

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
STATE BANK OF NAUVOO	)	
NAUVOO, ILLINOIS	)	FDIC-15-0214b
	)	2015-DB-19
(ILLINOIS CHARTERED	)	
INSURED NONMEMBER BANK)	)	
	)	

State Bank of Nauvoo, Nauvoo, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or regulation 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. Admin. Code Part 392, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking, ("Division"), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated November 18, 2015,

whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and violations of law or regulation relating to capital, asset quality, earnings and management, 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 decided to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and under Section 48(6) of the Illinois Banking Act, 205 ILCS 5/48(6) have been satisfied, the FDIC and the Division HEREBY ORDER that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, take affirmative action as follows:

MANAGEMENT

1. (a) During the life of this ORDER, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;

- (iii) Comply with applicable laws, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and Division's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act, 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

MANAGEMENT PLAN

2. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall retain an independent third party acceptable to the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division, who will develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and Division with a copy of the proposed engagement letter or contract with the independent third party for review.

(c) The Management Study shall be developed within one hundred and twenty (120) days from the effective date of this ORDER. The Management Study 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) 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;
- (iii) Evaluation of all Bank officer's compensation, including salaries, bonuses, director fees, and other benefits.

(d) Within sixty (60) days after receipt of the Management Study the Bank's board of directors shall develop and adopt a plan to implement the recommendations of the Management Study. This plan should include establishing and approving a Compensation Policy. The board of directors should consider the Bank's size, complexity and condition in determining the appropriate level of compensation for executive management. A copy of the plan and associated Compensation Policy required by this paragraph shall be submitted to the Regional Director and the Division.

BOARD PARTICIPATION

3. (a) As of the effective date of this ORDER, the Bank's 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 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. Minutes of the meeting of the board of directors shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 60 days from the effective date of this ORDER, the Bank's board of directors shall develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

4. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall have and maintain its leverage ratio at a minimum of eight percent (8.0%) and its total capital ratio at a minimum of twelve percent (12.0%). 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) If, while this ORDER is in effect, the Bank increases capital 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 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 in the materials requested to be made 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.

(d) Should the Bank be unable to reach the required capital levels within the time frames specified in subparagraph (a) above, or be unable to maintain those levels, then within sixty (60) days of receipt of written direction from the Regional Director and the Division, the Bank shall develop, adopt, and implement a written plan to sell or merge itself into another federally insured financial institution or to otherwise immediately obtain sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

5. (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 Report of Examination dated June 15, 2015 ("ROE"), or any subsequent report of examination

of the Bank by the FDIC or the Division issued during the life of this ORDER, 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" or "Doubtful" in the ROE, and is uncollected unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. A copy of the statement shall be signed by each director, and incorporated in the minutes of the applicable board of directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$50,000 which is delinquent or classified "Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit for the payment of interest, unless the board of directors 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 six (6) and twelve (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 FDIC and the Division.

(c) The plan required by this paragraph shall be acceptable 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.

REAPPRAISAL/REEVALUATION OF COLLATERAL

7. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall obtain an appraisal or collateral valuation for any owned real estate as well as any secured loan listed on the Bank's internal watch list, criticized in any internal or external audit report of the Bank, or criticized in the ROE or any future report of examination of the Bank by the FDIC or the Division, which has an outstanding principal balance in excess of \$50,000 and for which the existing appraisal is older than one year.

(b) Within thirty (30) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written reappraisal/reevaluation program ("Reappraisal Program") requiring that a collateral valuation shall be performed for any owned real estate as well as any secured loan listed on the Bank's internal watch list, criticized in any internal or external audit report of the Bank, or criticized in the ROE or any future report of examination of the Bank by the FDIC or the Division, which has an outstanding

principal balance in excess of \$50,000 and for which the existing appraisal is older than one year. Further, the Reappraisal Program will comply with the collateral monitoring requirements of 12 C.F.R. Part 323, Appendix A and the *Interagency Appraisal and Evaluation Guidelines* (FIL-82-2010, issued December 2, 2010) with respect to adversely classified loans.

PROFIT PLAN AND BUDGET

8. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall develop, 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 plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

(i) Realistic and comprehensive budgets;

- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) Identification of major areas in, and means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) During each monthly meeting of the board of directors following completion of the profit plans and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

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

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

STRATEGIC PLAN

9. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to 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:

- (i) Strategies for pricing policies and asset/liability management;
- (ii) Forecasts for maintaining a sound funds management position; and
- (iii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) The Bank shall approve the plan, which approval shall be recorded in the minutes of the next board of directors' meeting.

(d) Within thirty (30) days from the end of each calendar quarter following the effective date 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 revised thirty (30) days prior to the end of each calendar year for which this ORDER is in effect.

(f) The strategic plan and any revisions thereto shall be acceptable to the Regional Director and the Division.

DIVIDEND RESTRICTION

10. 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.

BONUS RESTRICTION

11. As of the effective date of this ORDER, the Bank shall not pay any bonus without the prior written consent of the Regional Director and the Division.

CORRECTION OF VIOLATIONS

12. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed in the ROE, and

implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

AUDIT

13. Within ninety (90) days from the effective date of this ORDER, the Bank shall retain a certified public accounting firm that has not provided auditing services to the Bank within the last five years and that is acceptable to the Regional Director and the Division to perform an audit of the financial statements and issue a report. The date of the audited financial statements shall be as of June 30, 2015. In addition, the audit should address the accounting concerns identified with accruals and accrual reversals associated with salaries and benefits, and revenues and expenses associated with the operation of other real estate owned properties or businesses referenced on pages 17 and 18 of the ROE.

INTEREST RATE RISK

14. Within sixty (60) days of 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* (June 26, 1996), and the *Supervisory Policy Statement on Investment Securities and End-User Derivatives Activities* (April

23, 1998), including but not limited to ensuring that assumptions used in interest rate monitoring reports are supported and specific to the Bank's experience.

LIQUIDITY

15. As of the effective date of this ORDER, the 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.

NOTIFICATION TO SHAREHOLDERS

16. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy of this ORDER: (a) in conjunction with the Bank's next shareholder communication; or (b) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

17. 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 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 the date of its issuance by the FDIC and the Division.

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: December 7 , 2015.

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

/S/
Michael J. Mannion
Director
Illinois Department of Financial
and Professional Regulation
Division of Banking