#2004-120

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

In the Matter of:	)
	)
Peoples National Bank of Kewanee	)
Kewanee, Illinois	)

CONSENT ORDER

Peoples National Bank of Kewanee, Kewanee, IL ("Bank") and the Comptroller of the Currency of the United States of America ("Comptroller") wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through her National Bank Examiner, has examined the Bank, and her findings are contained in the Report of Examination, dated March 19, 2003 ("ROE").

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a Stipulation and Consent to the Issuance of a Consent Order ("Stipulation and Consent"), dated __10/26/04___, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order ("Order") by the Comptroller.

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

ARTICLE I

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which none shall be employees of the Bank. Upon appointment, the

Board shall submit in writing the names of the Compliance Committee members to the Director for Special Supervision ("Director"). The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) actions taken to comply with each Article of this Order; and

(b) the results of those actions.

(4) Within fifteen (15) days of receipt, the Board shall forward a copy of the Compliance Committee's progress report, with any additional comments by the Board, to the Director.

ARTICLE II

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall develop a written strategic plan for the Bank 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 non-performing 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, 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, including a determination of the Bank's overall risk profile;

(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 utilized to accomplish the strategic goals and objectives established in subparagraph (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 subparagraph (1)(c) of this Article;

(f) a management employment and succession program to promote the retention and continuity of capable management;

(g) product line and market segments that the Bank intends to promote or develop;

(h) an action plan to accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;

(i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the three-year period covered by the strategic plan;

(j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank’s operating environment;

(k) 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

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

(2) Prior to adoption by the Board, a copy of the strategic plan, and any subsequent amendments or revisions, shall be forwarded to the Director for review and prior determination of no supervisory objection.

(3) Immediately upon receipt of a written determination of no supervisory objection, the Board shall adopt, implement and thereafter ensure compliance with the terms of the strategic plan developed pursuant to this Article.

(4) The Bank may not deviate significantly from the Board-approved strategic plan without a written determination of supervisory non-objection from the Director. The Board must give the Director at least sixty (60) days advance, written notice of its intent to deviate significantly from the strategic plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the strategic plan.

(5) For the purposes of this Article, changes that may constitute a significant deviation from the strategic plan include, but are not limited to, any significant deviations from marketing strategies, marketing partners, or acquisition channels; underwriting practices and standards; credit administration; account management strategies and test programs; collection strategies, partners, or operations; fee structure, pricing, or fee application methods; accounting processes and practices; funding strategy; or any other changes in personnel, operations, or external factors that may have a material impact on the Bank's operations or financial performance.

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

ARTICLE III

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall maintain the following minimum capital levels (as defined in 12 C.F.R. Part 3)[1]:

(a) Tier 1 capital at least equal to ten percent (10%) of risk-weighted assets;

(b) Tier 1 capital at least equal to eight percent (8%) of adjusted total assets.

(2) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure adherence to a three-year capital plan that is consistent with the strategic plan developed pursuant to Article II. The capital plan shall include:

(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;

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[1] The requirement to meet and maintain a specific capital level means that the Bank cannot 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).

(e) contingency plans that identify alternative sources to strengthen the Bank’s capital structure should the primary source(s) under subparagraph 2(d) of this Article be unavailable;

(f) a dividend policy that permits the declaration of a dividend only:

(i) when the Bank is in compliance with its approved capital plan ;

(ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and

(iii) with the prior written determination of no supervisory objection by the Director.

(3) Upon completion, the Bank's capital plan shall be submitted to the Director for prior determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Director, the Bank shall implement and ensure adherence to the capital plan. The Board shall review and update the Bank's capital plan on an annual basis or more frequently if necessary, or if requested by the Director. Revisions to the Bank’s capital plan shall be submitted to the Director for 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 IV

STAFFING PLAN

(1) Within thirty (30) days of the adoption of the Bank's strategic plan pursuant to Article II, the Board shall develop and implement a staffing plan that is consistent with the goals and objectives established in the Bank's strategic plan and that accomplishes the overall risk profile established for the Bank. At a minimum, the staffing plan shall consist of the following:

(a) identification of the skills and expertise needed to develop, market, and administer the products identified in the strategic plan;

(b) identification of the skills and expertise of the Bank's current staff;

(c) comparison of the current staff's skills and expertise identified in subparagraph (1)(b) of this Article to the skills and expertise identified in subparagraph (1)(a) of this Article as necessary to develop, market, and administer the products that will be utilized in accomplishing the Bank's goals and objectives; and

(d) identification of the changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in subparagraph (1)(a) of this Article.

(2) The Board shall ensure that the Bank adheres to the staffing plan.

(3) Upon completion, the Board shall provide a copy of its staffing plan to the Director for review.

ARTICLE V

TRUST PREFERRED INCOME NOTES

(1) Within sixty (60) days, the Board shall prepare a written analysis of the trust preferred income notes which fully assesses the risks and benefits of this line of business. This analysis shall be consistent with the guidance contained in OCC Bulletin 2002-19 concerning Unsafe and Unsound Investment Portfolio Practices and include an assessment of the Bank's controls, procedures, MIS (as hereinafter defined) and management of the trust preferred income notes, and shall tie directly to the Bank's strategic plan.

(2) Within sixty (60) days the Board shall review current loan and investment policies and ensure they have appropriate prudential controls, including minimum quality and diversification requirements, and limits on the percentage of capital allocated to income notes or other collateralized debt obligations.

(3) The Board shall ensure that it receives, at least monthly, a report on any income note or other collateralized debt obligation that is not current, and any adverse information concerning income notes or any other collateralized debt obligations held by the Bank.

(4) Within sixty (60) days the Board shall retain a qualified professional to, on a quarterly basis:

(a) determine the projected future cash flows of each trust preferred income note in order to accurately account for the interest that is applied to each note; and

(b) determine the fair value of each security and determine if any impairment must be recognized as "other than temporary", consistent with the requirements of EITF 99-20 and EITF 03-01.

(5) On a quarterly basis the Bank and its accountants must review the risk-based capital guidance contained in Appendix A to 12 C.F.R. 3, regarding capital treatment of recourse, direct credit substitutes and positions in securitizations, to ensure the appropriate risk-weight and computation of Tier 1 capital for these instruments is used in computing the Bank's capital. The position adopted by the Bank regarding whether these Income Notes are direct credit substitutes or credit-enhancing interest only strips must be provided in writing to the Director for his review.

ARTICLE VI

NEW PRODUCTS OR SERVICES

(1) Prior to the Bank's involvement in any new products or services the Board shall prepare a written analysis of said product or service. The analysis shall, at a minimum, include the following:

(a) an assessment of the risks and benefits of the product or service to the Bank;

(b) an explanation of how the product or service is consistent with the Bank's strategic plan;

(c) an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS (as hereinafter defined), internal controls and written policies and procedures to identify, measure, monitor, and control the risks associated with the product or service; and

(d) a profitability analysis, including growth projections and interest rate risk.

(2) Prior to the Bank's involvement in the new product or service, a copy of the analysis under paragraph (1) above shall be submitted to the Director.

ARTICLE VII

SAFE AND SOUND PURCHASES FOR OUT-OF-TERRITORY LENDING, INCLUDING ALL THIRD PARTY VENDORS

(1) The Bank shall only grant or purchase loans that are out of territory or from any third party vendor, including written or verbal agreements to substitute for loans or other

obligations currently carried on the Bank's books, if such decisions to grant, purchase or to accept in substitution are supported by the following:

(a) documentation that provides complete information on the transaction including the correct name of the borrower, the amount of funds disbursed to the borrower, and all disclosures that are required to be made to the borrower under all prevailing laws and implementing regulations;

(b) documentation of the original amount funded to the borrower, and the amount of cash disbursed by the Bank;

(c) a full description of any collateral taken, including its fair value, and verification of perfection of the Bank's security interest;

(d) a full payment history for the loan, from inception to the date the loan was acquired by the Bank;

(e) current and complete financial information on the borrower, including current financial statements, current income information including tax returns with pertinent schedules to support debt service, and current Credit Bureau Reports, for borrowers and any co-signers and guarantors;

(f) a fully documented credit analysis, conducted by a qualified Bank officer, including a written evaluation of the ability of the borrower to accomplish debt service at any and all repayment levels contained in the contract, and an evaluation of the level of support provided by any collateral and/or guarantees securing the debts;

(g) sufficient documentation for the debt to income ratio and debt service calculations, to include the income figures and how it was determined and an itemized list of each debt used for monthly debt calculation or debt service requirements; and

(h) evidence of prior review and approval by the Board of Directors or a Credit Committee that consists of at least one outside director on all credits that are out-of-territory, including substitutions.

(2) 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 VIII

MANAGEMENT INFORMATION SYSTEMS FOR THE PORTFOLIO OF PURCHASED CREDITS

(1) The Board shall, within thirty (30) days, develop, implement, and thereafter ensure Bank adherence to a written program establishing an effective management information system ("MIS") governing the underwriting and administration of loans or other credit obligations from third party vendors that facilitates risk identification, establishes controls, and delivers accurate information for timely review. In so doing, the Board shall identify the Bank's specific information requirements, and establish effective reporting mechanisms to guide decisions. The program shall include procedures for:

(a) adoption of written guidelines to management for the types of loans or other credit obligations to be purchased by the Bank, including guidelines for the volume of credits to be purchased in total, volume of credit to be purchased from any one vendor, and underwriting guidelines for such credits;

(b) ensuring that the Bank's credit criteria are conveyed to each third party vendor, and that each credit purchased or otherwise acquired meets those credit criteria or that exceptions are fully documented and reported to the Board;

(c) execution and maintenance of comprehensive, signed original contracts with any third party engaged to provide services to the Bank for the administration of such loans;

(d) execution and maintenance of comprehensive, signed original contracts with any third party providing any form of servicing of loans or other credit obligations acquired from third party vendors;

(e) expediting the timely delivery of current information;

(f) establishing controls to ensure the accuracy and confidentiality of information;

(g) ensuring that data are processed and compiled uniformly to facilitate meaningful trend analysis and provide for future systems changes;

(h) producing completed and relevant information in a summarized form, for Board and management reports, to permit effective decision making;

(i) identifying, recording, and tracking missing, incomplete, or imperfect loan and collateral documentation;

(j) generating periodic reports, on at least a monthly basis, which identify emerging problem loans and identified problem loans;

(k) maintaining a system by which the Board, or a delegated committee of the Board, can identify at the time of extension of credit, the aggregate customer liability relationship of that customer with the Bank;

(l) maintaining systems and reports which identify and analyze portfolio concentrations, including commitments by type, collateral, and location; and

(m) maintaining a system to calculate each concentration as a percentage of total capital.

(2) 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.

(3) As a part of the Board's ongoing responsibility to ensure that the Bank has an effective MIS, the Board shall designate a senior officer to coordinate the execution of this program.

(4) The Board shall submit a copy of the program to the Director.

ARTICLE IX

CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written asset diversification program consistent with OCC Banking Circular 255. The program shall include, but not necessarily be limited to, the following:

(a) a review of the balance sheet to identify any concentrations of credit;

(b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;

(c) policies and procedures to control and monitor concentrations of credit; and

(d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in Section 216 of the Comptroller's Handbook for National Bank Examiners.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph 1(b) of this Article and that the analysis demonstrates that the concentration will not subject the Bank to undue credit or interest rate risk.

(4) The Board shall forward a copy of any analysis performed on existing or potential concentrations of credit to the Director immediately following the review.

(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.

ARTICLE X

VIOLATIONS OF LAW

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

(2) Within thirty (30) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to specific procedures to prevent future violations as cited in the 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 thirty (30) 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 the 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.

(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 XI

CLOSING

(1) Although the Board by this Order has agreed to submit certain programs and reports to the Director for review, prior approval, or prior determination of no supervisory objection, 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 her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) In each instance in this Order in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

(a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Order;

(b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;

(c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and

(d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(4) Any time limitations imposed by this Order shall begin to run from the effective date of this Order. Such time requirements may be extended in writing by the Director for good cause upon written application by the Board.

(5) The provisions of this Order shall be effective upon issuance of this Order by the Comptroller, through her 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 Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(6) This 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 Comptroller or the United States. The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IT IS SO ORDERED, this 26th day of October, 2004.

/s/ Ronald G. Schneck
Ronald G. Schneck
Director for Special Supervision
Office of the Comptroller of the Currency

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

In the Matter of:	)
	)
Peoples National Bank of Kewanee	)
Kewanee, Illinois	)

STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER

The Comptroller of the Currency of the United States of America ("Comptroller") has initiated cease and desist proceedings against Peoples National Bank of Kewanee, Kewanee, Illinois ("Bank") pursuant to 12 U.S.C. § 1818(b).

The Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated 10/26/04 ("Order");

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

ARTICLE I

JURISDICTION

(1) 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*.

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

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

ARTICLE II

AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said 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 said 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). 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.

(3) 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.

ARTICLE III

WAIVERS

(1) 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 Order;

(c) All rights to seek any type of administrative or judicial review of the Order; and

(d) Any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

OTHER ACTION

(1) 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/she deems it appropriate to do so to fulfill the responsibilities placed upon her by the several laws of the United States of America.

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

/s/ Ronald G. Schneck
Ronald G. Schneck
Director for Special Supervision
Office of the Comptroller of the Currency

10/26/04
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	*10-26-04*
Charles D. Eastman	Date
signed	*10-26-04*
Robert L. VerHeecke	Date
signed	*10-26-04*
George J. Guzzardo	Date
signed	*10-26-04*
James A. Rinella	Date
signed	*10-26-04*
Reynolds M. Everett, Jr.	Date
signed	*10-26-04*
John H. Spets	Date