

{{8-31-04 p.C-5616}}

[¶11,980] **In the Matter of Family Bank and Trust Co., Palos Hills, Illinois**, Docket No. 02-092b (10-25-02).

A cease and desist order was issued, based on findings by the FDIC that it had reason to believe that respondent had engaged in unsafe and unsound practices.

[.1] **Capital—Increase Required**

[.2] **Dividends—Dividends Restricted**

[.3] **Management—Qualifications Specified**

[.4] **Consultants—Qualifications Specified**

[.5] **Management—Management Plan Required**

[.6] **Strategic Plan—Preparation of Required**

[.7] **Loan Loss Reserve—Establishment of or Increase Required**

[.8] **Profit Plan and Budget—Preparation of Required**

[.9] **Loans—Extensions of Credit—To Borrowers with Existing Adversely Classified Credits**

[.10] **Assets—Charge-off or Collection**

[.11] **Loans—Risk Position—Written Plan Required**

[.12] **Loans—Special Mention**

[.13] **Loan Committee—Duties Specified**

[.14] **Loan Policy—Preparation or Revision of Policy Required**

[.15] **Capital and Earnings—Rate Sensitivity—Written Plan Required**

[.16] **Audit—Program Required**

[.17] **Bank Operations—Internal Routine and Controls, Correction of Weaknesses Required**

[.18] **Board of Directors—Implement Audit Program**

[.19] **Board of Directors—Review Updated Policies**

[.20] **Bank Operations—Risk of Employing Unsuitable Individuals—Strategy Required**

[.21] **Computer Related Deficiencies—Correction of Deficiencies Required**

[.22] **Board of Directors—Program to Review Compliance with Cease and Desist Order Required**

[.23] **Shareholders—Disclosure of Cease and Desist Order Required**

**In the Matter of
FAMILY BANK AND TRUST CO.
PALOS HILLS, ILLINOIS
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST**

FDIC-02-092b

Family Bank and Trust Co., Palos Hills, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING ("NOTICE") 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 ("FDI Act"), 12 U.S.C. §1818(b), and under 38 Ill. Adm. Code, Section 392.30, regarding hearings before the Office of Banks and Real Estate for the State of Illinois ("OBRE"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and OBRE dated October 18, 2002, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe and unsound banking practices, the Bank consented to the [{{12-31-02 p.C-5617}}](#)

issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and OBRE.

The FDIC and OBRE considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and OBRE, therefore, accepted the STIPULATION and the FDIC and OBRE 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 FDI Act, 12 U.S.C. §1813(u), and its successors and assigns, cease and desist from the following unsafe or unsound banking practices:

- A. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- B. Operating with management whose policies or practices are detrimental to the Bank and jeopardize the safety of its deposits.
- C. 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 and unsound banking practices.
- D. Operating with an inadequate allowance for loans and lease losses for the volume, kind, and quality of loans and leases held and failing to make provision for an adequate reserve for possible loan and lease losses.
- E. Operating with inadequate earnings.
- F. Engaging in hazardous lending and lax collection practices, including, but not limited to:
 - The failure to obtain proper loan documentation;
 - The failure to conduct periodic property inspections for construction loans and document the percentage of construction completed;
 - The failure to obtain current and complete financial information;
 - The failure to conduct adequate case flow analyses;
 - The failure to establish controls and monitoring procedures for the Bank's subprime lending portfolio;
 - The extending of credit to borrowers without an ability to repay the credit; and
 - Other poor credit administration practices.
- G. Operating with an excessive level of adversely classified loans.
- H. Operating with an inadequate loan policy.
- I. Operating with measurement systems that do not adequately reflect the Bank's interest rate risk.

J. Operating with an inadequate internal audit program that lacks independence.

K. Operating with inadequate internal routine and controls.

L. Operating with an inadequate information systems audit program and engaging in unsafe and unsound practices relative to the Bank's information systems, as detailed in OBRE's March 25, 2002 Information Systems Report of Examination ("OBRE IS Report").

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

[.1]1. (a) Within 90 days from the effective date of this ORDER, the Bank shall increase its Tier 1 capital as a percentage of its total assets ("capital ratio") to not less than 8.0 percent calculated as of the end of the preceding calendar quarter. 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.

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

(c) Any such 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" as of the FDIC [{{12-31-02 p.C-5618}}](#)

and OBRE January 14, 2002 Report of Examination 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 of the Chicago Regional Office of the FDIC ("Regional Director") and the Commissioner of the OBRE ("Commissioner"); 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 the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, and to Scott D. Clarke, Assistant Commissioner, Office of Banks and Real Estate, 500 E. Monroe Street, Suite 900, Springfield, Illinois, 62701, for review. Any changes requested to be made in the materials by the FDIC or OBRE 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]2. 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 the Commissioner.

[.3]3. (a) 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. 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, and sensitivity to market risk.

(b) During the life of this ORDER, the Bank shall notify the Regional Director and the Commissioner 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), including any person identified by the FDIC and OBRE, whether or not hired as an employee, with significant influence over, or who participates in, major policymaking decisions of the Bank. 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
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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. Prior to the addition of any director or the employment of any senior executive officer, the Bank shall also request and obtain the written approval of the Commissioner.

[.4]4. (a) Within 45 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and Commissioner. The Consultant shall develop a written analysis and assessment of the Bank's management and staffing needs ("Management Plan") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and Commissioner with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

- (i) A description of the work to be performed under the contract or engagement letter;
- (ii) The responsibility of the consultant;
- (iii) An identification of the professional standards covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) The qualifications of the employee(s) who is (are) to perform the work;
- (vi) The time frame for completion of the work;
- (vii) Any restrictions on the use of the reported findings; and

(viii) A provision for unrestricted examiner access to workpapers.

[.5](c) The Management Plan shall be developed within 90 days from the effective date of this ORDER. The Management Plan shall include, at a minimum:

(i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the bank;

(ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) Evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience, and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and

(iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, and other qualifications to fill those officer or staff member positions identified by this paragraph of this ORDER.

(d) The Management Plan shall be submitted to the Regional Director and Commissioner for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and Commissioner and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

[.6]5. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate and adopt 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.

(b) The written strategic plan shall address, at a minimum, objectives for asset growth, asset mix, pricing policies, earnings performance, capital adequacy, funding growth, funding mix, non-core funding dependence, interest rate exposure, and staffing needs.

(c) The Bank shall submit the strategic plan to the Regional Director and Commissioner for review and comment. Within 30 days of the receipt of any comments from the Regional Director and Commissioner and after 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 the strategic plan.

(d) Within 30 days from the end of each calendar quarter following the effective date
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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.

(e) The strategic plan required by this ORDER shall be annually revised and shall be submitted to the Regional Director and Commissioner for review and comment 30 days prior to the end of each calendar year for which this ORDER is in effect. Within 30 days of receipt of any comments from the Regional Director and Commissioner and after adoption of any recommended changes, the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

[.7]6. (a) Within 30 days from the effective date of this ORDER; the Bank shall increase its allowance for loan and lease losses ("ALLL") to an amount not less than the sum of: fifty percent of the current balance of all loans classified as Doubtful in the FDIC and OBRE January 14, 2002 Report of Examination; plus fifteen percent of the current balance of all loans classified as Substandard in the FDIC and OBRE January 14, 2002 Report of Examination; plus five percent of the current balance of all loans listed as Special Mention in the FDIC and OBRE January 14, 2002 Report of Examination; plus one

percent of the current balance of all other loans and leases on the Bank's books. For purposes of this paragraph, the current balance of a loan classified or listed for Special Mention in the FDIC and OBRE January 14, 2002 Report of Examination shall be calculated by taking the loan balance listed in the FDIC and OBRE January 14, 2002 Report of Examination less: any cash payments received by the Bank from any borrower(s) or guarantor(s); any proceeds received by the Bank through collection or sale of collateral; any payments received by the Bank from the sale of a loan on a non-recourse basis; or any amounts charged off the Bank's books and records. For purposes of this paragraph, the balance of a loan shall not be reduced by the repayment of a loan through any additional loan or extension of credit funded by the Bank to the original borrower or to any third party.

(b) Within 30 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 loans or leases listed for "Special Mention" and classified "Substandard" and "Doubtful" in the FDIC and OBRE January 14, 2002 Report of Examination, 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 FDIC and OBRE.

(c) Within 60 days from the effective date of this ORDER, Reports of Condition and Income required by the FDIC and OBRE and filed by the Bank subsequent to January 14, 2002 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 and OBRE 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 reserve 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 and OBRE.

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

[.8]7. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2003.
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Within 30 days from the receipt of any comments from the Regional Director and Commissioner and after adoption of any recommended changes, the Bank shall approve the plan and budget, which approval shall be recorded in the minutes of a board of directors' meeting.

(b) 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 shall address, at a minimum:

(i) strategies to improve the Bank's earnings;

(ii) identification of the major areas in and means by which the board of directors will seek to improve the Bank's operating performance;

(iii) the provisions for ALLL required by this ORDER; and

(iv) identification of all assumptions used in preparing the plan.

(c) Within 30 days from the end of each calendar quarter following implementation 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.

(d) Beginning with calendar year 2004, and annually thereafter, a written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and it shall be submitted to the Regional Director and Commissioner for review and comment at least 30 days prior to the beginning of the applicable calendar year. Within 30 days of receipt of any comments from the Regional Director and Commissioner and after adoption of any recommended changes, the Bank shall approve the plan and budget, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan and budget.

[.9]8. (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" 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," "Doubtful," or is listed for Special Mention in the FDIC and OBRE January 14, 2002 Report of Examination, 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 and a copy of the statement shall be submitted to the Regional Director and Commissioner.

[.10]9. As of the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" as of January 14, 2002 that have not been previously collected or charged off. Any such charged-off asset shall not be rebooked without the prior written consent of the Regional Director and the Commissioner. Elimination or reduction of these assets with the proceeds of other Bank extensions of credit is not considered collection for the purpose of this paragraph.

[.11]10. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and Commissioner for review and comment a written plan to reduce the Bank's risk position in each loan relationship in excess of \$100,000 which is classified "Substandard" or "Doubtful" in the FDIC and OBRE January 14, 2002 Report of Examination. 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
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to improve the Bank's collateral position.

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

(i) Dollar levels to which the Bank shall reduce each asset within 3 months from the effective date of this ORDER; and (iii) 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 OBRE.

(d) Within 30 days from the receipt of any comments from the Regional Director and the Commissioner, and after the adoption of any recommended charges, the Bank shall approve the written plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow this written plan.

[.12]11. Within 60 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the loans listed for "Special Mention" in the FDIC and OBRE January 14, 2002 Report of Examination.

[.13]12. (a) As of the effective date of this ORDER, the Bank's loan committee shall meet at least monthly, and a majority of its members shall be directors who are not officers of the Bank, or of any subsidiary of the Bank, or of any of its affiliated organizations, and who are not related by blood or marriage to an officer of the Bank, or of any subsidiary of the Bank, or of any of its affiliated organizations.

(b) The loan committee shall, at a minimum, perform the following functions:

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

(ii) Review and monitor the status or repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" and "Doubtful" in the FDIC and OBRE January 14, 2002 Report of Examination, or that are included on the Bank's internal watch list.

(iii) Maintain written minutes of the committee meetings, including a record of the review and status of the aforementioned loans. Such minutes shall be made available at the next Bank board of directors' meeting.

[.14]13. (a) Within 30 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 shall be submitted to the Regional Director and Commissioner for review and comment within 45 days of the effective date of this ORDER.

(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 to ensure that all lending personnel are adhering to established lending procedures and that the board of directors is receiving timely and fully documented reports on loan activity;

(ii) Restricting the ability of Bank officers to override the decisions of the loan committee;

(iii) Prohibiting the origination or renewal of extensions of credit based upon the existence of a guaranty (except by a family member) or the existence of collateral where the primary obligor does not have an ability to repay the credit;

(iv) Requiring that all extensions of credit originated or renewed include a cash flow analysis based upon the borrower's entire debt structure in addition to the requested extension of credit;

(v) Requiring periodic construction property inspections to document the extent of and to estimate the percentage of construction completed;

(vi) Requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans listed for "Special Mention," and classified "Substandard" and "Doubtful" in the FDIC and [{{12-31-02 p.C-5623}}](#)

OBRE January 14, 2002 Report of Examination;

(vii) Requiring accurate reporting of past due loans to the loan committee on at least a monthly basis; and

(viii) Establishing controls and monitoring procedures for the Bank's subprime portfolio, including addressing the risks in the Bank's concentration of credit in subprime lending, tracking and monitoring delinquencies in the subprime portfolio, establishing specific collection procedures and repossession guidelines for subprime credits, establishing periodic Board reports reflecting the performance and dollar levels of the subprime portfolio, and establishing a requirement of a periodic analysis of the subprime portfolio to ensure the adequacy of the Bank's ALLL. For purposes of this ORDER, the Bank's subprime portfolio is comprised of those borrowers exhibiting

the characteristics listed on pages 5 and 6 of the FDIC and OBRE January 14, 2002 Report of Examination.

(c) Within 30 days from the receipt of any comments from the Regional Director and Commissioner, and after the adoption of any recommended changes, the board of directors shall approve the amended written loan policy, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the amended written loan policy.

[.15]14. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and Commissioner for review and comment a written plan addressing the Bank's rate sensitivity objectives and risk parameters in relation to capital and earnings. 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 the Bank's sensitivity to market rate procedures. Any subsequent revision of the plan shall also be submitted to the Regional Director and Commissioner upon completion. The initial plan shall include, at a minimum, provisions:

(i) Establishing measurement systems that adequately capture the Bank's interest rate risk and include reasonable and realistic assumptions that reflect the Bank's structure and balance sheet;

(ii) Establish procedures for periodic validation of the assumptions in the Bank's interest rate management systems; and

(iii) 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).

(b) Within 30 days from the receipt of any comments from the Regional Director and the Commissioner, 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 the plan.

[.16]15. (a) Within 60 days from the effective date of this ORDER, the Bank's Board of Directors shall review the Interagency Policy Statement on External Auditing Programs of Banks and Savings Associations (October 15, 1999). This review and the changes made by the Bank in its audit program as a result of the review shall be recorded in the applicable board of directors' minutes and forwarded to the Regional Director and Commissioner for review and comment. At a minimum, the audit program shall provide that: (a) the internal auditor shall make written monthly reports of audit findings directly and solely to the Bank's audit committee, comprised of at least 3 directors; (b) the audit committee members shall not be officers of the Bank, its affiliates or subsidiaries or related by blood or marriage to an officer of the Bank, its affiliates or subsidiaries; and (c) findings of the audit committee and any action taken as a result of the findings shall be recorded in the minutes of the meetings of the audit committee and reported to the Bank's board. The Bank shall thereafter implement and enforce an effective system of internal audits.

(b) Within 30 days from the receipt of any comments from the Regional Director and Commissioner, and after the adoption of any recommended changes, the Bank shall approve the revised audit program, which approval shall be recorded in the minutes of the board of directors' meeting. Thereafter, the Bank shall implement the revised audit program.

[.17]16. Within 30 days from the effective
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date of this ORDER, the Bank shall correct the deficiencies in internal routine and controls which are listed on pages 14-16 of the FDIC and OBRE January 14, 2002 Report of Examination. Additionally, the Bank shall establish policies to prevent the recurrence of any deficiencies noted.

[.18]17. (a) Following the effective date of this ORDER, the board of directors shall ensure that the Bank receives adequate, annual information systems audit coverage for the year 2002 and thereafter, as described in the OBRE IS Report.

(b) Within 180 days from the effective date of this ORDER, the Bank shall enforce full compliance with the information systems provisions of the audit program through the performance of timely IS audits and monthly reporting of the status and results of IS audit findings to the audit committee.

(c) Following implementation of the Bank's revised audit program, the Bank shall ensure that any IS audit findings or regulatory examination recommendations are addressed and corrected in a timely manner.

18. Within 30 days from the effective date of this ORDER, the Bank shall, within the assistance of legal counsel, execute a formal, written contract with the network consulting firm, LanTech Services, Inc., to formalize their existing relationship, or alternatively, execute a formal, written contract with any other network consulting firm.

[.19]19. (a) Within 60 days from the effective date of this ORDER, the Bank shall update the (1) audit, (2) data processing security, (3) wire transfer, and (4) personal computer policies. The board of directors shall review and approve the revised policies, which approval shall be recorded in the minutes of a board of directors' meeting.

(b) Within 60 days from the effective date of this ORDER, the Bank shall establish and implement standards for installing standard vendor application updates and emergency applications changes. The board of directors shall review and approve the standards, which approval shall be recorded in the minutes of a board of directors' meeting.

(c) Within 60 days from the effective date of this ORDER, the Bank shall establish and implement standards for effectively developing, acquiring, and utilizing information technologies. The board of directors shall review and approve the standards, which approval shall be recorded in the minutes of a board of directors' meeting.

[.20]20. Within 90 days from the effective date of this ORDER, the Bank shall establish a formal strategy to reduce the risk of unknowingly employing/engaging the services of individuals who have been convicted of a criminal offense or breach of fiduciary duty.

[.21]21. Within 30 days from the effective date of this ORDER, the Bank shall correct all computer operations deficiencies and establish and implement effective computer operations controls, as detailed in pages 9-11 of the OBRE IS Report.

22. Within 120 days from the effective date of this ORDER, the Bank shall correct the procedures for the use of the IBM AIX RISC 6000 operating system's root level access, as described in the OBRE IS Report.

23. (a) Within 90 days from the effective date of this ORDER, the Bank shall adequately segregate operational, administrative, and security activities, as described in the OBRE IS Report.

(b) Following the effective date of this ORDER, the Bank shall ensure that the operational and administrative activities that compromise and/or impair the internal auditor's audit independence, as described in the OBRE IS Report, immediately cease.

24. Within 120 days from the effective date of this ORDER, the Bank shall correct the following operating procedures for the VISION core banking application:

(a) The Bank shall assign only a limited number of employees user access levels that allow them to perform data security administration on the VISION application;

(b) The Bank shall develop and implement standards for assigning, maintaining, and monitoring strict user access levels and data security administration on the VISION application, including the use of a system authorization form;

(c) The Bank shall develop and implement standards for effectively reviewing customer information file maintenance performed on the VISION application; and

(d) The Bank shall develop and implement standards for dormant account handling.

25. Within 120 days from the effective date of this ORDER, the Bank shall correct all deficiencies related to the Windows NT

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operating system, identified on pages 13-14 of the OBRE IS Report.

26. Within 120 days from the effective date of this ORDER, the Bank shall correct all deficiencies in the operating procedures for the Fedline system, including the Fedline Master password controls and Fedline local security administration procedures.

27. Within 30 days from the effective date of this ORDER, the Bank shall update and maintain correct correspondent bank agreements with respect to wire transfer transactions.

28. Within 30 days from the effective date of this ORDER, the Bank shall comply with the requirements of its insurance carrier's provisions for a successful loss recovery claim under the voice-initiated wire transfer insurance rider.

29. Within 60 days from the effective date of this ORDER, the Bank shall update the Bank's Electronic Funds Transfer Disclosure Statement.

30. Within 30 days from the effective date of this ORDER, the Bank shall activate the encryption mechanism on the Bank's wireless Internet communication connection.

31. Within 120 days from the effective date of this ORDER, the Bank shall develop and implement a comprehensive information security program, pursuant to Section 501(b) of the Gramm-Leach-Bliley Act of 1999.

[.22]32. (a) 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.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, the Bank's board of directors shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled board of directors' meeting.

33. Within 75 days from the effective date of this ORDER, and, thereafter, within 30 days of the end of each calendar quarter, the Bank shall furnish to the Regional Director and Commissioner 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 Commissioner have, in writing, released the Bank from making further reports.

[.23]34. Following the effective date of this ORDER, the Bank shall send to its shareholders and to the shareholders of Community Holdings Corp. ("Bank Holding Company"), a copy or description of this ORDER: (1) in conjunction with the Bank's and the Bank Holding Company's next shareholder communications; and (2) in conjunction with the Bank's and Bank Holding Company's notice or proxy statement preceding their next shareholder meetings. The description shall fully describe this ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to Scott D. Clarke, Assistant Commissioner, Office of Banks and Real Estate, 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 or OBRE shall be made prior to dissemination of the description, communication, statement, or notice.

This ORDER shall be effective 10 calendar days after its issuance by the FDIC and OBRE.

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 provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and OBRE.

Pursuant to delegated authority.

Dated: October 25, 2002.

