which include a record of the review and status of the

aforementioned loans, including the names of any dissenting committee members.

LOAN POLICY

12. (a) Within 60 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. The revised written loan policy and any subsequent modifications shall be submitted to the Division for review and comment upon their completion.

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

- (i) Establishing review and monitoring procedures for compliance with the Federal Deposit Insurance Corporation's regulation on appraisals, Regulation Y Subpart G Appraisal Standards for Federally Regulated Transactions, Section 225.63-Appraisals Required;
- (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 that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a clearly defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and cash flow projections, and shall be maintained throughout the term of the loan with loan officer notations and comments;

- (iv) Requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as those loans which were classified "Substandard" during the most recent Joint Examination, or any subsequent examination or visitation performed by the Division;
- (v) Requiring the establishment and maintenance of a loan grading system and internal loan watch list;
- (vi) Requiring a written plan to lessen the risk position in each line of credit identified as a problem credit on the Bank's internal loan watch list;
- (vii) Prohibiting the capitalization of interest or loan related expenses unless the board of directors provides, in writing, a detailed explanation of why said deviation is in the best interest of the Bank;
- (viii) Requiring that extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such person, be thoroughly reviewed for compliance with all provisions of

Regulation O;

- (ix) Requiring prior written approval by the Bank's board of directors for any extension of credit, renewal, or disbursement;
- (x) Addressing concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;
- (xi) Requiring strict guidelines and review of out-of-territory loans and which at a minimum, shall include complete credit documentation, approval by a majority of the board of directors prior to disbursement of funds, and a detailed written explanation of why such a loan is in the best interest of the Bank;
- (xii) Establishing standards for extending unsecured credit;
- (xiii) Incorporating limitations on the amount that can be loaned in relation to established collateral values, including the requirement

that the source of the valuations be identified and which require that such collateral valuations shall be completed prior to the disbursement of loan proceeds and be performed on a periodic basis over the term of the loan;

- (xiii) Establishing standards for the institution of collection efforts by the loan officer or legal counsel, and procedures to ensure timely recognition of loss through charge-off, where appropriate;
- (xiv) Establishing guidelines for timely recognition of loss through charge-off;
- (xv) Requiring that collateral appraisals be completed prior to the making of secured extensions of credit. In addition, periodic collateral valuations shall be performed for all secured "problem loans".

(c) Within 30 days from the receipt of any comments from the Division, the board of directors shall approve the written loan policy and any subsequent modification thereto, which approvals shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and

follow the written loan policy and any subsequent modifications thereto.

LOAN REVIEW AND GRADING SYSTEM

13. Within 90 days from the effective 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 individual. The loan review shall at a minimum:

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

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

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

(d) 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

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

PROFIT PLAN AND BUDGET

14. (a) Within 90 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 2016 and 2017. 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.

(b) At each monthly board meeting following completion of the profit plan and budget 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.

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

STRATEGIC PLAN

15. (a) Within 180 days from the effective date of this ORDER the Bank shall develop a comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, incorporate the Bank's projected capital needs and its plans for maintaining adequate capital, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The Bank will submit the strategic plan to 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. Thereafter, the Bank shall implement the plan.

(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. Copies of the revised plan shall be submitted to the Division.

GROWTH PLAN

16. During the life of this ORDER, the Bank shall not increase its total assets during any consecutive three-month

period without providing, at least 30 days prior to its implementation, a growth plan to the Division. Such growth plan 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 Division. For the purpose 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.

INTERNAL AND EXTERNAL AUDITS

16. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt and implement comprehensive risk assessment procedures as part of its written internal audit program, which will, at a minimum, (i) take into consideration the size of the Bank, as well as the nature and scope of its activities; (ii) be designed to accurately identify audit risks or weaknesses; and (iii) establish formal audit and regulatory exception tracking reports.

(b) Within 180 days from the effective date of this ORDER the Bank's board of directors will engage an independent third-party to complete annual full-scope audits of the Bank's

financial statements, beginning with the period of year-end 2016.

INTERNAL ROUTINES

17. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement an effective system of internal controls that provides for, at a minimum:

- (i) an organizational structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies;
- (ii) effective risk assessment;
- (iii) timely and accurate financial, operational, and regulatory reports;
- (iv) adequate procedures to safeguard and manage assets; and
- (v) Compliance with applicable laws, rules, and regulations.

LIQUIDITY

18. (a) From the effective date of this ORDER, Bank shall establish and maintain an account relationship with the Federal Reserve Bank of St. Louis to exchange and settle payment transactions through a clearing account balance.

(b) Within 30 days from the effective date of this Order, the Bank shall have and thereafter retain a minimum

liquidity position of not less than fifteen (15%) percent of Total Assets.

SENSITIVITY TO MARKET RISK

19. Within 90 days from the effective date of this ORDER, the Bank shall have procedures for managing the Bank's sensitivity to interest rate risk. The procedures shall comply with the *Joint Agency Policy Statement on Interest Rate Risk* (FIL 52-1996), and the *Advisory on Interest Rate Risk Management* (FIL 2-2010).

CORRECTION OF VIOLATIONS

20. Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations cited during the most recent Joint Examination, or at any subsequent Division examination or visitation.

NOTIFICATION TO SHAREHOLDERS

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

PROGRESS REPORTS

22. Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to 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

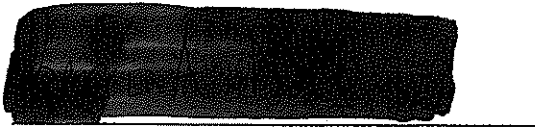
The effective date of this ORDER shall be upon issuance by the Division.

The provisions of this ORDER shall be binding upon the Bank 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.

Pursuant to delegated authority.

Dated this 24th day of May, 2016.



Kerri A. Doll
Acting Director
Division of Banking
Illinois Department of
Financial and Professional
Regulation