

UNITED STATES OF AMERICA
BEFORE THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.
AND
STATE OF ILLINOIS
OFFICE OF BANKS AND REAL ESTATE
SPRINGFIELD, ILLINOIS

Written Agreement by and among

FOXDALE BANCORP, INC.
South Elgin, Illinois

FOXDALE BANK
South Elgin, Illinois

FEDERAL RESERVE BANK OF CHICAGO
Chicago, Illinois

ILLINOIS OFFICE OF BANKS
AND REAL ESTATE
Springfield, Illinois

Docket Nos. 98-033-WA/RB-BHC
98-033-WA/RB/SMB

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Foxdale Bancorp, Inc., South Elgin, Illinois ("Bancorp"), a registered bank holding company, and Bancorp's subsidiary, the Foxdale Bank, South Elgin, Illinois (the "Bank"), a State chartered bank which is a member of the Federal Reserve System, Bancorp, the Bank, the Federal Reserve Bank of Chicago (the "Reserve Bank"), and the Commissioner of the Office of

Banks and Real Estate for the State of Illinois (the "Commissioner") have mutually agreed to enter into this Written Agreement (the "Agreement");

WHEREAS, this Agreement is being executed in accordance with the Rules Regarding Delegation of Authority of the Board of Governors of the Federal Reserve System (the "Board of Governors"), specifically 12 C.F.R. 265.11(a)(15), and the Reserve Bank has received the prior approval of the Director of the Division of Banking Supervision and Regulation (the "Director") and the General Counsel of the Board of Governors to enter into this Agreement with Bancorp and the Bank;

WHEREAS, the Commissioner has regulatory authority over Illinois State chartered banks pursuant to the Illinois Banking Act, 205 ILCS 5/1 et seq., and the Commissioner is acting under his own authority in entering into this Agreement; and

WHEREAS, on March 14, 1999, the boards of directors of Bancorp and the Bank, at a duly constituted meeting, adopted resolutions authorizing and directing George J. Peterson to enter into this Agreement on behalf of Bancorp and the Bank, respectively, and consented to compliance with each and every applicable provision of this Agreement by Bancorp and the Bank and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. 1813 (u) and (b)(3)). NOW, THEREFORE, before the taking of any testimony or adjudication of

or finding on any issue of fact or law herein, and without this Agreement constituting an admission of any allegation made or implied by the Board of Governors, the Reserve Bank or the Commissioner, and solely for the purpose of settling this matter without further proceedings, Bancorp, the Bank, the Reserve Bank and the Commissioner hereby agree as follows:

1. Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director, and the Commissioner. Requests for approval shall be received by the Reserve Bank and the Commissioner at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital levels and asset quality of the Bank.

2. Bancorp shall not, directly or indirectly, increase its borrowings or incur any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment and an analysis of the cash flow resources available to meet such debt repayment.

3. (a) Bancorp shall hire an independent bank consultant acceptable to the Reserve Bank and the Commissioner within 30 days after the receipt of the March 1999 Commissioner examination. The consultant will conduct a complete review of the functions and performance of the Bank's board of directors and senior executive officers and to prepare a written report of

findings and recommendations. The primary purpose of this review shall be to aid in the development of a management structure that is suitable to the Bank's needs and is adequately staffed by qualified and trained personnel and to improve the board of directors's supervision over the management structure. The terms of the contract with the consultant shall require that the review be completed within 45 days and that a written report of findings and recommendations be submitted to the Bank's board of directors within 10 days of the completion of the review. A copy of the consultant's written report shall also be forwarded to the Reserve Bank and the Commissioner. The review shall include, at a minimum, the following:

(1) Identification of both the type and number of senior executive officer positions needed to manage properly and supervise the lending and leasing functions of the Bank;

(2) recommendations for establishment of board of directors's committees, and the composition thereof, as are needed to provide guidance and oversight to active management;

(3) evaluation of each senior executive officer to determine whether the individual possesses the ability, experience and other qualifications required to perform present and anticipated duties, including the ability to provide appropriate oversight of the lending and leasing function, to adhere to the Bank's established policies and procedures, and to restore and maintain the Bank in a safe and sound condition; and

(4) a plan of action to recruit, hire, or appoint any additional or replacement personnel with the requisite ability, experience and other qualifications of those officer positions identified as a result of the review required by paragraph 3(a)(3) of this Agreement.

(b) Within 30 days after the Bank's receipt of the consultant's written report of findings and recommendations required by paragraph 3(a) of this Agreement, the Bank shall submit a written management plan to the Reserve Bank and the Commissioner describing specific actions the Bank's board of directors proposes to take in order to strengthen Bank management and to improve the board of directors's supervision over the Bank's officers. The management plan shall fully address the consultant's written report of findings and recommendations and include detailed descriptions of the responsibilities of each executive officer of the Bank, including reporting lines of authority and the responsibilities of subordinates.

(c) For the purposes of this Agreement, the terms "director" and "senior executive officer" shall be defined as set forth respectively in sections 225.71(a) and (c) of Regulation Y of the Board of Governors (12 C.F.R. 225.71(a) and (c)).

4. (a) Within 60 days of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner a written plan to increase the number of outside directors and shall report quarterly to the Reserve Bank and the Commissioner on their efforts to secure

new outside directors.

(b) For the purposes of this Agreement, Thomas P. Conrardy, Donald J. Hesch, and Edward S. Mraz will be considered "outside directors" and any newly elected "outside directors" shall be defined as a director who (1) is not an employee, officer or agent of Bancorp or the Bank or any subsidiary or affiliate thereof, (2) does not own more than 5 percent of the outstanding voting shares of Bancorp, the Bank, or any subsidiary or affiliate thereof, or (3) is not related in any manner, by blood or marriage, to any officer, director, employee or shareholder described in paragraph 4(b)(2) of this Agreement, of Bancorp or the Bank, or any subsidiary or affiliate thereof.

(c) Prior to the election or appointment of any director or senior executive officer during the term of this Agreement, the Bank shall provide notice to the Reserve Bank of such election or appointment as required by Subpart H of Regulation Y of the Board of Governors (12 C.F.R. 225, Subpart H). A copy of this notice shall be furnished to the Commissioner.

5. The Bank shall not purchase sub-prime loans and leases, as defined by the Interagency Guidance on sub-prime lending dated March 1, 1999, until the Bank's board of directors has adopted written policies and procedures regarding the purchase of sub-prime loans and leases that are acceptable to the Reserve Bank and the Commissioner. Such policies and procedures, shall be consistent with the Interagency Guidance and include, but not be limited to: (a) guidelines for determining the types of sub-prime loans that the Bank intends to be covered by these policies and

procedures; (b) methods for evaluating the credit quality of each sub-prime loan and lease the Bank intends to purchase pursuant to these policies and procedures; (c) guidelines on purchases of sub-prime loans or leases from any single source; (d) guidelines on the volume of sub-prime loans and leases in the Bank's portfolio relative to the Bank's total assets and capital base; (e) approval limits on the individual purchases of sub-prime loans and leases for Bank officers or the Bank's Loan Committee; and (f) guidelines for consideration of funding sources for the purchases of sub-prime loans and leases.

6. Within 30 days of this Agreement, Bancorp and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable joint written plan to maintain an adequate capital position for the Bank. The plan shall, at a minimum, address and consider: (a) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors for State Member Banks, Risk Based Measures and Tier 1 Leverage Measures (12 C.F.R. Part 208, App. A and B); (b) the volume of the Bank's adversely classified assets; (c) the Bank's anticipated level of retained earnings; (d) the growth of the Bank's assets and its relationship to the Bank's capital ratios; (e) the source and timing of additional funds to fulfill the Bank's future capital requirements, considering the Bank's level of concentrations of credit and the adequacy of the allowance for loan and lease losses; and (f) the achievement, by March 31, 1999, and maintenance thereafter of a minimum tier 1 leverage ratio that takes into consideration items (a) through (e) above.

7. (a) Within 30 days of this Agreement, a majority of the Loan Committee shall, at all

times, be comprised of outside directors, who are not senior executive officers of the Bank.

(b) The prior approval of the Loan Committee shall be required for: (1) any extension of credit made by the Bank that in the aggregate will exceed \$100,000 to any borrower, including any related interest(s) of the borrower and excluding any extension of credit fully secured by cash collateral, on single family dwellings with a loan to value ratio of 80 percent or less, and on commercial real estate loans less than \$250,000 with a loan to value ratio of 65 percent or less and a debt service coverage ratio of at least 1.3 times at the inception of the loan; and (2) each extension of credit that is made or purchased by the Bank to a borrower located out of the Bank's normal lending territory.

(c) The Loan Committee shall have the responsibility for monitoring compliance with the Bank's written loan and lease policies and procedures and shall review, on a monthly basis: (1) all new extensions of credit made by the Bank during the prior month and the activities of all personnel of the Bank involved in its lending and leasing operations; (2) the current status of each extension of credit in excess of \$25,000 that is in default as to principal or interest for 30 days or more or is adversely classified or listed for special mention by State or Federal examiners in the July 20, 1998 Report of Examination of the Bank (the "Report of Examination") or in any subsequent report of examination of the Bank.

(d) In reviewing each extension of credit referenced in paragraph 7(c) of this Agreement, the Loan Committee shall specifically address, at a minimum, whether each new

extension of credit was made in accordance with the Bank's written loan policies and procedures, the effectiveness of collection actions undertaken by Bank management to reduce the volume of past due extensions of credit, and whether such actions were in full compliance with the Bank's collection procedures as set forth in its written loan and lease policies and procedures.

(e) The Loan Committee shall maintain accurate written minutes of its meetings, which shall be available for subsequent supervisory review.

8. Within 45 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner acceptable revised written loan and lease policies and procedures to address all aspects of the Bank's current or planned future lending activities, including any lending program targeted to specialty markets or borrowers. Such revised loan and lease policies and procedures shall include, at a minimum: (a) underwriting standards for all loans; (b) guidelines for a credit and cash flow analysis to be performed on each new extension of credit, to permit full assessment of the borrower's financial capacity and the documentation of such analysis; (c) requirements for preparing a written analysis of each proposed extension of credit in excess of \$50,000, including, without limitation, source of repayment, collateral value and verification, character of the borrower, the borrower's financial condition, and a review of the proposed extension of credit's compliance with the Bank's loan policies and procedures, as amended pursuant to this Agreement; (d) guidelines on the collateral requirements for all loans; (e) credit approval limits for Bank officers and the Bank's Loan Committee, and procedures for subsequent review by the board of directors ; (f) the prohibition of capitalizing interest earned but not collected for extensions of

credit that are being extended, modified or in any way renegotiated; and (g) guidelines for developing a monthly status report of all out-of-territory extensions of credit and reporting quarterly to the board of directors on the status of the out-of-territory loans.

9. (a) Within 60 days of this Agreement, the Bank shall develop and submit to the Reserve Bank and the Commissioner written loan and lease review procedures. The loan review procedures shall be designed to identify and categorize problem credits and to assess the overall quality of the Bank's loan portfolio. The loan review procedures shall, at a minimum, include the following: (1) procedures to confirm the accuracy of all risk grades assigned by the Bank's loan officers; (2) procedures to identify deteriorating loans and leases which ensures the timely placement of credits on the Watch List; (3) for each loan identified as a Watch List Loan, a written statement maintained in the appropriate credit files of the reason(s) why such Loan merits special attention; and (4) a mechanism for reporting periodically to the Bank's board of directors the status of each Watch List Loan and the action(s) taken by Bank management to improve the Bank's position on each Watch List Loan.

(b) Within 90 days of this Agreement, the Bank shall establish an independent loan and lease review function staffed by personnel with demonstrated experience in credit review who have no lending or leasing authority, whose responsibility it will be to review the following: (1) annually, at a minimum, all extensions of credit to a single borrower and the borrower's related interest(s) that in the aggregate exceed \$100,000; and (2) on a quarterly basis, all extensions of credit that are adversely classified, past due 90 days or more, otherwise listed on the Bank's

Watch List, or possessing, in the judgment of Bank management, more than a normal degree of risk of loss. In order to comply with the items listed in (1) and (2) above, the Bank shall have the option of hiring an independent bank consultant who is acceptable to the Reserve Bank and the Commissioner, or assigning Bank personnel to conduct the reviews.

(c) For the purposes of this Agreement, the term "extension of credit" is defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3) and also includes all lease financing extended by the Bank.

10. (a) Within 60 days of this Agreement, the Bank shall take all necessary steps to correct all documentation and credit information deficiencies in the Bank's loan or lease files identified by Federal and State examiners during the most recent examination of the Bank, which commenced July 20, 1998, including, but not limited to, obtaining accurate and current financial and cash flow statements and appraisals on credits lacking such information.

(b) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written report detailing the actions taken pursuant to paragraph 10 (a) hereof.

11. The Bank shall continue to maintain, through charges to current operating income, an adequate allowance for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in light of the current level of nonperforming loans, the current level of concentrations of credit within the loan portfolio of the Bank, past loss experience, evaluation of

the potential for losses in the loan and lease portfolio of the Bank, current economic conditions and examiners criticisms or other comments contained in the Report of Examination and any subsequent report of examination, and the Requirements of the Interagency Policy Statement on the Allowance for Loan and Leases Losses, dated December 21, 1993. A written record shall be maintained indicating the methodology used in determining the amount of the ALLL needed.

12. The Bank shall not, directly or indirectly, (a) extend any additional credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated in any manner to the Bank on any extension of credit or portion thereof that has been charged off by the Bank or classified "Loss" in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected; and (b) extend any additional credit to any borrower whose line of credit has been classified "Doubtful" or "Substandard" in the Report of Examination or in any subsequent report of examination, unless the Loan Committee certifies in writing that it has affirmatively determined that: (1) the additional extension of credit is necessary to protect the Bank's interest in the ultimate collection of the credit already granted; or (2) the additional credit is in full compliance with the Bank's written loan policy and the Bank's legal lending limit, and is adequately secured, a thorough credit analysis has been performed indicating that the additional extension of credit is reasonable and justified, all necessary documentation (including title and lien documents) have been properly and accurately reported and filed, and that the Bank has a satisfactory appraisal of the collateral supporting the extension of credit, that the extension will not impair the Bank's interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the additional

extension of credit will be repaid according to its terms. The Loan Committee's certification, together with the credit analysis and related information that was used in the determination, shall be maintained by the Bank for subsequent supervisory review.

13. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written policy and procedures to monitor, control and reduce concentrations of credit, including out-of-territory loans, in the Bank's loan portfolio, and those concentrations noted in the Report of Examination. The policy and procedures shall, at a minimum, address and consider: (a) methods used to identify assets or groups of assets or contingent claims with common risk elements that, in the aggregate, represent 25 percent or more of the Bank's tier 1 capital; (b) the establishment by the Bank's board of directors of acceptable limits on concentrations of credit; (c) monitoring procedures to control concentrations of credit; and (d) written monthly reporting of concentration levels to the Bank's board of directors, copies of which shall be retained for subsequent supervisory review.

14. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written plan for the year 1999, consisting of goals and strategies for improving the earnings of the Bank, which shall include, but not be limited to, the identification of the major areas in and means by which the Bank will seek to improve its operational performance.

(b) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and

the Commissioner a comprehensive budget for the year 1999 and a preliminary budget for the year 2000, which shall, at a minimum, provide for: (1) monthly estimates of all material income and expense items; (2) establishment of a review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections and a review of this comparison by the board of directors on a monthly basis; (3) semiannual revision of projected financial statements, including year-end balance sheet and income statement for the Bank; and (4) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components, including salaries and other expenses associated with any officers or directors, the Bank's deferred tax position, and provisions needed to establish and maintain adequate loan loss reserves.

(c) A written plan and budget for each calendar year after 1999 shall be submitted to the Reserve Bank and the Commissioner at least one month prior to the beginning of that calendar year.

15. (a) The plan, policies and procedures required by paragraphs 5, 6, 8, 9(a) and 13 hereof shall be submitted to the Reserve Bank and the Commissioner for review and approval. The Reserve Bank and the Commissioner may comment on the plan, policies, and procedures. An acceptable plan, policies and procedures shall be submitted to the Reserve Bank and the Commissioner within the required time periods set forth in this Agreement. Where applicable, Bancorp and the Bank shall adopt an approved plan and all approved policies and procedures within 10 days of approval by the Reserve Bank and the Commissioner and then shall fully comply

with them. During the terms of this Agreement, where applicable, Bancorp and the Bank shall not amend or rescind the approved plan, policies and procedures without the prior written approval of the Reserve Bank and the Commissioner.

(b) The Bank's board of directors shall review the plan and all policies and procedures annually, and review compliance with all policies and procedures quarterly.

16. Within 30 days of the end of each calendar quarter (March 31, June 30, September 30 and December 31) following the date of this Agreement, the Bank shall furnish to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

17. All communications regarding this Agreement shall be sent to:

- (a) Mr. Robert A. Bechaz
Regional Director - Illinois
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604

- (b) Mr. Robert L. Burke
Director of Commercial Bank Supervision
Office of Banks and Real Estate
310 South Michigan Avenue, Suite 2130
Chicago, Illinois 60604

(c) Mr. Phillip Short
President
Foxdale Bank
1140 West Spring Street
South Elgin, Illinois 60177

(d) Mr. Philip Short
President
Foxdale Bancorp, Inc.
1140 West Spring Street
South Elgin, Illinois 60177

18. The provisions of this Agreement shall be binding upon Bancorp and Bank and their institution-affiliated parties, in their capacities as such, and their successors and assigns.

19. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Reserve Bank and the Commissioner.

20. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and the Commissioner may, in their sole discretion, acting jointly grant written extensions of time to Bancorp and the Bank to comply with any provision of this Agreement.

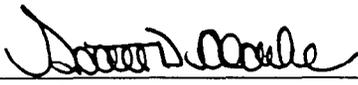
21. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner or any Federal or State agency or department from taking any other action affecting Bancorp or the Bank or any of their current or former institution-affiliated parties.

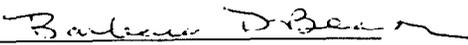
22. This Agreement is a "written agreement" for the purposes of section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 25 day of March, 1999.

Illinois Office of Banks and Real Estate

Federal Reserve Bank of Chicago

By: 
ASSISTANT COMMISSIONER

By: 

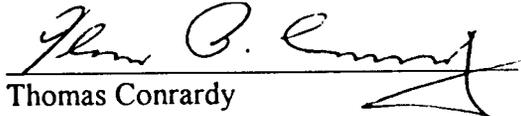
Foxdale Bank

Foxdale Bancorp

By: 
Chairman

By: 
Chairman

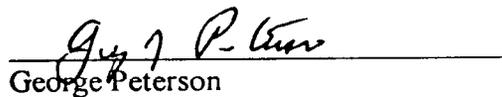
The undersigned directors of Bancorp each acknowledges having read the foregoing Agreement and approves of the consent thereto by Bancorp.

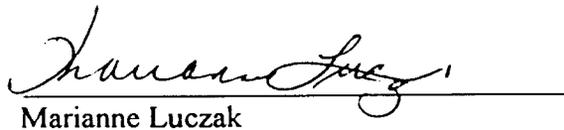

Thomas Conrardy


Donald Hesch

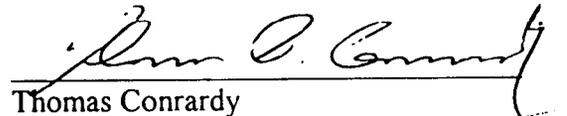

Edward Mraz


Phillip Short

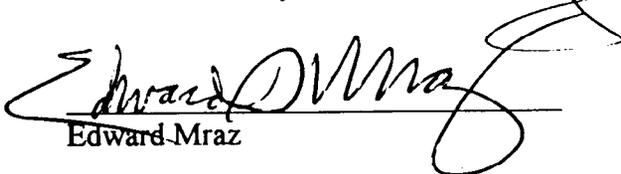

George Peterson


Marianne Luczak

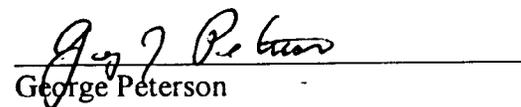
The undersigned directors of the Bank each acknowledges having read the foregoing Agreement and approves of the consent thereto by the Bank.

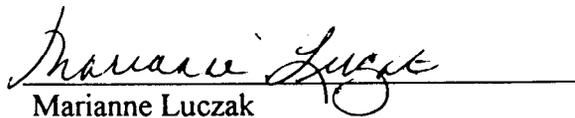

Thomas Conrardy


Donald Hesch


Edward Mraz


Phillip Short


George Peterson


Marianne Luczak