

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ILLINOIS

DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION

DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

_____)	
In the Matter of)	
)	
)	CONSENT ORDER
CHESTERFIELD STATE BANK,)	(CORRECTED)
CHESTERFIELD, ILLINOIS)	
)	FDIC-24-0001b
(INSURED STATE NONMEMBER BANK))	2024-DB SUP-02
_____)	

Chesterfield State Bank, Chesterfield, 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 or regulation alleged to have been committed by the Bank, and of its right to a hearing on the charges under 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code part 100, regarding hearings before the Illinois Department of Financial and Professional Regulation, Division of Banking (Division), and having waived those rights, 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 July 11, 2024, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices and 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 decided 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:

MANAGEMENT

1. (a) While this ORDER is in effect, the Bank shall have and thereafter retain qualified management. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at the Bank. 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 safe and sound matter;
- (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 risk.

(b) During the life of this ORDER, 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 Division's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act, 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 STUDY

2. (a) Within thirty (30) days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director of the Chicago Regional Office (Regional Director) and Division, who will develop a written analysis and assessment of the Bank's management needs (Management Study) for the purpose of providing qualified management for the Bank. The Bank shall provide the Regional Director and Division with a copy of the proposed engagement letter or contract with the consultant for review.

(b) The Management Study shall be developed within one hundred fifty (150) days from the effective date of this ORDER. 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;
- (v) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer positions identified by this paragraph of this ORDER.

(c) Within thirty (30) days after receipt of the Management Study, the Bank shall formulate a plan to implement the recommendations of the Management Study. The plan required by this subparagraph shall be acceptable to the Regional Director and the Division.

SUCCESSION PLAN

3. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop and adopt a written succession plan (Succession Plan) to provide an orderly process for replacing personnel considered critical to bank operations upon their departure, in order to ensure adequate continuity of Bank operations and qualified staff. Specifically, the revised Succession Plan shall require assessment of the level of expertise and skill of potential candidates necessary to replace personnel performing critical bank operations, as well as those who will be required to assume new, additional responsibilities, to ensure viability of the Succession Plan.

(b) A copy of the revised Succession Plan shall be submitted to the Regional Director and the Division.

(c) The Succession Plan shall be revised and updated as necessary upon personnel change being made in covered positions.

BOARD PARTICIPATION

4. (a) As of the effective date of this ORDER, the Bank's board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of Banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; adoption or modification of operating policies; audit reports; internal control reviews, including management's responses;

reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 30 days from the effective date of this ORDER, the Bank's board of directors shall develop, adopt, and implement a program that will provide for monitoring of the Bank's compliance with this ORDER.

CAPITAL

5. (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 ("community bank leverage ratio") at a minimum of nine percent (9%). For purpose of this ORDER, Tier 1 capital shall be calculated in accordance with Part 324 of the FDIC Rules and Regulations, 12 C.F.R. Part 324.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the Board 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 17th Street, N.W., Washington, D.C. 20429 and to the Division at its Springfield Office, located at 320 West Washington Street, 5th Floor, Springfield, Illinois 62786 for its review. Any changes requested to be made in the materials by the FDIC or the Division 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 change 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 level specified in subparagraph (a) above, then within sixty (60) days of receipt of written direction from the Regional Director and the Division, the Bank shall develop, adopt, and implement a written plan that will cause the Bank to promptly 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.

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (a) As of the effective date of this ORDER, the Bank shall not extend or renew, directly or indirectly, any existing credit or any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss: in the Report of Examination dated November 13, 2023 (ROE) or in any future Reports of Examination or Visitation Transmittal Letters (Visitations) subsequently issued by the FDIC or the Division, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend or renew, directly or indirectly, any existing credit or additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Substandard", "Doubtful", or was listed

for “Special Mention” in the ROE, or in any future Reports of Examination of Visitations subsequently issued by the FDIC or the Division, and is uncollected unless the Bank’s board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons why such extension of credit is in the best interest of the Bank. Such statement shall include an analysis of the borrower’s ability to repay the loan on a reasonable amortization period based on the type of loan and collateral position in accordance with Part 365, Appendix A of the FDIC Rules and Regulations. A copy of the statement shall be signed by each member of the Bank’s board of directors, and incorporated in the minutes of the applicable board of directors’ meeting. A copy of the statement shall be placed in the appropriate loan file.

(c) As of the effective date of this ORDER, the Bank shall submit a monthly report to the Regional Director and the Division indicating all loans extended or renewed to borrowers under this provision. The report shall include the amount and terms of the credit, collateral, and overall credit analysis. Such report shall be accompanied by the statement required by subparagraph (b) above signed by the directors indicating their approval that the extension was in the best interest of the Bank.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a written plan to reduce the Bank’s risk position in each asset in excess of \$50,000 which is, delinquent or classified “Substandard” or “Doubtful” in the ROE. In developing such plan, the Bank shall, at a minimum:

- (i) Prohibit an extension of credit for the payment of interest, unless the Board provides, in writing, a detailed statement of why the extension is in the best interest of the Bank in accordance with the requirements of paragraphs 6(b) and (c), above;

- (ii) Provide for review of the current financial condition of each such borrower, including source of repayment, repayment ability and alternative repayment sources;
- (iii) 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
- (iv) 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; (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC and Division.

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

CREDIT ADMINISTRATION AND UNDERWRITING

8. (a) As of the effective date of this ORDER, the Bank shall maintain appropriate loan records sufficient to document the underwriting analysis and perfected collateral position. Such documentation shall include: fully signed executed promissory note, complete copy of recorded mortgage(s) with recordation date identified by public records, complete signed and dated personal financial statements from individual borrowers and guarantors, full and current tax return documents, current business cash flow statements within 120 days of the business' fiscal year end, title lien search, title policy and/or opinion, documentation of appropriate insurance, and complete real estate appraisals performed by licensed independent appraisers.

(b) As of the effective date of this ORDER, the Bank shall track the number of loans originated with Loan Policy exceptions and report the number, dollar amount, and types of exceptions to the Board of Directors at least quarterly.

LOAN REVIEW AND GRADING SYSTEM

9. Within 90 days from the date of this ORDER, the Bank shall develop, adopt, and implement comprehensive loan grading and review procedures. The procedures shall require that such loan grading and review will be performed by a qualified and independent individual who is not the loan officer who was involved in the loan approval process. 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 Topic 326; and

(e) Identify loans not in conformance with the Bank's loan policy.

ALLOWANCE FOR CREDIT 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 Allowance for Credit Losses (ACL), provide for an adequate ACL, 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 ACL recommended, if any, and the basis for determination of the amount of ACL 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 ACL provided by the FDIC or the Division.

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

(c) Within 90 days from the effective date of this ORDER, the bank shall develop, adopt, implement, and adhere to a Current Expected Losses (CECL) methodology that accurately evaluates whether loans continue to share similar risk characteristics with other loans in their collective pools on a quarterly basis. If a loan does not share similar risk characteristics with other loans, expected credit losses for that loan should be evaluated individually. Further, if a loan is determined to be 'collateral-dependent,' the individual ACL analysis must be measured using fair value of collateral, adjusted for estimated costs to sell if repayment or satisfaction of the loan depends on the sale of the collateral. Individual ACL analyses should be documented and supported by updated borrower financial information and real estate valuations. Additionally, individually evaluated assets should not be included in a collective assessment of expected credit losses.

LIQUIDITY PLAN

11. Within sixty (60) days from 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 include viable provisions to provide for liquidity in various stress events. In addition, the Liquidity Plan shall require the Bank to maintain adequate sources to cover

liquidity contingency needs.

INTEREST RATE RISK MANAGEMENT

12. (a) Within ninety (90) days of the effective date of this ORDER, the Bank shall have an independent review of the Bank's interest rate risk management program performed by a qualified third party. The results of the independent review shall be presented to and approved by the Board.

(b) Within ninety (90) days of the effective date of this ORDER, the Bank shall review interest rate risk model assumptions to ensure assumptions are accurate and are Bank-specific, consistent with findings noted in the ROE.

(c) During the life of this ORDER, the Bank shall present the quarterly interest rate risk report to the Board for review within sixty (60) days of the end of each quarter, with discussion of the Bank's interest rate risk position noted in the Board minutes.

BANK SECRECY ACT (BSA) OFFICER AND OTHER ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM (AML/CFT) WEAKNESSES

13. (a) During the life of this ORDER and thereafter, the Bank shall have and retain a qualified BSA Officer to oversee all aspects of the Bank's AML/CFT Program and to ensure compliance with all applicable laws and regulations. The Board shall ensure that the Bank's BSA Officer and all personnel with AML/CFT responsibilities be provided the written authority and the necessary training, time, and resources to fully implement and comply with all requirements of this ORDER.

(b) Within ninety (90) days from the effective date of this ORDER, the Bank shall correct all other AML/CFT weaknesses identified in the ROE.

CORRECTION OF VIOLATIONS

14. (a) Within ninety (90) days from the effective date of this ORDER, and within

90 days after receipt of any future Reports of Examination or Visitations subsequently issued by the FDIC or the Division, the Bank shall eliminate and correct all correctible violations of law, rules, and regulations listed in the ROE or in any future Reports of Examination or Visitations.

(b) Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall adopt and implement appropriate procedures to ensure future compliance with all applicable laws and rules and regulations.

AUDIT PROGRAM

15. (a) Withing sixty (60) days from the effective date of this Order, the Bank shall develop, adopt, implement, and adhere to a comprehensive internal audit program (Internal Audit Program). At a minimum, the Internal Audit Program shall provide for audit coverage of all significant risk areas of the bank including, but not limited to, lending, insider transactions, internal controls, general ledger accounts, and policy conformance.

(b) A copy of the Internal Audit Program shall be submitted and be acceptable to the Regional Director and the Division.

(c) Within sixty (60) days from the effective date of this ORDER, the Bank shall engage an independent public accounting firm acceptable to the Regional Director and the Division to perform an External Audit of the Bank's financial statements and operating procedures. At a minimum, the contract or engagement letter with the public accounting firm should include a description of the work to be performed under the contract or engagement letter and the time frame for the completion of the work, which shall be not more than 180 days from the effective date of this ORDER.

INTERNAL ROUTINE AND CONTROLS

16. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, adopt, implement, and adhere to a plan for the operation of the Bank in such a

manner as to provide adequate internal route and controls consistent with safe and sound banking practices. At a minimum, the plan should address the deficiencies identified in the ROE.

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

DIVIDEND RESTRICTION

17. As of the effective date of this ORDER, the Bank shall not declare or pay any dividends without the prior written consent of the Regional Director and the Division. All requests for prior approval shall be received at least thirty (30) days prior to the proposed dividend and shall contain, but not be limited to, an analysis of the impact such dividend would have on the Bank's capital and earnings.

INFORMATION TECHNOLOGY

18. (a) Within ninety (90) days from the date of this Order, the Bank shall review and limit core banking system and network user access rights to correspond with each individual's job responsibilities, including the appropriateness of a user's ability to change system generated reports. In addition, the Bank should provide for the annual review of user system access and user accounts.

(b) Within one hundred twenty (120) days from the date of this Order, and based on a business impact analysis, the Bank shall formulate, adopt, and implement a proper organization-wide disaster recovery and business continuity plan. This plan shall set forth alternative strategies to assure continuity of mission critical operations in the event of a disruption of the current system or banking location.

(c) Within one hundred twenty (120) days from the date of this Order, the Bank shall formulate, adopt, and implement a formal incident response plan in compliance with the guidelines in Supplement A to Appendix B to Part 364 of the Federal Deposit Insurance

Corporation Rules and Regulations.

(d) Within one hundred twenty (120) days from the date of this Order, the Bank shall formulate, adopt, and implement a written risk assessment of its information technology (IT) functions that is in compliance with the requirements of Appendix B to Part 364 of the Federal Deposit Insurance Corporation Rules and Regulations. At a minimum the risk assessment should identify assets at risk and reasonably foreseeable internal and external threats; assess the likelihood and potential damage of these threats; and assess the sufficiency of policies, procedures, customer information systems, and other arrangements in place to control risk.

(e) Within sixty (60) days from the date of this Order, the Bank shall review end-of-life software and remove any unsupported software that has reached its end-of-life, or if the software is needed, provide mitigating controls for its use or have the risk approved by the Board.

(f) Within one hundred twenty (120) days of the date of this Order, the Bank shall provide for a proper IT Audit risk assessment to address all areas of the IT environment.

(g) Within one hundred twenty (120) days of the date of this Order, the Bank shall establish an IT project management program. At a minimum, the program should address roles and responsibilities, communication and reporting requirements, risk assessments, cost/benefit analysis, testing and training.

NOTIFICATION TO SHAREHOLDERS

19. Following the effective date of this ORDER, the Bank shall send to its shareholders 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

20. 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.

CLOSING PARAGRAPHS

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: July 25 , 2024.

 /s/
Larisa M. Collado
Deputy Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

 /s/
Susana Soriano
Acting Director, Division of Banking
Illinois Department of Financial
and Professional Regulation