

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

and

STATE OF ILLINOIS  
DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION  
DIVISION OF BANKING

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In the Matter of	)	CONSENT ORDER
	)	
Valley Bank	)	
Moline, Illinois	)	FDIC-13-0344b
	)	2013-DB-25
(INSURED STATE NONMEMBER BANK)	)	
	)	

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Valley Bank, Moline, Illinois ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law, rule, or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code, Part 392, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking ("Division"), and having waived those rights, by and through its duly elected and acting Board of Directors ("Board"), entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and the Division, dated December 17, 2013, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices or violations of law,

rule, or regulation, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and section 48(6) of the Illinois Banking Act, 205 ILCS 5/48(6), have been satisfied, the FDIC and the Division HEREBY ORDER, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns take affirmative action as follows:

BOARD OF DIRECTORS

1. (a) Within ninety (90) days of the effective date of this ORDER, the Bank shall add at least two new independent members to its board of directors. The addition of any new director may be accomplished, to the extent permissible by state statute or the Bank's by-laws, by means of appointment or election at a regular or special meeting of the Bank's shareholders. The Bank shall cause its articles of incorporation or by-laws or other governing corporate instrument to be amended as appropriate to reflect the addition of independent directors.

(b) For purposes of this ORDER, an independent director shall be any individual who is not an officer of the

Bank, any subsidiary, or any of its affiliated organizations; who does not own more than 10 percent of the outstanding shares of the Bank's holding company and does not otherwise share a common financial interest with any person who owns more than 10 percent of the outstanding shares of the Bank's holding company; who is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an independent director for purposes of this ORDER by the FDIC or the Division.

(c) The Bank shall notify the Regional Director of the Chicago Regional Office of the FDIC ("Regional Director") and the Division in writing of any resignations or terminations of any members of its board of directors or any of its senior executive officers within 15 days of the event. The Bank shall also establish procedures to ensure compliance with section 32 of the FDI Act, 12 U.S.C. 1831i, and Subpart F of Part 303 of the FDIC's Rules and Regulations, 12 C.F.R. 303.100 through 303.103.

MANAGEMENT

2. (a) While this ORDER is in effect, the Bank shall have and retain qualified management. Management shall be provided the necessary written authority to implement the

provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;
- (iii) Comply with applicable laws, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) Within 30 days from the effective date of this ORDER, the Bank shall revise its Code of Ethical Conduct and Whistleblower Policy to include the recommendations outlined in the current Report of Examination.

(c) Within 30 days from the effective date of this ORDER, the Bank shall develop a Conflicts of Interest Policy that requires, at a minimum:

- (i) the disclosure of actual or potential conflicts of interest;
- (ii) the identification of all insider "related interests" as that term is defined in Regulation 0, 12 C.F.R. Part 215;

- (iii) the identification of material interests that insiders have in the business of any borrower, applicant, vendor or supplier;
- (iv) a description of guidelines for acceptable and unacceptable insider lending and other transactions with insiders; and
- (v) that all transactions with insiders be at arm's length.

(d) Prior to the addition of any individual to the board of directors or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and the Division's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

MANAGEMENT PLAN

3. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of providing qualified management for the Bank.

(b) The Management Study shall include, at a minimum:

- (i) Identification of both the type and number of officer positions needed to properly

manage and supervise the affairs of the Bank;

- (ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (iii) Evaluation of all Bank officers to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition;
- (iv) Evaluation of all Bank officer's compensation, including salaries, director fees, and other benefits; and
- (v) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified by this paragraph of this ORDER.

(c) Within thirty (30) days after completion of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study.

(d) A copy of the plan required by this paragraph shall be submitted to, and deemed acceptable by, the Regional Director and the Division.

CAPITAL

4. (a) As of the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of nine (9%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of twelve (12%) percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution

limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with federal securities laws. Prior to the implementation of the plan and, in any event, not less than twenty (20) days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Accounting and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429. Any changes requested to be made in the materials by the FDIC shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within ten (10) calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(d) Should the Bank be unable to maintain the required capital levels specified in subparagraph (a) above, then within thirty (30) days of receipt of written direction from the Regional Director and the Division, the Bank shall develop, adopt, and implement a written plan to sell or merge itself into another federally insured financial institution or to otherwise immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. A copy of the plan required by this paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the Division.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

5. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$500,000 which is, delinquent or classified "Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

(i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;

- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within six (6) and twelve (12) months from the effective date of this ORDER; and
- (v) Provide for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and the Division.

(c) The plan required by this paragraph shall be acceptable to the Regional Director and the Division.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent after

the effective date of this ORDER or are adversely classified at any subsequent examinations.

LOAN REVIEW AND GRADING SYSTEM

6. Within thirty (30) days from the date of this ORDER, the Bank shall develop, adopt, implement, and adhere to comprehensive loan grading and review procedures. The procedures shall require that such loan grading and review will be performed by a qualified individual. The loan review shall at a minimum:

- (a) Require periodic confirmation of the accuracy and completeness of the watch list and all risk grades assigned by the Bank's loan officers;
- (b) Identify loans or relationships that warrant special attention of management;
- (c) Identify violations of law, rules, or regulations and credit and collateral documentation exceptions and track corrective measures;
- (d) Review the bank's application of Financial Accounting Standards Board Accounting Standards Codification FASB ASC Subtopic 310-10 (which now supersedes prior FAS 114 guidelines); and
- (e) Identify loans not in conformance with the Bank's loan policy.

LOAN POLICY

7. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a Loan Policy.

(b) The Loan Policy required by this paragraph, at a minimum, shall include provisions:

- (i) Incorporating collateral valuation requirements, including:
  - (A) maximum loan-to-collateral-value limitations;
  - (B) requirements for periodic updating of valuations; and
  - (C) a requirement that the source of valuations be documented in Bank records.
- (ii) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

- (iii) Requiring the establishment and maintenance of an effective loan review and grading system and internal loan watch list;
- (iv) Correcting the loan underwriting and credit administration deficiencies noted in the ROE.

(c) Copies of the policies required by this paragraph shall be submitted to the Regional Director and the Division.

APPRAISAL OF REAL PROPERTY

8. Within 30 days from the effective date of this ORDER, the Bank shall implement a written appraisal policy establishing review and monitoring procedures to ensure compliance with FDIC's regulation on appraisals and evaluations pursuant to Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323, and Interagency Guidance Appraisal and Evaluation Guidelines (FIL 82-2010). The written policy shall include at a minimum:

- (a) guidelines for obtaining new appraisals, updated appraisals and evaluations.
- (b) a review process, independent of the lender, of all appraisals that is commensurate with the type, size, and complexity of the property being appraised;
- (c) a tickler system for tracking when appraisals, updates, and evaluations are ordered, received and reviewed;
- (d) procedures for obtaining appraisals or evaluations, consistent with the regulatory guidance cited in

this paragraph, when loans are renewed, extended, or moved to problem loan status. An updated appraisal or evaluation on troubled real estate properties, including other real estate owned, should be obtained at least annually.

CONCENTRATIONS OF CREDIT

9. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a written plan to reduce and manage each of the concentrations of credit identified in the ROE in a safe and sound manner. At a minimum the plan must provide for written procedures which conform in all respects with the Commercial Real Estate Lending Joint Guidance, found in FIL-104-2006, dated December 12, 2006, and which provide for the ongoing measurement and monitoring of the concentrations of credit, performance of portfolio stress testing analysis to assess the impact of changing economic conditions, and the setting of limits on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

(b) The plan required by this paragraph shall be acceptable to the Regional Director and the Division.

ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) From the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the board of directors of the Bank shall

review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and thereafter maintain and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC or the Division.

(b) ALLL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

CORRECTION OF VIOLATIONS

11. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations listed in the ROE, and implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

(b) If the Bank is unable to correct any violation within the 60-day period specified by this paragraph, the Bank shall provide a written statement, acceptable to the Regional Director and the Division, explaining the reasons why such violation could not be corrected.

PROFIT PLAN AND BUDGET

12. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2014 and 2015. The plans required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written profit plan shall address, at a minimum:

- (i) Realistic and comprehensive budgets;
- (ii) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections;
- (iii) Identification of major areas in, and means by which, earnings will be improved; and
- (iv) A description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

(c) During each monthly board meeting following completion of the profit plans and budgets required by this paragraph, 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.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(e) Copies of the plans and budgets required by this paragraph shall be acceptable to the Regional Director and the Division.

#### LIQUIDITY PLAN

13. Within thirty (30) days of the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a written contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions to fully address the liquidity issues identified in the ROE. In addition, the Liquidity Plan shall

require the Bank to establish and/or maintain an account relationship with the Federal Reserve Bank of Chicago to exchange and settle payment transactions through a clearing account balance.

STRATEGIC PLAN

14. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management;
- (ii) Forecasts for maintaining a sound funds management position; and
- (iii) Financial goals, including pro forma statements for asset growth, capital adequacy, investment strategies, and earnings.

(c) The Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors'

meeting.

(d) Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(e) The strategic plan required by this ORDER shall be revised thirty (30) days prior to the end of each calendar year for which this ORDER is in effect.

(f) The strategic plan and any revisions thereto shall be acceptable to the Regional Director and the Division.

#### DIVIDEND RESTRICTION

15. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Division.

#### NOTIFICATION TO SHAREHOLDER

16. Following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (a) in conjunction with the Bank's next shareholder communication; or (b) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

17. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Division written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof.

The effective date of this ORDER shall be the date of its issuance by the FDIC and the Division.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and the Division.

Pursuant to delegated authority.

Dated: January 15 2014.

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M. Anthony Lowe  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance  
Corporation

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Manuel Flores  
Acting Secretary  
Illinois Department of  
Financial and Professional  
Regulation