

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION  
DIVISION OF BANKING  
SPRINGFIELD, ILLINOIS

Written Agreement by and among

CITIZENS FIRST STATE BANK OF WALNUT  
Walnut, Illinois

FEDERAL RESERVE BANK OF CHICAGO  
Chicago, Illinois

and

ILLINOIS DEPARTMENT OF  
FINANCIAL AND PROFESSIONAL  
REGULATION  
DIVISION OF BANKING  
Springfield, Illinois

Docket Nos. 09-175-WA/RB-SM

2009-DB-93

WHEREAS, in recognition of their common goal to maintain the financial soundness of Citizens First State Bank of Walnut, Illinois (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Chicago (the “Reserve Bank”), and the Illinois Department of Financial and Professional Regulation, Division of Banking (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 28, 2009, the board of directors of the Bank, at a duly constituted meeting, adopted resolutions authorizing and directing Anton Zueger, Chairman, to

enter into this Agreement on behalf the Bank, and consenting to compliance with each and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in sections 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1813(u)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the Department agree as follows:

### **Board Oversight**

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Department a written plan to strengthen board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the boards of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including but not limited to, credit risk management and administration, capital, and earnings;

(b) the adoption of appropriate risk tolerance guidelines and risk exposure limits;

(c) the establishment of a risk management program that adequately identifies, measures, monitors, and manages the risks involved in the Bank’s business activities on an ongoing basis, including the implementation of mitigation strategies; and

(d) the responsibility of the Bank’s board of directors to monitor management’s adherence to approved policies and procedures, including risk limits, and compliance with applicable laws and regulations.

## **Credit Administration**

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan that describes the specific actions that the board of directors proposes to take to strengthen the Bank's credit administration practices. The plan shall, at a minimum, address, consider, and include:

- (a) Measures to reduce out of territory loans, brokered loans, and other high risk exposures in the loan portfolio;
- (b) the establishment of policies and procedures, including capital at risk limits, and monitoring systems for out of territory loans, brokered loans, and loan concentrations;
- (c) policies and procedures to ensure that appraisals conform to accepted appraisal standards, as defined in the Uniform Standards of Professional Appraisal Practice, and comply with the requirements of Subpart G of Regulation Y of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. Part 225, Subpart G) made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. § 208.50);
- (d) procedures to ensure that loans conform to loan-to-value limits by property type that are consistent with supervisory limits set forth in the Interagency Guidelines for Real Estate Lending Policies, Appendix C of Regulation H of the Board of Governors (12 C.F.R. part 208, App. C);
- (e) ongoing monitoring of, and development of work-out strategies for loans on the Bank's watch list and problem loans; and
- (f) standards for the timely movement of loans to non-accrual status.

### **Asset Improvement**

3. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the report of the examination of the Bank that commenced on March 2, 2009 (the “Report of Examination”) or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted; or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower’s credit file for subsequent supervisory review. For

purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

4. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$200,000, including other real estate owned (“OREO”), that: (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank’s problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$200,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank’s problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to improve the Bank’s position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Department to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank’s current problem loan list, extension report, and past due/non-accrual report.

#### **Allowance for Loan and Lease Losses**

5. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “loss” in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all

assets classified “loss” unless otherwise approved in writing by the Reserve Bank and the Department.

(b) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Department. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall adopt an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure the maintenance and adherence to an ALLL methodology that is consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17(Sup)) and December 13, 2006 (SR 06-17), and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its

review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Department, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Capital Plan**

6. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

(a) The Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the adequacy of the Bank's capital, taking into account the volume of classified assets, out-of-territory loans, ALLL, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill the future capital needs requirements.

7. The Bank shall notify the Reserve Bank and the Department, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the plan's minimum ratios. Together with the notification, the Bank shall submit an acceptable written plan that details the steps the Bank will take to increase the Bank's capital ratios to or above the plan's minimums.

## **Strategic Plan and Budget**

8. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department a strategic plan to improve the Bank's earnings, and a budget for 2010.

The written plan and budget shall include, but not be limited to:

- (i) Identification of the major areas where, and means by which, the board of directors will seek to improve the Bank's operating performance;
- (ii) financial performance objectives, including plans for asset growth and earnings supported by detailed monthly and annual pro forma financial statements, including projected budgets, balance sheets, and income statements;
- (iii) a realistic and comprehensive budget that includes a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components, and provisions needed to establish and maintain an adequate ALLL; and
- (iv) A budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) The strategic plan, including a budget, for each calendar year subsequent to 2010 shall be submitted to the Reserve Bank and the Department at least one month prior to the beginning of that calendar year.

(c) Within 30 days after the end of each calendar quarter following the completion of the Strategic Plan and budget required by this Agreement, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

### **Liquidity**

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written contingency funding plan that, at a minimum, includes adverse scenario planning and identifies and quantifies available sources of liquidity for each scenario.

### **Interest Rate Risk Management**

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve interest rate risk management practices. The plan shall, at a minimum, address the following parameters:

- (a) Appropriate guidelines for GAP management;
- (b) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and
- (c) appropriate parameters governing the economic risk to the Bank's capital due to changes in interest rates.

### **Dividends and Distributions**

11. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Department of Banking Supervision and Regulation of the Board of Governors (the "Director"), and the Department.

(b) Any request to declare or pay dividends must be consistent with the Board of Governors' Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). All requests for prior approval shall be received by the Reserve Bank and the Department at least 30 days prior to the proposed dividend declaration date and shall contain, at a minimum, current and projected information on earnings, capital, asset quality, and ALLL of the Bank.

### **Compliance with Laws and Regulations**

12. (a) The Bank shall take all necessary steps to correct the violations of law cited in the Report of Examination and to prevent future violations of law.

(b) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*) and also provide written notice to the Department. The Bank shall not appoint any individual to its board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Department notifies the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y of the Board of Governors.

(c) The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

## **Compliance with the Agreement**

13. Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank's boards of directors shall submit to the Reserve Bank and the Department written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

## **Approval and Implementation of Plans and a Program**

14. (a) The Bank shall submit written plans and a program that are acceptable to the Reserve Bank and the Department within the applicable time periods set forth in paragraphs 2, 4(a), 5(c), 6, 9 and 10 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Department, the Bank shall adopt the approved plans and program. Upon adoption, the Bank shall promptly implement the approved plans and program, and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Department.

## **Communications**

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

(a) Mr. Charles F. Luse  
Assistant Vice President  
Federal Reserve Bank of Chicago  
230 South LaSalle Street  
Chicago, Illinois 60604

(b) Mr. Scott D. Clarke  
Assistant Director  
Department of Financial and Professional Regulation  
Department of Banking  
320 West Washington Street  
Springfield, Illinois 62786

- (c) Mr. Kent Siltman  
President & Chief Executive Officer  
Citizens First State Bank of Walnut  
105 North Main Street  
P.O. Box 579  
Walnut, Illinois 61376

**Miscellaneous**

16. Notwithstanding any provision of this Agreement, the Reserve Bank and the Department may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

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

18. Each provision of this Agreement, as applicable, shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Department.

19. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, or any other federal or state agency from taking any other action affecting the Bank, or any of its current or former institution-affiliated parties and their successors and assigns.

20. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818). In addition, this Agreement is enforceable by the Department under Section 48 of the Illinois Banking Act.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 29th day of October 2009.

CITIZENS FIRST STATE BANK.  
OF WALNUT

By: /s/ Anton Zueger  
Anton Zueger  
Chairman of the Board

FEDERAL RESERVE BANK  
OF CHICAGO

By: /s/ Mark H. Kawa  
Mark H. Kawa  
Vice President

ILLINOIS DEPARTMENT OF  
FINANCIAL AND  
PROFESSIONAL REGULATION  
DIVISION OF BANKING

By: /s/ Jorge A. Solis  
Jorge A. Solis  
Director