

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

STATE OF ILLINOIS
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING

	)	
In the Matter of	)	CONSENT ORDER
	)	
WATERMAN STATE BANK	)	FDIC-12-021b
WATERMAN, ILLINOIS	)	2012-DB-07
	)	
(STATE CHARTERED	)	
INSURED NONMEMBER BANK)	)	
	)	

Waterman State Bank, Waterman, 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, by and through its duly elected and acting Board of Directors (“Board”) entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”) with representatives of the Federal Deposit Insurance Corporation (“FDIC”) and the Division, dated February 29, 2012, 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 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 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:

CAPITAL

1. (a) Effective June 30, 2012 and thereafter while this ORDER is in effect, the Bank shall maintain its level of Tier 1 capital as a percentage of its total assets (“capital ratio”) at a minimum of nine percent (“9%”) and its level of qualifying total capital as a percentage of risk-weighted assets (“total risk based capital ratio”) at a minimum of twelve percent (“12%”). 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 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 shareholder, 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 twenty (20) days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC's Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 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 ten (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.

(d) Should the Bank be unable to comply with the required capital levels in subparagraph (a) above, then within thirty (30) days of receipt of written direction from the Regional Director of the Chicago Regional Office ("Regional Director") and the Division, the Bank shall develop, adopt, and implement a written contingency plan detailing how the Bank intends to comply with the requirements of this capital provision. Said plan shall include, at a minimum:

- (i) timelines for implementation;
- (ii) requirements that all transactions shall be consummated in full compliance with all laws, rules, and regulations; and
- (iii) contingency provisions for the sale or merger of the Bank or a capital investment into the Bank.

A copy of the plan required by this paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the Division.

BOARD PARTICIPATION

2. (a) As of the effective date of this ORDER, the Board 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 and 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; internal control reviews including management's responses; reconciliation of general ledger accounts; 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 Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

(c) Within 60 days of the effective date of the ORDER, the Board shall provide for an independent review on the adequacy of the lending functions of the Bank. Staffing, collection procedures, policies and loan underwriting standards should be included as part of the review. Based on the results of the analysis, the Board will take all necessary steps to improve the Bank's lending function.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

3. (a) Within 30 days from the effective date of this ORDER, the Bank shall

develop, adopt, implement and adhere to a written plan to reduce the Bank's risk position in each asset, including loan participations, in excess of \$100,000, which are classified "Substandard" in the Joint FDIC/Division Report of Examination which began on November 28, 2011 ("ROE").

The plan shall include, but not be limited to, provisions which:

- (i) establish dollar levels to which the Bank shall reduce classified assets within 6 and 12 months from the effective date of this Order;
and
- (ii) provide for the submission of monthly written progress reports to the Board for review and notation in minutes of the meetings of the Board.

(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) The Bank shall within 30 days from the effective date of this ORDER submit a plan to the Regional Director and the Division that details the legal and collection measures that will be undertaken for all loan participations that are adversely classified, past due greater than 30 days, and matured and/or not performing in accordance with the outstanding loan notes or loan participation agreements.

(d) The plan required by this paragraph shall be submitted to the Regional Director and the Division.

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

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

4. (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 extension 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 the credit remains uncollected. Notwithstanding the preceding sentence, additional funds may be advanced or extended to such a borrower for the purpose of protecting or preserving the Bank's interest in the collateral securing an extension of credit if the Board has obtained the prior written consent of the Regional Director and the Division.

(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", or "Doubtful" in the ROE, and is uncollected unless the Board 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 meeting. A copy of the statement shall be placed in the appropriate loan file.

DIVIDEND RESTRICTION

5. 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES

6. Prior to submission or publication of all Call Reports required by the FDIC and the Division after the effective date of this ORDER, the Board shall review the adequacy of the Bank's allowance for loan and lease losses ("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 the provision provided. In making these determinations, the Board shall consider the Federal Financial Institutions Examination Council's Instructions for Report of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or the Division.

LENDING POLICY

7. Within 60 days from the effective date of this ORDER, the Bank shall amend its written lending policy, and adopt and incorporate the recommendations contained in the ROE. Such amendments to the Bank's written lending policy, and the implementation thereof, shall be satisfactory to the Regional Director and the Division as determined at subsequent examinations, and/or visitations.

LOAN ADMINISTRATION AND RISK MONITORING PLAN

8. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written loan administration and participation risk monitoring plan which will adopt and incorporate the recommendations contained in the ROE.

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

FEDERAL RESERVE ACCOUNT

9. Within 30 days of the effective date of this ORDER, the Bank shall establish and maintain an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through a clearing account balance.

NOTIFICATION TO SHAREHOLDER

10. 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.

PROGRESS REPORTS

11. 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 Board, 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 FDIC and the Division.

Pursuant to delegated authority.

Dated: April 4th, 2012.

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

/s/
Manuel Flores
Director
Illinois Department of
Financial and Professional
Regulation, Division of
Banking

