

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

_____)	
In the Matter of)	CONSENT ORDER
)	
NORSTATES BANK)	FDIC-12-290b
WAUKEGAN, ILLINOIS)	2012-DB-58
)	
(ILLINOIS CHARTERED)	
INSURED NONMEMBER BANK))	
_____)	

NorStates Bank, Waukegan, 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 (the "Division"), and having waived those rights, by and through its duly elected and acting Board of Directors ("Board") 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 January 9, 2013, 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:

MANAGEMENT

1. (a) The Board shall continue to evaluate management on an ongoing basis for the purpose of retaining qualified management. Management shall continue to 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.

BOARD PARTICIPATION

2. (a) The Board shall continue its increased 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 managements 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) The Board shall maintain in its place its program that provides for monitoring of the Bank's compliance with this ORDER.

(c) The Board shall continue to review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled monthly Board meeting.

CAPITAL

3. (a) As of the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of eight percent (8%) and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12 percent (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 shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 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 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.

CAPITAL PLAN

4. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall provide to the Regional Director and Division a written capital plan detailing how the Bank intends to comply with the requirements of the capital provision above. 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.

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

LOSS CHARGE-OFF

5. As of the effective date of this Order the Bank shall charge off from its books and records any asset classified

"Loss" in the FDIC's Report of Examination dated March 12, 2012 ("ROE") and in subsequent examinations or visitations.

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" in the ROE or subsequent examinations or visitations, 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 in the amount of \$10,000 or more to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard" in the ROE or subsequent examinations or visitations, 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.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall continue to maintain, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$1,000,000 which is delinquent or classified "Substandard" 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;
- (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 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) A copy of the plan required by this paragraph shall be submitted to the Regional Director and the Division.

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

CONCENTRATIONS OF CREDIT

8. (a) The Bank shall maintain, implement, and adhere to its written plan to manage each of the concentrations of credit identified in the ROE in a safe and sound manner. At a minimum the plan must continue to provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, and a limit on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

(b) A copy of the plan required by this paragraph shall be maintained by the Bank and shall remain available for review by examiners.

DIVIDEND RESTRICTION

9. 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

10. (a) After the effective date of this ORDER, and prior to submission of all Reports of Condition and Income required by the FDIC and the Division, the Board shall continue to 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 continue to 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 shall continue to follow 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 or Division.

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

PROFIT PLAN AND BUDGET

11. (a) The Bank shall maintain, implement, and adhere to its written profit plan and 2012 budget and shall develop a realistic, comprehensive budget for all categories of income and expense for calendar year 2013. The plans required by this paragraph shall continue to provide for 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 continue to 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) During each monthly Board meeting, the Board 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 meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

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

RESTRICTION ON GROWTH

12. During the life of this ORDER, the Bank shall not increase its total assets by more than five percent (5%) during any consecutive three-month period without providing, at least thirty (30) days prior to its implementation, a growth plan to the Regional Director and the Division. Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the Regional Director and the Division. In no event

shall the Bank increase its total assets by more than 15% percent annually. 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.

LIQUIDITY REPORTS

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

PROGRESS REPORTS

14. Within thirty (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: January 14 _____, 2013.

/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