

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of:)	
Mount Morris Savings and Loan Association)	OTS Order No.: ATL-2007-10
Mount Morris, Illinois)	
OTS Docket No. 02634)	Date: June 11, 2007

STIPULATION AND CONSENT TO
PROMPT CORRECTIVE ACTION DIRECTIVE

1. The Office of Thrift Supervision (OTS) has informed Mount Morris Savings and Loan Association, Mount Morris, Illinois, (Institution), OTS No. 02634, based upon information reported to OTS, that grounds exist to issue a Prompt Corrective Action Directive (PCA Directive) pursuant to Section 38 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1831o, and Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7, against the Institution. The Institution, in the interest of cooperation and to avoid the time and expense of pursuing further OTS administrative procedures for the issuance of a PCA Directive, stipulates and consents to the terms set forth in this Stipulation and Consent.

2. The Institution stipulates it is a state savings association subject to the supervision and regulation by OTS. The Institution is a "savings association" as that term is used in the Home Owners' Loan Act (HOLA), 12 U.S.C. §§ 1461 et seq., and an "insured depository institution" as defined in 12 U.S.C. §§ 1813(b) and 1813(c)(2). The Institution stipulates, as such, it is subject to OTS's authority to issue a directive to take prompt corrective action pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, and Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7.

3. The Institution consents, by execution of the Stipulation and Consent, to OTS's issuance of the accompanying PCA Directive. The Institution further agrees to comply with the terms of the PCA Directive.

4. The Institution consents, by execution of this Stipulation and Consent, to OTS's appointment of a conservator or receiver or other legal custodian for the Institution at any time that the Institution is "significantly undercapitalized" and until such time as the Institution becomes "adequately capitalized" as determined pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, and Section 565.4 of the OTS Regulations, 12 C.F.R. § 565.4. The Institution hereby waives its rights to seek judicial review of such appointment.

5. The Institution, by execution of this Stipulation and Consent, authorizes OTS to provide otherwise confidential information about the Institution to third parties to facilitate the possible acquisition of the Institution by a qualified buyer, sale of the Institution's assets or the purchase of the Institution's branches, or the possible merger of the Institution with a qualified merger partner.
6. The Institution, by execution of this Stipulation and Consent, authorizes the Federal Deposit Insurance Corporation (FDIC) to provide otherwise confidential information to third parties to facilitate the liquidation or other resolution of the Institution in anticipation of the possible appointment of FDIC as conservator, receiver, or other legal custodian. The Institution hereby agrees that upon notification that it is "critically undercapitalized" pursuant to Section 565.3 of the OTS Regulations, 12 C.F.R. § 565.3, the Institution will cooperate fully with FDIC to avoid a loss or otherwise minimize exposure to the insurance fund. Such cooperation includes, but is not limited to, responding to requests for information, providing full access to personnel, agents and service providers, and accommodating on-site visits. Nothing herein shall be interpreted to preclude such cooperation with FDIC at any time prior to such time as the Institution may be notified that it is "critically undercapitalized".
7. The attached PCA Directive is effective upon issuance. The Institution acknowledges that the PCA Directive is enforceable pursuant to Section 5(d) of HOLA, 12 U.S.C. § 1464(d), and Section 8 of FDIA, 12 U.S.C. § 1818.
8. The Institution hereby waives the following:
 - (i) its rights to pursue OTS's administrative process for issuance of the accompanying PCA Directive pursuant to 12 C.F.R. § 565.7;
 - (ii) any and all rights it might otherwise have pursuant to federal law or regulations (including, but not limited to, 12 U.S.C. § 1831o and 12 C.F.R. § 565.7) in connection with issuance of the PCA Directive;
 - (iii) its right to seek judicial review of the PCA Directive, including, but not limited to, any such right provided by Section 8(h) of FDIA, 12 U.S.C. § 1818(h); and
 - (iv) its right to challenge or contest in any manner the basis, issuance, validity or enforceability of the PCA Directive or any provision thereof.
9. (a) The laws of the United States of America shall govern the construction and validity of this Stipulation and Consent and the Directive.

(b) All references to OTS in this Stipulation and Consent and the Directive also shall mean any of the OTS's predecessors, successors, and assigns.

(c) To the extent this Stipulation and Consent and Directive may be deemed an agreement, the written terms herein and in the accompanying Directive represent the final and sole binding written terms of such agreement with respect to the subject matters addressed therein.

10. Each Director signing this Stipulation attests that he voted in favor of the resolution authorizing the execution of the Stipulation.

Mount Morris Savings and Loan Association
Mount Morris, Illinois

By: /s/
Scott C. Diehl

By: /s/
John B. Franklin

By: /s/
Michael H. McNett

By: /s/
Richard L. Noser

By: /s/
Bruce D. Obendorf

By: /s/
David A. Smith

Accepted By:

Office of Thrift Supervision

By: /s/
John E. Ryan
Regional Director
Southeast Region

Date: June 11, 2007

cc: Illinois Department of Financial and Professional Regulation, Division of Banking
FDIC

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PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Mount Morris Savings and Loan Association, Mount Morris, Illinois (Institution), is a state chartered savings institution that is regulated by the Office of Thrift Supervision (OTS); and

WHEREAS, Section 38 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1831o, and Part 565 of the OTS Regulations, 12 C.F.R. Part 565, require institutions that are undercapitalized to file a capital restoration plan specifying the steps the institution will take to become at least adequately capitalized; and

WHEREAS, Section 38 of FDIA, 12 U.S.C. § 1831o, requires OTS to take prompt corrective action to resolve the problems of insured depository institutions at the least possible long-term loss to the deposit insurance fund; and

WHEREAS, Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7, provides for OTS's issuance of directives to take prompt corrective action to resolve the problems of insured depository institutions and to restore their capital; and

WHEREAS, OTS, on February 27, 2007, notified the Institution that it was undercapitalized for purposes of the prompt corrective action provisions of Section 38 of FDIA, 12 U.S.C. § 1831o; and

WHEREAS, the Institution also is not in compliance with the capital standards required by Section 5(t) of the Home Owners' Loan Act (HOLA), 12 U.S.C. § 1464(t); and

WHEREAS, Section 5(t)(6)(B)(ii) of HOLA, 12 U.S.C. § 1464(t)(6)(B)(ii), requires any institution not in compliance with the capital standards to comply with a capital directive issued by OTS; and

WHEREAS, on April 9, 2007 the Institution submitted to OTS a capital restoration plan and an addendum on April 13, 2007 (Capital Plan); and

WHEREAS, OTS issued a Notice of Intent to Issue this Directive on May 23, 2007 and has determined to issue this Directive in order to carry out the purposes of Section 38 of FDIA, 12 U.S.C. § 1831o, to resolve the Institution's capital deficiency at the least long-term loss to the depository insurance fund;

WHEREAS, the Institution's execution of the Stipulation to this Prompt Corrective Action Directive (Directive) is a condition imposed in writing in connection with the approval of the Institution's Capital Plan; and

WHEREAS, the Institution and its Board of Directors, by execution of the attached Stipulation and Consent (Stipulation) to the issuance of this Directive, the terms of which are incorporated herein by this reference, have stipulated and consented to the issuance of the Directive; and

WHEREAS, OTS having issued a Notice of Intent to issue this Directive on May 23, 2007, and having considered the response thereto filed by the Institution, has determined to issue this Directive in order to resolve the Institution's problems at the least long-term cost to the deposit insurance fund, thereby effectuating the purpose of Section 38 of FDIA, 12 U.S.C. § 1831o;

NOW THEREFORE, pursuant to Section 38 of FDIA, 12 U.S.C. § 1831o, including but not limited to subsection (f) thereof, Section 5(t)(6)(B)(ii) of HOLA, 12 U.S.C. § 1464(t)(6)(B)(ii), and Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7, OTS directs the Institution and its Board of Directors to do the following:¹

PART I – IMPROVING CAPITAL

Section 1.1 Capital Plan

The Institution shall comply with the terms of its Capital Plan, including any amendments thereto approved by the Southeast Regional Director of OTS (Regional Director).

Section 1.2 Reports of Compliance

- A. No later than thirty (30) days following the end of each calendar month, management of the Institution shall prepare, and the Board of Directors of the Institution shall review, a written report concerning the Institution's compliance with the requirements of the Capital Plan and other requirements of this Directive during the preceding month. The report and review shall include verification of the Institution's prompt corrective action capital category and confirmation that the Institution is in compliance with: (i) all restrictions that apply automatically to an institution in that category, and (ii) with the

¹ OTS must impose one or more of the presumptive restrictions set forth in 12 U.S.C. § 1831o(f), especially 12 U.S.C. § 1831o(f)(3) and (4) if (1) the institution is significantly or critically undercapitalized, (2) is undercapitalized and did not submit an acceptable capital restoration plan or (3) the institution fails to implement an approved plan. Critically undercapitalized are also subject to restrictions in 12 U.S.C. § 1831o(i).

other restrictions and requirements contained in this Directive. The Institution shall document this review in the minutes of the meeting of the Board of Directors. All documentation considered by the Board of Directors in performing its review shall be explicitly referenced in the minutes of the meeting at which the review was undertaken.

- B. By no later than thirty (30) days after each monthly Board of Directors meeting, the Institution shall submit the following documents to OTS in a format acceptable to OTS, which may include reports to and responses from the Board of Directors documented in the Board of Directors meeting minutes:
1. confirmation of the Institution's compliance with this Directive or a description of any instance of noncompliance with any of the Institution's obligations under this Directive and the specific measures undertaken to cure such noncompliance; and
 2. if requested, copies of the minutes of the Institution's Board of Directors supporting actions taken to comply with this Directive.
- C. OTS directs the actions required by this Section 1.2 pursuant to 12 U.S.C. § 1831o(f)(2)(J), and based upon a determination by OTS that such action will better carry out the purposes of 12 U.S.C. § 1831o.

Section 1.3 Adequate Progress

If OTS, in its sole discretion, determines that the Institution is failing to make adequate progress toward achieving the requirements set forth in Sections 1.1 and 1.2 above, OTS may take such further supervisory, enforcement, or resolution action as it deems appropriate.

PART II – OPERATING RESTRICTIONS

MANDATORY RESTRICTIONS

Section 2 Compliance with Mandatory Restrictions

- A. The Institution shall comply with all of the mandatory prompt corrective action provisions set forth in 12 U.S.C. § 1831o and 12 C.F.R. § 565.6 that automatically apply to the Institution based upon the Institution's prompt corrective action capital category. These provisions are set forth as follows:

1. **Undercapitalized Institutions**

- (a) The Institution may not permit its average total assets during any calendar quarter to exceed its average total assets during the preceding quarter unless (i) OTS has accepted the Institution's capital restoration plan, (ii) the increase in assets is consistent with the plan, and (iii) the Institution's ratio of tangible equity to assets increases during the calendar quarter at a rate sufficient to

enable the Institution to become adequately capitalized within a reasonable time. 12 U.S.C. § 1831o(e)(3); 12 C.F.R. § 565.6(a)(2)(iv).

- (b) The Institution may not, directly or indirectly, acquire any interest in any company or insured depository institution, establish or acquire any additional branch office, or engage in any new line of business, unless (i) OTS has accepted the Institution's capital restoration plan, the Institution is in compliance with the plan, and OTS determines that the action is consistent with, and will further achievement of the plan, or (ii) the FDIC's Board of Directors approves the action. 12 U.S.C. § 1831o(e)(4); 12 C.F.R. § 565.6(a)(2)(v).
- (c) The Institution may not accept, renew or roll over any brokered deposit. 12 U.S.C. § 1831f(a); 12 C.F.R. § 337.6(b)(3).
- (d) The Institution shall monitor its compliance with the applicable requirements of 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 565.

2. **Significantly undercapitalized institutions and institutions without approved capital plans must comply with Sections 2(A)(1) above and the following restrictions:**

The Institution may not, without the OTS's prior written approval (i) pay any bonus to any senior executive officer, or (ii) provide compensation to any senior executive officer exceeding that officer's average rate of compensation (excluding bonuses, stock options, and profit-sharing) during the 12 calendar months preceding the calendar month in which the Institution became undercapitalized. 12 U.S.C. § 1831o(f)(4); 12 C.F.R. § 565.6(a)(3).

3. **Critically undercapitalized institutions must comply with the restrictions set forth in Sections 2(A)(1) and (2) and the following restrictions:**

- (a) The Institution may not make any payment of principal or interest on its subordinated debt beginning 60 days after the Institution becomes critically undercapitalized. 12 U.S.C. § 1831o(h)(2)(A); 12 C.F.R. § 565.6(a)(4)(ii).
- (b) Without the FDIC's prior written approval, as required by 12 U.S.C. §§ 1831o(h)(1) and (i)(2); 12 C.F.R. § 565.6(a)(4)(i), the Institution may not:
 - (i) enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, sale of assets, or similar action with respect to which the Institution is required to give notice to OTS;
 - (ii) extend credit for any highly leveraged transaction;

- (iii) amend the Institution's charter or bylaws, except to the extent necessary to carry out any other requirement of any law, regulation or order;
 - (iv) make any material change in accounting methods;
 - (v) engage in any "covered transaction" with an affiliate, as defined in 12 U.S.C. § 371c(b);
 - (vi) pay excessive compensation or bonuses; or
 - (vii) pay interest on new or renewed liabilities at a rate that would increase the Institution's weighted average cost of funds to a level significantly exceeding the prevailing rates of interest on insured deposits in the Institution's normal market area.
- B. If the Institution's PCA capital category deteriorates to a lower level, the Institution shall comply with the above restrictions, as well as all of the additional mandatory prompt corrective action provisions applicable to its lower PCA capital category; and
- C. If the Institution should improve from a lower to a higher PCA capital category, it must continue to comply with the previously applicable mandatory sanctions of the lower category, until such time as approval to cease compliance with the lower category sanctions is requested of, and received from OTS.

PART III - GENERAL PROVISIONS

Section 3.1 Jurisdiction

This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

Section 3.2 Definitions

- A. All technical words or terms used in this Directive, for which meanings are not specified or otherwise provided by the provisions of this Directive, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, FDIA, OTS Bulletins, or OTS Examination Handbook. Any such technical words or terms used in this Directive and undefined in Code of Federal Regulations, HOLA, FDIA, OTS Bulletins or OTS Examination Handbook shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.
- B. The term "Effective Date" has the meaning set forth in Section 3.10 of this Directive.

Section 3.3 Successor Statutes, Regulations, and Guidance Amendments

Reference in this Directive to provisions of statutes and regulations shall be deemed to include references to all amendments to such provisions as have been made as of the effective date hereof and references to successor provisions as they become applicable.

Section 3.4 Notices

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Directive to be made upon, given or furnished to, delivered to, or filed with OTS or the Institution shall be in writing and sent by first class U.S. mail (or by reputable overnight courier, electronic facsimile transmission, or hand delivery via messenger) addressed as follows:

OTS: Southeast Region
One South Wacker Drive, Suite 2000
Chicago, IL 60601
Attn: Daniel McKee

Institution: Mount Morris Savings and Loan Association
18 West Main Street
Mount Morris, IL 61054
Attn.: Board of Directors

Section 3.5 Duration, Termination or Suspension of the Directive

- A. The terms and provisions of this Directive shall be binding upon the Institution and its successors in interest.
- B. The Directive shall remain in effect until terminated, modified or suspended in writing by OTS.
- C. OTS, in its discretion, may, by written notice, suspend any or all provisions of the Directive, except for Section 2 (Mandatory Restrictions).

Section 3.6 Effect of Headings

The Part and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 3.7 Separability Clause

In case any provision in this Directive is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby unless OTS, in its sole discretion, determines otherwise.

Section 3.8 No Violations Authorized; Consequences of Directive

- A. Nothing in this Directive, including, without limitation, any of the timeframes for actions set forth in Part I, shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting OTS from taking such actions as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, actions pursuant to 12 U.S.C. § 1831o, or taking any other type of supervisory, enforcement, or resolution action that OTS determines to be appropriate.

- B. OTS's conditional approval of the Capital Plan does not (i) constitute approval of contemplated actions or transactions for which a separate application, filing or notification is required prior to engaging in an activity contemplated by the Capital Plan; (ii) prevent the revocation of conditional approval of the Capital Plan upon the discovery of other or additional facts that OTS determines warrants such action, including, but not limited to, any material adverse findings disclosed in any examination of the institution or any material change in the assumptions underlying the Plan; (iii) indicate adoption of the institution's assumptions or predictions underlying or set forth in the Capital Plan, nor do such assumptions or predictions bind OTS; or (iv) prohibit OTS from requiring modifications and/or amendments of the Capital Plan as OTS determines necessary.

Section 3.9 Incorporation of Stipulation

The Stipulation is made a part hereof and is incorporated herein by this reference.

Section 3.10. Effective Date of This Directive

This Directive (including all the requirements and limitations herein) is effective immediately on the date of issuance of the Directive (Effective Date), which is the date indicated below.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/

John E. Ryan
Regional Director
Southeast Region

Date: June 11, 2007