

#2001-112

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

In the Matter of:)
First National Bank of Sumner)
Sumner, Illinois)

AMENDED CONSENT ORDER

On or about May 17, 2001, the Comptroller of the Currency of the United States of America (Comptroller) and the First National Bank of Sumner, Sumner, Illinois (Bank), by and through its duly elected Board of Directors (Board), entered into a Consent Order that was designed to address certain problems that were uncovered by the Comptroller's National Bank Examiner (Examiner) during the March 31, 2001 examination of the Bank. The findings of that examination are contained in the March 31, 2001 Report of Examination (March 31, 2001 ROE) of the Bank.

On or about October 11, 2001, the Comptroller agreed to modify certain provisions of Article III of the May 17, 2001 Consent Order.

Now, the Bank, by and through its duly elected and acting Board, has executed a "Stipulation and Consent to the Issuance of an Amended Consent Order," dated 12/3/01, which is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Amended Consent Order by the Comptroller.

Pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

REPLACEMENT OF THE MAY 17, 2001 CONSENT ORDER BY THE AMENDED CONSENT ORDER

(1) The articles of the May 17, 2001 Consent Order are replaced in their entirety by this Amended Consent Order.

ARTICLE II

MONTHLY PROGRESS REPORTING

(1) The Board shall submit monthly progress reports to the Director for Special Supervision/Fraud, Office of the Comptroller of the Currency, Special Supervision/Fraud Division, 250 E Street, S.W., Washington, D.C. 20219. These reports shall set forth in detail:

- (a) actions taken to comply with each Article of the Amended Consent Order;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Amended Consent Order.

(2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the March 31, 2001 ROE or in any future Report of Examination.

(3) The first progress report shall be submitted for the period ending November 30, 2001 and will be due within fifteen (15) days of that date. Thereafter, progress reports will be due within ten (10) days after the month end.

ARTICLE III

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within forty-five (45) days, the Board shall ensure that the Bank has competent management in place on a full-time basis to carry out the Board's policies, to ensure compliance with this Amended Consent Order, applicable laws, rules and regulations, and to manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within thirty (30) days, the Board shall prepare a written review of the capabilities of the Bank's management to perform present and anticipated duties, considering the findings in the March 31, 2001 ROE. The written review shall include a written plan identifying what management changes should be made to ensure that the Bank has competent management.

(3) For management vacancies which exist now (e.g., retail loan specialist for the auto lending program, assuming that the Bank continues to be engaged in that line of business) or in the future, including if the Board realigns an existing officer's responsibilities and a management position becomes vacant, the Board shall, within thirty (30) days of such vacancy, appoint a capable person to the vacant position who shall be vested with sufficient authority to ensure that the officer can carry out the responsibilities of his/her position.

(4) Prior to the appointment of any individual to a management position, the Board shall submit to the Director for Special Supervision/Fraud the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and

(c) a written description of the proposed officer's duties and responsibilities.

(5) The Director for Special Supervision/Fraud shall have the power of veto over the employment of the proposed officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(6) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

ARTICLE IV

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by March 31, 2002, and shall thereafter maintain, the following capital levels (as defined in 12 C.F.R. Part 3):

- (a) Tier 1 capital at least equal to twelve and one half percent (12.5%) of risk-weighted assets;
- (b) Tier 1 capital at least equal to eleven percent (11%) of adjusted total assets.¹

(2) The requirement in this Amended Consent Order to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6, pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of Paragraph (1) of this Article;
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior determination of no supervisory objection by the Director for Special Supervision/Fraud.

(4) Upon completion, the Bank's capital program shall be submitted to the Director for Special Supervision/Fraud for prior determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Director for Special Supervision/Fraud, the Bank shall implement and shall adhere to the capital program. The Board shall review and shall update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Director for Special Supervision/Fraud.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(6) If the OCC determines, in its sole discretion, that the Bank has failed to submit an acceptable capital program as required by Paragraph (3) of this Article, or has failed to implement or adhere to a capital program for which the OCC has taken no supervisory objection pursuant to Paragraph (4) of this Article, then, within thirty (30) days of receiving written notice from the OCC of such fact, the Bank shall develop and shall submit to the OCC for its review and prior determination of no supervisory objection a Contingency Plan, which shall detail the Board's proposal to either: (i) sell or merge the Bank, or (ii) to liquidate the Bank, in conformance with 12 U.S.C. § 181, and in a manner that will result in no loss or cost to the Federal Deposit Insurance Corporation. The Bank agrees that it will not schedule a vote of its shareholders so as to seek their approval to liquidate the Bank prior to securing the OCC's written determination of no supervisory objection to the Contingency Plan. After the OCC has advised the Bank in writing that it does not take supervisory objection to the Contingency Plan, the Board shall immediately implement, and shall thereafter ensure adherence to, the terms of the Contingency Plan. Failure to submit a timely, acceptable Contingency Plan may be deemed by the OCC, in the exercise of its discretion, to constitute a violation of this Amended Consent Order.

(7) In lieu of developing a three-year capital program as required by Paragraph (3) of this Article, the Bank, within thirty (30) days of the effective date of this Order, may submit the written Contingency Plan required by Paragraph (6) of this Article to the OCC for its review and prior written determination of no supervisory objection.

(8) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the Contingency Plan developed pursuant to this Article.

ARTICLE V

STRATEGIC PLAN

(1) If the Bank elects to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, and if the OCC thereafter determines that it has supervisory objections to the Contingency Plan, then within thirty (30) days from the date that the OCC issues its written determination of supervisory objection to the Contingency Plan, the Board shall adopt, implement, and shall thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. Alternatively, should the Board not elect to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, then within thirty (30) days from the effective date of this Order, the Board shall adopt, implement, and shall thereafter ensure Bank adherence to a written strategic plan covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, shall include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;

- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be used, and market segments that will be developed, so as to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) an action plan to improve the Bank's earnings, and to accomplish identified strategic goals and objectives. The action plan shall address, inter alia, individual responsibilities, accountability, and specific time frames for achievement of goals and objectives;
- (g) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (h) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (i) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and

(j) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Director for Special Supervision/Fraud for prior written determination of no supervisory objection.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of, and adherence to, the plan developed pursuant to this Article.

ARTICLE VI

LENDING PROHIBITION

(1) Effective immediately, the Bank shall not extend, renew, endorse, guarantee, or in any manner provide any extension of credit whatsoever to, or for, any of the following:

- (a) Auto, van, or truck rental companies, or auto, van, or truck leasing companies; and
- (b) Commercial water-going vessels, including, but not limited to, ferrys, fishing boats, cargo boats, and barges, and businesses related thereto, including ship docking and loading terminals.

(2) Notwithstanding the prohibition contained in Paragraph (1) of this Article, the Bank may advance funds, renew existing debt, or make additional extensions of credit to or for one of the entities listed in Paragraph (1) of this Article, for the sole purpose of protecting its interests with respect to an existing loan or asset. In order to qualify as a permissible advance, renewal, or extension of credit, the advance, renewal or, extension must meet each of the following criteria:

- (a) with respect to advances, renewals or extensions of credit to any of the entities described in Paragraph (1)(b) of this Article, the advance, renewal, or extension is made only upon the written recommendation of the loan workout specialist described in Article XI (Vessel Portfolio Action Plans);
- (b) with respect to any criticized assets for which action plans or programs were developed pursuant to Article XI (Vessel Portfolio Action Plans) and/or Article XII (Criticized Assets), a comparison to the written action plan or program adopted pursuant to that Article(s) shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised; and
- (c) the Board finds that the advance, renewal, or extension of additional credit is necessary to promote the best interests of the Bank and that, prior to advancing, renewing, extending any additional credit, a majority of the Board not involved in the origination or management of the underlying loan or asset approves that action and records, in writing, why such action is necessary to promote the best interests of the Bank.

(3) A copy of the approval of the Board shall be maintained in the file of the affected borrower, and shall be forwarded to the Director for Special Supervision/Fraud.

ARTICLE VII

PARTICIPATIONS PURCHASED OR SOLD

(1) The Bank shall not purchase, assume or acquire in any manner, directly or indirectly, or as a fiduciary or nominee, any loan, loan participation, loan obligation or other asset from any insider of the Bank or from the immediate family of an insider.

(2) The Bank shall not sell or transfer in any manner, directly or indirectly, any loan, loan participation, loan obligation or other asset of the Bank to any insider or to the immediate family of an insider.

(3) For purposes of this Article, “insider” and “immediate family” shall have the meanings as set forth in 12 C.F.R. § 215.2.

ARTICLE VIII

LENDING POLICY

(1) If the Bank elects to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, and if the OCC thereafter determines that it has supervisory objections to the Contingency Plan, then within thirty (30) days from the date that the OCC issues its written determination of supervisory objection to the Contingency Plan, the Board shall review and shall revise the Bank's written loan policy. Alternatively, should the Board not elect to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, then within sixty (60) days from the effective date of this Order, the Board shall review and shall revise the Bank's written loan policy. In revising this policy, the Board shall refer to the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;
- (b) a provision that current and satisfactory credit information will be obtained on each borrower;
- (c) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (d) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (e) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (f) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;
- (g) a definition of the Bank's trade area;
- (h) guidelines and limitations for loans originating outside of the Bank's trade area;
- (i) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;
- (j) distribution of loans by category;
- (k) a prohibition against the use of brokered deposits to fund future loan growth or to support criticized loans;
- (l) guidelines for loans to insiders, including a statement that such loans will not be granted on terms more favorable than those offered to similar outside borrowers;
- (m) guidelines and limitations on concentrations of credit;

- (n) measures to correct the deficiencies in the Bank's lending procedures noted in any Report of Examination;
- (o) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk. At a minimum, the policy shall:
 - (i) establish limits on the type and dollar amount of extensions of credit that may be made by loan officers to any one borrower, above which the prior approval of the Board, or a committee thereof, would be required;
 - (ii) establish dollar limits on aggregate extensions of credit to any one borrower, above which any new extensions of credit to that borrower, regardless of amount, would require the prior approval of the Board, or a committee thereof; and
 - (iii) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written strategic plan, receive the prior approval of the Board, or a committee thereof.
- (p) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum, the policy shall:
 - (i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and
 - (ii) provide guidelines and limitations on the capitalization of interest;

- (q) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery;
- (r) revised underwriting guidelines for granting collector car loans, taking into account the Bank's risk tolerance, its ability to employ or contract capable management to oversee collector car underwriting, its ability to sustain adequate capital in relation to its risk, as well as underwriting guidelines for antique vehicles, new collector vehicles, and used collector vehicles; and
- (s) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(2) Upon adoption, the policy shall be implemented, the Board shall thereafter ensure Bank adherence to the policy, and a copy of the policy shall be forwarded to the Director for Special Supervision/Fraud for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE IX

INTERNAL LOAN REVIEW

(1) If the Bank elects to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, and if the OCC thereafter determines that it has

supervisory objections to the Contingency Plan, then within thirty (30) days from the date that the OCC issues its written determination of supervisory objection to the Contingency Plan, the Board shall employ a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases. Alternatively, should the Board not elect to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, then the Board shall, within thirty (30) days of the effective date of this Order, employ a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) Within sixty (60) days from the effective date of this Amended Consent Order, the Board shall establish an effective, independent and on-going loan review system to review, at least quarterly, the Bank's loan and lease portfolios to ensure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in the Rating Credit Risk booklet, A-RCR, of the Comptroller's Handbook. Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) the identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit-related violations of law, rule or regulation;
- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of this Article;

- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, and principal shareholders (and their related interests) of the Bank; and
- (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) If the Bank elects to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, and if the OCC thereafter determines that it has supervisory objections to the Contingency Plan, then within thirty (30) days from the date that the OCC issues its written determination of supervisory objection to the Contingency Plan, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for the independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis.

Alternatively, should the Board not elect to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, then the Board shall, within sixty (60) days of the effective date of this Order, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program providing for the independent review of problem loans and leases in the Bank's loan and lease portfolios for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require a quarterly report to the Board. At a minimum, the program shall provide for an independent reviewer's assessment of the Bank's:

- (a) monitoring systems for early problem loan identification to ensure the timely identification and rating of loans and leases based on lending officer submissions;

- (b) statistical records that serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, indirect dealer, and individual lending officer;
- (c) system for monitoring previously charged-off assets and their recovery potential;
- (d) system for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and
- (e) system for monitoring the adequacy of credit and collateral documentation.

(4) A written description of the program called for in this Article shall be forwarded to the Director for Special Supervision/Fraud upon implementation.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(6) The Board shall evaluate the internal loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(7) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE X

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days, the Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance), and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's quarterly loan review;
- (b) an estimate of inherent loss exposure on each credit in excess of fifty thousand dollars (\$50,000), excluding home real estate mortgages;
- (c) loan loss experience, including in significant loan categories such as vessel, vehicle rental, and collector cars;
- (d) trends of delinquent and nonaccrual loans;
- (e) concentrations of credit;
- (f) present and prospective economic conditions; and
- (g) other internal and external factors outlined in the Allowance booklet, A-ALLL, of the Comptroller's Handbook.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the

factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) A copy of the Board's program shall be submitted to the Director for Special Supervision/Fraud for review and prior determination of no supervisory objection.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XI

VESSEL PORTFOLIO ACTION PLANS

(1) The Board shall continue to have in its employ, or under contract, an individual with demonstrated experience and skills in managing a bank loan workout program to manage the restoration, reclamation, and disposition of assets, including loans charged off within the past 18 months, involving commercial water-going vessels, including, but not limited to, ferrys, fishing boats, cargo boats, and barges, and businesses related thereto, including ship docking and loading terminals, consistent with OCC Banking Circular 255. This individual shall report to the Board, and shall be independent of the Bank's credit origination function.

(2) If changes are made to the loan workout specialist, the qualifications of the new loan workout specialist considered for employment in this position shall be submitted to the Director for Special Supervision/Fraud for review and the opportunity to express supervisory objection to the candidate's employment. Failure to express supervisory objection shall not constitute an approval or endorsement of the individual employed.

(3) The Board, in consultation with the loan workout specialist, shall take all steps necessary to improve the operation of the Bank's commercial sea vessel loan workout function, including drafting a written action plan for each loan in this portfolio. Each action plan should include, at a minimum:

- (a) the identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism, if any, and a time frame for accomplishing this.

(4) The Board, in consultation with the loan workout specialist, shall develop a written action plan to further the collection and recovery for all commercial sea vessel loans charged off within the past 18 months, except those which are in litigation and which possess only a remote possibility of recovery.

(5) The Board shall ensure that the loan workout specialist receives staffing and funding support necessary to maintain a sound operation.

(6) The President of the Bank shall cooperate with the loan workout specialist regarding the commercial sea vessel loans.

(7) Any decision to abandon collection efforts in connection with a loan in this loan workout program shall be approved by a majority of the Board who were not involved in the origination or management of the underlying credit. The Board members shall record, in writing, why such action was deemed to be in the best interests of the Bank.

(8) The Board, or a designated committee of the Board, shall conduct a review, on at least a monthly basis, to determine:

- (a) management's adherence to the action plans adopted pursuant to this Article;
- (b) the status and effectiveness of the written action plans; and
- (c) the need to revise the plans, or to take alternative action.

(9) A copy of each initial action plan and each monthly review shall be forwarded to the Director for Special Supervision/Fraud on a monthly basis.

ARTICLE XII

CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the March 31, 2001 ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the March 31, 2001 ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;

- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding fifty thousand dollars (\$50,000) shall be forwarded to the Director for Special Supervision/Fraud.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds fifty thousand dollars (\$50,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or to take alternative action.

(6) A copy of each review shall be forwarded to the Director for Special Supervision/Fraud on a monthly basis in a format similar to Appendix A, attached hereto.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are

criticized in the March 31, 2001 ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed fifty thousand dollars (\$50,000) only if each of the following conditions is met:

- (a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that, prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or designated committee) approves the credit extension and records, in writing, why the extension is necessary to promote the best interests of the Bank; and
- (b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE XIII

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within sixty (60) days, the Board shall obtain current and satisfactory credit information on all loans lacking such information, including those listed in the March 31, 2001 ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) Within sixty (60) days, the Board shall ensure proper collateral documentation is maintained on all loans and shall correct each collateral exception listed in the March 31, 2001 ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) failure to obtain the information in (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank; and
 - (ii) a copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by the Comptroller during subsequent examinations of the Bank; and
- (e) documenting, with adequate supporting material, the value of collateral

and properly perfecting the Bank's lien on it where applicable.

ARTICLE XIV

ASSET/LIABILITY MANAGEMENT POLICY

(1) If the Bank elects to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, and if the OCC thereafter determines that it has supervisory objections to the Contingency Plan, then within thirty (30) days from the date that the OCC issues its written determination of supervisory objection to the Contingency Plan, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written liquidity, asset and liability management policy. Alternatively, should the Board not elect to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, then the Board shall, within sixty (60) days of the effective date of this Order, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written liquidity, asset and liability management policy. In formulating this policy, the Board shall refer to the Liquidity booklet, L-L, of the Comptroller's Handbook. The policy shall provide for a coordinated asset/liability management strategy and, at a minimum, shall address:

- (a) adequate management reports that enable the Board and management to monitor the Bank's liquidity position and to maintain liquidity at an adequate level;
- (b) the liquidity, maturity and pledging requirements of the investment portfolio;
- (c) development of a liquidity contingency plan that includes, but is not limited to, the following elements:

- (i) responsibilities of senior management during a funding crisis;
 - (ii) various deposit run-off scenarios for forward planning purposes;
 - (iii) external borrowing lines;
 - (iv) process and borrowing capacity with the Federal Reserve Bank;
and
 - (v) monthly reports to the Board summarizing available lines of credit,
and projected sources and uses of funds;
- (d) the nature, extent and purpose of Bank borrowings;
 - (e) limits on concentrations of funding sources; and
 - (f) periodic review of the Bank's adherence to the policy.

(2) Upon adoption, a copy of the written policy shall be forwarded to the Director for Special Supervision/Fraud for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE XV

VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that the Bank corrects each violation of law, rule or regulation cited in the March 31, 2001 ROE and in any subsequent Report of Examination. The monthly progress reports required by Article II of this Amended Consent Order shall include the date and manner in which each correction has been effected during that reporting period.

(2) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the March 31, 2001 ROE, and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Within sixty (60) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in that ROE, and shall adopt, implement, and ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(4) Upon adoption, a copy of these procedures shall be promptly forwarded to the Director for Special Supervision/Fraud.

(5) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

ARTICLE XVI

REFILE CALL REPORTS

(1) Within thirty (30) days, the Board shall cause the Bank to file amended Reports of Condition and Income (call reports) for the periods ending:

- (a) June 30, 2001 and September 30, 2001 to bring accounting for deferred taxes into accordance with guidance with the Instructions for Preparation of Consolidated Reports of Condition and Income; and
- (b) March 31, 2001, December 31, 2000, September 30, 2000, June 30, 2000, March 31, 2000, December 31, 1999, and September 30, 1999 to ensure that loans are properly risk rated, loan losses and nonaccrual loans are identified, and adequate provision expenses are recognized in the quarter they were identifiable.

(2) Within thirty (30) days, the Board shall adopt and cause the Bank to implement policies and procedures, in accordance with the Instructions for Preparation of Consolidated Reports of Condition and Income, to ensure that all official and regulatory reports filed by the Bank accurately reflect the Bank's condition as of the date that such reports are submitted. Thereafter the Board shall ensure Bank adherence to the policies and procedures adopted pursuant to this Article.

(3) Upon completion of the policies, the Board shall submit a copy of the policies to the Director for Special Supervision/Fraud.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies developed pursuant to this Article.

ARTICLE XVII

BOOKS AND RECORDS

(1) Until authorized by the Director for Special Supervision/Fraud, the Bank shall suspend the operation of any document destruction program it may have. The Bank is expressly prohibited from destroying, altering, or removing any of its records (including, but not limited to, general ledger tickets, proof tapes, all documentation of outstanding and paid off loans, and documentation of all transactions in all deposit account), government records, OCC documents, or communications in either tangible or electronic form.

(2) Within thirty (30) days, the Board shall take all steps necessary to ensure that the Bank's books and records are restored to complete and accurate condition.

(3) The Board shall ensure that, once restored to complete and accurate condition, the Bank's books and records are maintained in a complete and accurate condition.

ARTICLE XVIII

INTERNAL AUDIT

(1) If the Bank elects to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, and if the OCC thereafter determines that it has supervisory objections to the Contingency Plan, then within thirty (30) days from the date that the OCC issues its written determination of supervisory objection to the Contingency Plan, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written independent, internal audit program. Alternatively, should the Board not elect to submit a Contingency Plan to the OCC as provided for under Paragraph (7) of Article IV of this Order, then the Board shall, within sixty (60) days of the effective date of this Order, the Board shall adopt, implement, and

thereafter ensure Bank adherence to a written independent, internal audit program. The internal audit program adopted shall:

- (a) detect irregularities in the Bank's operations and internal controls;
- (b) determine the Bank's level of compliance with all applicable laws, rules and regulations;
- (c) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards, internal loan review, and problem loan identification and classification;
- (d) ensure adequate audit coverage in all areas; and
- (e) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to

the Board that shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that the auditors maintain a written record describing those actions.

(7) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program shall be promptly submitted to the Director for Special Supervision/Fraud.

ARTICLE XIX

TRANSACTIONAL REQUIREMENTS

- (1) Effective immediately, the Board shall ensure that:
 - (a) all wire transfers are conducted in accordance with safe and sound banking guidelines, transfers to one entity of one million dollars (\$1,000,000) or more, whether individually or in the aggregate, are approved in advance by the Board and all wire transfer activity is reviewed at each monthly Board meeting;
 - (b) travel expenses for bank business are reimbursed only if such expenses are approved by the Board before reimbursement, supported by receipts, and supported by any other necessary documentation;

- (c) new contracts, contract renewals, and contract modifications in excess of \$10,000 with any parties to conduct bank business are reviewed and approved in advance by the Board; and
- (d) employment contracts, any salary decisions or changes, and any employee benefit decisions or changes are reviewed and approved in advance by the Board.

(2) All activities discussed in Paragraph (1)(a) through (1)(d) of this Article shall be clearly recorded in the Board minutes.

(3) Effective immediately, the Bank is prohibited from making any payments or issuing any wires, credits, or official checks, including, but not limited to, cashier's checks, money orders, travelers checks, expense checks, and teller's checks, directly or indirectly, to President Joseph Johnson or Vice President Lyle Puzey, their related interests, or assigns, without the prior written approval of a majority of the disinterested members of the Board.

(4) Notwithstanding Paragraph (3) of this Article, the Bank may issue properly and currently authorized, pre-determined salary checks and director fees so long as a majority of the disinterested members of the Board authorizes such payments in advance and in writing.

ARTICLE XX

CLOSING

(1) Although the Board is by this Amended Consent Order required to submit certain proposed actions and programs for the review or approval of the Director for Special Supervision/Fraud, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Amended Consent Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Amended Consent Order shall begin to run from the effective date of this Amended Consent Order. Such time limitations may be extended in writing by the Director for Special Supervision/Fraud for good cause upon written application by the Board.

(4) The provisions of this Amended Consent Order are effective upon issuance of this Amended Consent Order by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Amended Consent Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) This Amended Consent Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract

affecting the OCC's exercise of its supervisory responsibilities. The terms of this Amended Consent Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

IT IS SO ORDERED, this 3rd day of December, 2001.

/s/ Ronald G. Schneck

12/3/01

Ronald G. Schneck
Director for Special Supervision/Fraud
Special Supervision/Fraud Division

Date

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

In the Matter of:)
First National Bank of Sumner)
Sumner, Illinois)

**STIPULATION AND CONSENT TO THE ISSUANCE
OF AN AMENDED CONSENT ORDER**

The Comptroller of the Currency of the United States of America (Comptroller) is contemplating initiating cease and desist proceedings against First National Bank of Sumner, Sumner, Illinois (Bank), pursuant to 12 U.S.C. § 1818(b).

The Bank, in the interest of compliance and cooperation, consents to the issuance of an Amended Consent Order, dated 12/3/01 (Amended Consent Order);

In consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

JURISDICTION

The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

ARTICLE II

AGREEMENT

The Bank hereby consents and agrees to the issuance of the Amended Consent Order by the Comptroller. The Bank further agrees that the Amended Consent Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C.

§ 1818(h)(2), and consents and agrees that the Amended Consent Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i).

ARTICLE III

WAIVERS

The Bank, by signing this Stipulation and Consent, hereby waives:

- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
- (b) any and all procedural rights available in connection with the issuance of the Amended Consent Order;
- (c) all rights to seek any type of administrative or judicial review of the Amended Consent Order; and
- (d) any and all rights to challenge or contest the validity of the Amended Consent Order.

ARTICLE IV

OTHER ACTION

The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank

if, at any time, he deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set his hand on behalf of the Comptroller.

/s/ Ronald G. Schneck
Ronald G. Schneck
Director for Special Supervision/Fraud
Special Supervision/Fraud Division

12/3/01
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

-signed-
Joseph E. Johnson

11-30-01
Date

Melinda Myer

Date

-signed-
Christina M. Puzey

11/30-01
Date

-signed-
Lyle D. Puzey

11/30-01
Date

-signed-
Bernice M. Wright

11/30-01
Date
