Office of Inspector General

September 2009
Report No. AUD-09-027

Material Loss Review of Heritage Community Bank, Glenwood, Illinois

AUDIT REPORT

Material Loss Review of Heritage Community Bank, Glenwood, Illinois

Audit Results

CAUSES OF FAILURE AND MATERIAL LOSS

Heritage failed because its Board of Directors (BOD) and management did not adequately manage the risks associated with its CRE/ADC concentrations. Strong risk management practices and appropriate levels of capital are essential elements of a sound CRE lending program, particularly when an institution has a concentration in CRE loans. In the case of Heritage, weaknesses associated with Heritage's loan underwriting and credit administration practices contributed to the significant and rapid deterioration of its asset quality, which in turn led to reduced capital as a result of loan losses when the economy started to cycle downward. Heritage was ultimately closed by the IDFPR due to an inability to raise capital to offset high loan loss provisions. Also contributing to the losses was an incentive compensation plan that rewarded loan volume and under which one bank official generated the vast majority of poor quality loans.

OVERVIEW AND ASSESSMENT OF FDIC SUPERVISION

The FDIC identified and reported on management weaknesses associated with Heritage's CRE concentrations in 2003, and made recommendations for improvements to address those weaknesses. Examinations conducted between 2004 and 2006 identified some weaknesses associated with Heritage's CRE concentrations but generally concluded that Heritage's overall financial condition was sound and management was appropriately managing additional risks associated with CRE concentrations. The FDIC was not required to, and did not perform, an onsite examination in 2007 because the bank met the 18-month examination cycle criteria under the Federal Deposit Insurance Act and FDIC Rules and Regulations. Between the 2006 and 2008 examinations, the FDIC relied on various offsite techniques to monitor Heritage. In 2008, examiners became increasingly critical of Heritage's risk management practices with respect to CRE concentrations. The 2008 examination was followed-up with a Cease and Desist Order in October 2008 and two visitations in September and December 2008.

The FDIC may have benefited by changing its supervisory strategy between the 2006 and 2008 examinations, taking into consideration the following factors:

- CRE concentrations were significant,
- Management and the BOD had limited experience managing CRE concentrations, and
- CRE concentrations were known to be vulnerable to economic cycles.

Federal Deposit Insurance Corporation

Why We Did The Audit

On February 27, 2009, the Illinois Department of Financial Professional Regulation (IDFPR), Division of Banking, closed Heritage Community Bank, Glenwood, Illinois (Heritage) and named the FDIC as receiver. On March 20, 2009, the FDIC notified the Office of Inspector General (OIG) that Heritage's total assets at closing were $228.1 million, with a material loss to the Deposit Insurance Fund (DIF) estimated at $41.6 million. As required by section 38(k) of the Federal Deposit Insurance Act, the OIG conducted a material loss review of the failure of Heritage.

The audit objectives were to (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision of the institution, including implementation of the Prompt Corrective Action (PCA) provisions of section 38.

Background

Heritage was insured on November 28, 1969 and was headquartered in Glenwood, Illinois. At closing, the bank had three full-service branch offices and one loan servicing center, all located in the Chicago, Illinois, metropolitan area. The bank was fully owned by Heritage Community Bancorporation, Inc., a bank holding company, but did not have any affiliates or subsidiaries.

Background (cont.)

Heritage's loan portfolio was concentrated in the origination of 1-4 family residential real estate loans, nonresidential real estate, and commercial real estate (CRE) – construction and development loans (ADC).

To view the full report, go to www.fdicig.gov/2009reports.asp

Audit Results (cont.)

In hindsight, the FDIC's reliance on offsite monitoring between the 2006 and 2008 examinations proved to be an ineffective supervisory strategy. Offsite monitoring performed in that period failed to alert the FDIC to Heritage's deteriorating condition until shortly before the 2008 onsite examination was to take place. Closer supervisory review during that timeframe might have resulted in earlier identification of existing weaknesses and enabled the FDIC to more effectively mitigate losses.

With respect to PCA, the FDIC issued a notification letter to Heritage alerting the bank of applicable provisions under PCA when it fell below the Well Capitalized category, as required. Heritage submitted a capital restoration plan on September 18, 2008, which was updated on December 31, 2008. The plan proposed pursuing an equity investment from strategic investors to raise approximately $20 million in order to meet the capital requirements under the Cease and Desist Order. However, the bank was unsuccessful in raising the additional capital. On February 19, 2009, the FDIC notified Heritage that based on capital calculations provided by the institution, Heritage was considered to be critically undercapitalized for PCA purposes. Heritage failed shortly after the notification.

Management Response

On September 16, 2009, the Director, Division of Supervision and Consumer Protection (DSC), provided a written response to the draft report. DSC reiterated the OIG's conclusions regarding the cause of Heritage's failure. With regard to our assessment of the FDIC's supervision of Heritage, DSC's response stated that it uses various tools to monitor institutions between examinations and the offsite monitoring process was integral to the supervisory process in this case. DSC stated that one of its offsite models accurately predicted Heritage's future downgrade during the first quarter of 2008. Further DSC stated that information discovered through offsite monitoring merited a Prompt Corrective Action Plan in December 2008 and notification to Heritage that it was critically undercapitalized in February 2009. We agree that offsite monitoring is an integral part of the supervisory process, and did occur in the case of Heritage. However, as we discuss in the report, in hindsight, offsite monitoring between 2006 and 2008 did not prompt closer on-site supervisory review that may have provided more timely insight into Heritage's condition and enabled the FDIC to more effectively mitigate losses.

Contents ***Page***

BACKGROUND	2
CAUSES OF FAILURE AND MATERIAL LOSS	2
Significant CRE/ADC Loan Concentration	3
Weak Loan Underwriting Practices	3
Excessive Real Estate Loan-to-Value Limits	3
Weak Controls over Interest Reserves	4
Incomplete Financial Analysis	4
Weak Credit Administration Practices	4
Weak Internal Loan Rating System	4
Inadequate External Loan Review	5
Watch and Impaired Loan List	5
Performance Incentive Compensation Plan	5
OVERVIEW AND ASSESSMENT OF FDIC SUPERVISION	6
Overview of Supervision	6
Assessment of FDIC Supervision	8
Management and Board Oversight	8
Risk Rating System (Internal and External)	9
Watch List	11
Performance Incentives	12
Dual Role of the President	12
Interest Reserves	12
Weaknesses in Offsite Monitoring	13
IMPLEMENTATION OF PCA	15
CORPORATION COMMENTS	16
APPENDICES	
1. OBJECTIVES, SCOPE, AND METHODOLOGY	17
2. GLOSSARY OF TERMS	19
3. CORPORATION COMMENTS	20
4. ACRONYMS IN THE REPORT	21

Contents *Page*

TABLES

Table 1: Financial Condition of Heritage 2
Table 2: Key Examination Information 6
Table 3: Heritage's ADC Concentrations 9
Table 4: Heritage Loan Classifications and ALLL 11
Table 5: Interest Reserves Paid and Replenished on Substandard Loans 12

FIGURES

Figure 1: CRE Concentrations to Total Capital Relative to Peer Group 3
Figure 2: ADC Concentrations as a Percentage of Total Loans 7
Figure 3: Heritage's Non-Current Loan Percentages 14

Federal Deposit Insurance Corporation
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Office of Inspector General

DATE:	September 18, 2009
MEMORANDUM TO:	Sandra L. Thompson, Director Division of Supervision and Consumer Protection
FROM:	/Signed/ Stephen M. Beard Assistant Inspector General for Material Loss Reviews
SUBJECT:	*Material Loss Review of Heritage Community Bank, Glenwood, Illinois* (Report No. AUD-09-027)

As required by section 38(k) of the Federal Deposit Insurance Act (FDI Act), the Office of Inspector General (OIG) conducted a material loss[1] review of the failure of Heritage Community Bank (Heritage). On February 27, 2009, the Illinois Department of Financial Professional Regulation (IDFPR), Division of Banking, closed the institution and named the FDIC as receiver. On March 20, 2009, the FDIC notified the OIG that Heritage's total assets at closing were $228.1 million with an estimated loss to the Deposit Insurance Fund (DIF) of $41.6 million.

When the DIF incurs a material loss with respect to an insured depository institution for which the FDIC is appointed receiver, the FDI Act states that the Inspector General of the appropriate federal banking agency shall make a written report to that agency which reviews the agency's supervision of the institution, including the agency's implementation of FDI Act section 38, *Prompt Corrective Action* (PCA); ascertains why the institution's problems resulted in a material loss to the DIF; and makes recommendations to prevent future losses.

The audit objectives were to: (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision[2] of the institution, including implementation of the PCA provisions of section 38 of the FDI Act. Appendix 1 contains details on our objectives, scope, and methodology; Appendix 2 contains a glossary of terms; and Appendix 4 contains a list of acronyms used in the report.

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[1] As defined by section 38(k)(2)(B) of the FDI Act, a loss is material if it exceeds the greater of $25 million or 2 percent of an institution's total assets at the time the FDIC was appointed receiver.
[2] The FDIC's supervision program promotes the safety and soundness of FDIC-supervised institutions, protects consumers' rights, and promotes community investment initiatives by FDIC-supervised insured depository institutions. The FDIC's Division of Supervision and Consumer Protection (DSC) (1) performs examinations of FDIC-supervised institutions to assess their overall financial condition, management policies and practices, including internal control systems; and compliance with applicable laws and regulations; and (2) issues related guidance to institutions and examiners.

This report presents the FDIC OIG's analysis of Heritage's failure and the FDIC's efforts to ensure Heritage's management operated the bank in a safe and sound manner. We are not making recommendations. Instead, as major causes, trends, and common characteristics of financial institution failures are identified in our reviews, we will communicate those to management for its consideration. As resources allow, we may also conduct more in-depth reviews of specific aspects of the FDIC's supervision program and make recommendations, as warranted.

BACKGROUND

Heritage, insured by the FDIC on November 28, 1969, was a state nonmember bank headquartered in Glenwood, Illinois. In addition to its main office, Heritage had three full-service branch offices and one loan servicing center, all located in the Chicago, Illinois, metropolitan area. Heritage had minor out-of-territory lending in Bradenton, Florida, which represented 2 percent of the total loan portfolio. Heritage was owned by a single-bank holding company, Heritage Community Bancorporation, Inc.[3] Heritage provided traditional banking services and specialized in the origination of 1-4 family residential real estate loans, nonresidential real estate, and commercial real estate (CRE) consisting principally of construction and development loans (ADC). Table 1 details Heritage's financial condition for the years 2004 through 2008.

Table 1: Financial Condition of Heritage

Uniform Bank Performance Report	Dec-08	Dec-07	Dec-06	Dec-05	Dec-04
Total Assets ($000s)	$235,154	$298,418	$314,405	$286,427	$260,912
Total Deposits ($000)	$225,735	$268,379	$283,091	$255,656	$232,591
Total Loans ($000s)	$176,012	$227,868	$250,590	$233,654	$207,284
Net Income (Loss)	($21,182)	$4,622	$9,224	$7,687	$4,666

Source: Uniform Bank Performance Report (UBPR).

CAUSES OF FAILURE AND MATERIAL LOSS

Heritage failed because its Board of Directors (BOD) and management did not adequately manage the risks associated with its CRE/ADC concentrations.[4] Strong risk management practices and appropriate levels of capital are essential elements of a sound CRE lending program, particularly when an institution has a concentration in CRE loans. In the case of Heritage, weaknesses associated with Heritage's loan underwriting and credit administration practices contributed to the significant and rapid deterioration of its asset quality, which in turn led to reduced capital as a result of loan losses when the economy started to cycle downward. Heritage was ultimately closed by the IDFPR due

[3] Examination reports indicated that the holding company was primarily established for tax purposes, and that it was not a major source of financial strength for Heritage. The holding company had a simple structure with the holding company having no other subsidiary banks.

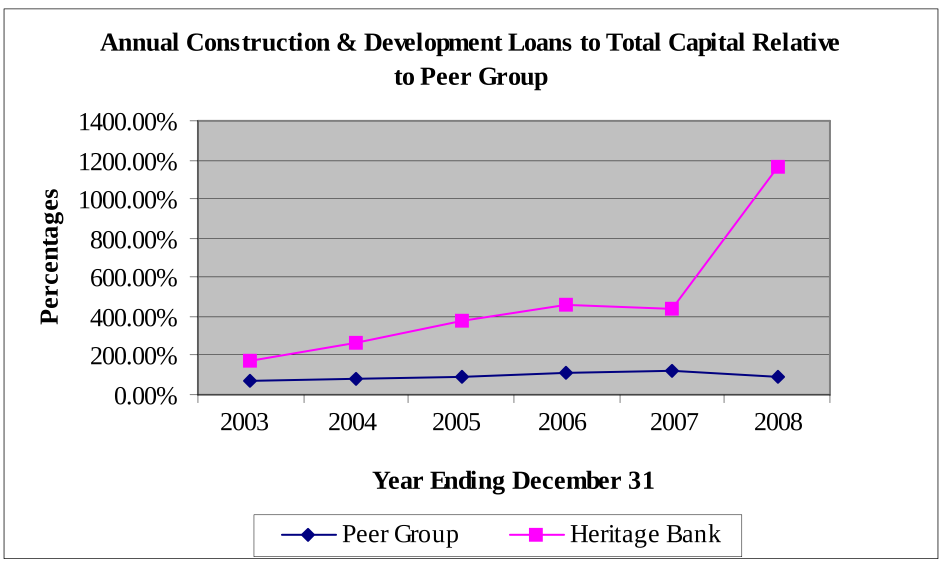
[4] As stated in the FDIC's Financial Institution Letter (FIL) FIL-110-98, dated October 8, 1998, "ADC lending is a highly specialized field with inherent risks that must be managed and controlled to ensure that this activity remains profitable."

to an inability to raise capital to offset high loan loss provisions. Also contributing to the losses was an incentive compensation plan that rewarded loan volume and under which one bank officer generated the vast majority of poor quality loans.

Significant CRE/ADC Loan Concentration

In 2000, Heritage's BOD hired a new loan officer to grow its loan portfolio by aggressively soliciting construction loans due to favorable yields and the short-term nature of the credits. In December 2003, Heritage's concentration in 1-4 family residential real estate represented 45 percent of its loan portfolio, while the CRE loans represented 19 percent for the same period. However, by December 2008, CRE loans represented 52 percent of Heritage's loan portfolio, while the 1-4 family residential real estate represented 28 percent for the same period. Heritage funded its steady growth through core deposits with its primary deposit products being demand deposits, savings, money market, and term certificate accounts. Figure 1 illustrates Heritage's CRE concentrations relative to total capital in comparison to its peers. The spike in the percentage in 2008 can be partially attributed to the large number of nonperforming loans that increased Allowance for Loan and Lease Losses (ALLL) provisions, which in turn reduced capital.

Figure 1: CRE Concentrations to Total Capital Relative to Peer Group



Source: OIG Analysis of UBPRs for Heritage.

Weak Loan Underwriting Practices

Several key loan underwriting practices were weak at Heritage and contributed to the deterioration of asset quality.

Excessive Real Estate Loan-to-Value (LTV) Limits. Heritage made loans that exceeded the regulatory real estate LTV limits. Part 365, Appendix A, of the FDIC Rules and Regulations (*Interagency Guidelines for Real Estate Lending Policies*) provides, in part, that the aggregate amount of all loans in excess of the supervisory LTV limits should not exceed 100 percent of total capital. Heritage's aggregate balance of high LTV loans increased from $22,483,000 (or 89 percent of total capital) in 2005 to $69,710,000 (or 223 percent of total capital) in 2008. Additionally, the excessive level of loans made with LTV exceptions exacerbated Heritage's unsteady financial condition when these types of credits became troubled.

Weak Controls over Interest Reserves. Heritage did not appropriately use and track interest reserves for its loans, and the bank's loan policy did not address the use of interest reserves. This issue was identified in the March 2008 FDIC examination, which reported that Heritage was replenishing depleted interest reserves to accommodate delays in construction projects and slower than expected sales due to the weak real estate market. Examiners explained that it was a common practice at Heritage to replenish depleted interest reserves through additional advances, thereby increasing the loan amount, and corresponding LTV ratio, without any steps taken to maintain borrower equity levels. As stated in FIL-22-2008, *Managing Commercial Real Estate Concentrations in a Challenging Environment*, issued March 17, 2008, inappropriately adding extra interest reserves on loans where the underlying real estate project is not performing as expected can erode collateral protection and mask loans that would otherwise be reported as delinquent.

Incomplete Financial Analysis. Heritage was not completing global financial analyses[5] for large borrowing relationships. FIL-22-2008 provides key risk management processes for institutions with CRE concentrations, one of which is to maintain updated financial and analytical information for borrowers and states that global financial analysis of obligors should be emphasized. Examiners first observed during the September 2005 examination that global repayment analysis was not being prepared for all customers at Heritage. The March 2008 FDIC examination report noted that the problem remained. Examiners informed Heritage of the importance of the financial analysis, especially when loans were renewed or extended while the bank relied on the financial strength of the borrower and/or guarantor for support. Examiners recommended that liquidity and excess cash flow should be documented to show the borrower's financial capacity to support the loan and the analysis of cash flows should be done for multiple years.

Weak Credit Administration Practices

Also contributing to the deterioration of asset quality were weaknesses in Heritage's overall credit administration process, including the following aspects of its loan review system:

Weak Internal Loan Rating System. As discussed later in the report, examiners determined that Heritage's loan rating system was not an effective tool to reflect the true condition of the loans in the portfolio. According to FIL-105-2006, *Interagency Policy*

[5] Global financial analysis involves analyzing a borrower's complete financial obligations.

Statement on the Allowance for Loan and Lease Losses (ALLL), issued December 13, 2006, the foundation for any loan review system is accurate and timely loan classification or credit grading, which involves an assessment of credit quality and leads to the identification of problem loans.[6] An effective loan classification or credit grading system provides important information on the collectability of the portfolio for use in the determination of an appropriate level for the ALLL.

Inadequate External Loan Review. A system of ongoing or periodic external loan-portfolio reviews can be used to provide useful continual feedback on the effectiveness of the lending process in order to identify any emerging problems. FIL-105-2006 states that the nature of loan review systems may vary based on an institution's size, complexity, loan types and management practices. In 2006, IDFPR examiners suggested that internal and external loan reviews should be enhanced in line with the increased sophistication and complexity of the loan portfolio. At that time, Heritage's loan review program primarily focused on documentation reviews and exception tracking, rather than validation of internal risk ratings and reviews of credit relationships as a whole. The examiners further suggested that any recommendations from the loan reviews should be timely and focused to mitigate future underwriting inconsistencies and loan administration deficiencies. Heritage did not address this issue, as evidenced by similar concerns raised by examiners in 2008 related to the external review process.

Watch and Impaired Loan List. Heritage implemented a watch and impaired loan list as a result of examiners' recommendations in 2003. However, FDIC examiners noted during the March 2008 examination that the increased volume of problem loans highlighted the need for more comprehensive reporting of problem loans. The watch and impaired loan list is an important part of a loan review system because it identifies and groups loans that warrant the special attention of management or that management should more closely monitor. The March 2008 examination recommended that specific factors that caused the weakening of the loans should be summarized on the watch and impaired loan list. Additionally, examiners recommended that action plans for the loans should be detailed along with identification of the date the loan was placed on the list.

Performance Incentive Compensation Plan

To carry out its strategic decision to grow its CRE/ADC lending, Heritage implemented an incentive compensation plan that awarded incentive payments based upon loan volume generated by each loan officer and the spread realized between the particular loan and its funding source. Incentives were only payable if the bank's return on asset percent was above 1.4 percent, and the award amount was to be adjusted for net loan losses as a percentage of average loans. A particular concern was that bonuses were paid semi-annually, and in most cases, prior to the loan maturing. Examiners noted that this

[6] The ROEs used the term "loan rating system" while the policy uses the term "credit grading" to discuss the same system that reflects the risk of default and credit losses and for which a written description is maintained, including a discussion of the factors used to assign appropriate classifications or credit grades to loans.

practice could create a situation in which a loan officer originates a sufficient volume of poor quality loans, collects his incentive bonus, and then leaves the bank before the losses are incurred. Heritage's Chairman reiterated to examiners that Heritage's Loan Committee was closely reviewing and approving all new loans over $500,000. A November 12, 2008 joint release statement by federal regulatory agencies states:

> …poorly designed management compensation policies can create perverse incentives that can ultimately jeopardize the health of the banking organization…management compensation policies should be aligned with the long-term prudential interests of the institution, should provide appropriate incentives for safe and sound behavior, and should structure compensation to prevent short-term payments for transactions with long-term horizons.

As discussed later in the report, one individual who was covered by the incentive compensation plan originated the vast majority of loans – approximately $53 million -- that were ultimately adversely classified.

OVERVIEW AND ASSESSMENT OF FDIC SUPERVISION

Our review focused on supervisory oversight from 2003 through Heritage's failure in 2009. In that period, the FDIC and IDFPR performed on-site examinations and conducted offsite monitoring of Heritage as required by statute or agency practice. Two visitations were also conducted in 2008. Although examiners identified and reported Heritage's CRE concentrations, significant weaknesses associated with the management of the CRE portfolio were not identified by examiners until the 2008 examination when the effects of increasing concentrations and the weakening economy began impacting the portfolio.

Overview of Supervision

The FDIC DSC's Chicago Field Office performed examinations in 2003, 2005, and 2008, and the IDFPR performed examinations in 2004 and 2006. From 2003-2006, Heritage consistently received a composite 2 CAMELS rating, and neither the FDIC nor IDFPR reported significant regulatory concerns or imposed enforcement actions until 2008 when both the composite and four of six component ratings were downgraded to a 5. The FDIC was not required to perform an onsite examination in 2007 because the bank met the 18-month examination cycle criteria under Sections 10(d) of the FDI Act and 337.12 of FDIC Rules and Regulations. Table 2 summarizes key examination information.

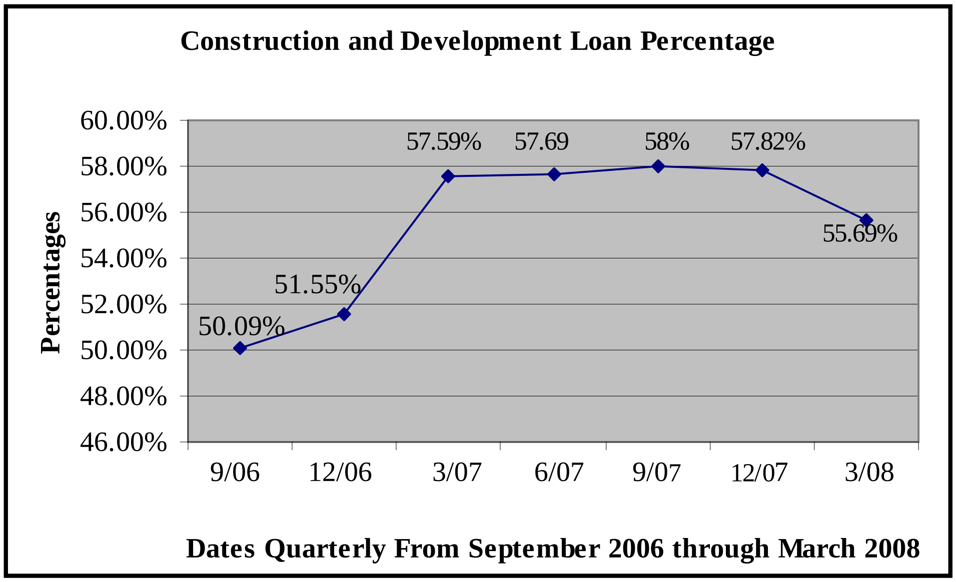
Table 2: Key Examination Information

Examination Information	03/31/2008	08/28/2006	09/19/2005	07/19/2004	01/06/2003
	FDIC	IDFPR	FDIC	IDFPR	FDIC
Component/Composite Ratings	5/555544	2/122121	2/122121	2/222111	2/222111

Source: ViSION Bank Profile, UBPRs, and ROEs.

Between the 2006 and 2008 examinations, the FDIC relied on various offsite techniques to monitor Heritage. The results of the offsite monitoring did not prompt additional supervisory review of Heritage. As indicated in Figure 2, ADC concentrations as a percentage of total loans increased during this same time frame as market conditions in the construction and development sector were also beginning to decline.

Figure 2: ADC Concentrations as a Percentage of Total Loans



Source: Quarterly UBPRs from September 2006 through March 2008.

In 2008, examiners found that the overall condition of the bank had deteriorated significantly since the 2006 examination. According to examiners, the severity and depth of asset quality issues required the immediate attention of Heritage's BOD and management. Examiners stated that a failure to gain immediate control over problem assets would negatively impact the future of the bank. Moreover, the examiners said that the financial decline in Heritage between year-end 2007 and June 2008 made it unclear whether Heritage's management had the wherewithal to turn the institution around. In an effort to deal with the asset quality deterioration, the bank hired a new Senior Vice President (SVP) in 2008 to serve as Chief Credit Officer and manager of problem assets. The examiners noted that the new SVP was taking necessary actions to work out of problem loan situations; however, considerable work remained.

In August 2008, the FDIC issued a Problem Bank Memorandum. The memorandum stated that asset quality was unacceptable and that as a result of the bank's two external loan reviews, substandard loans increased to $75 million or 528 percent of Tier 1 capital. The memorandum also characterized the concentrations in CRE as excessive and imprudent at 586 percent of Tier 1 Capital. Management was also criticized for not developing an effective framework for monitoring and controlling the concentration risk or developing any mitigation strategies. In August 2008, the FDIC was notified that the President had left Heritage Bank. To follow up on issues related to the 2008 examination, the FDIC conducted a visitation in September 2008. The purpose of the

FDIC visitation was to determine whether the provision to the ALLL made as of June 30, 2008 was adequate.

The FDIC and IDFPR jointly issued a Cease and Desist Order (C&D) in October 2008 stipulating certain capital requirements. The C&D capital requirements are discussed in greater detail later in the PCA section of the report. Although Heritage made progress toward complying with the C&D provisions, Heritage never met the minimum capital requirement. The FDIC and IDFPR conducted a joint visitation in mid-December 2008 to assess capital, review the ALLL analysis, and review the bank's problem loan list and loan impairment calculations. There were no ratings issued for Heritage during the two visitations. By December 31, 2008, Heritage experienced a $21 million loss, and the bank subsequently failed in February 2009.

Assessment of FDIC Supervision

The FDIC identified and reported on management weaknesses associated with Heritage's CRE concentrations in 2003, and made recommendations for improvements to address those weaknesses. Examinations conducted between 2004 and 2006 identified some weaknesses associated with Heritage's CRE concentrations but generally concluded that Heritage's overall financial condition was sound and management was appropriately managing additional risks associated with CRE concentrations. In 2008, examiners became increasingly critical of Heritage's risk management practices in this area.

The FDIC may have benefited by changing its supervisory strategy between the 2006 and 2008 examinations taking into consideration the following factors:

- CRE concentrations were significant,
- Management and the BOD had limited experience managing CRE concentrations, and
- CRE concentrations were known to be vulnerable to economic cycles.

In hindsight, the FDIC's reliance on offsite monitoring between the 2006 and 2008 examinations proved to be an ineffective supervisory strategy. Offsite monitoring performed in that period failed to alert the FDIC to Heritage's deteriorating condition until shortly before the 2008 onsite examination was to take place. Closer supervisory review during that timeframe might have resulted in earlier identification of existing weaknesses and enabled the FDIC to more effectively mitigate losses.

Management and Board Oversight. The FDIC's 2003 examination noted that the Board had not established limits for the maximum allowable amount of construction loans and that the Board had not established a watch list. The 2004 IDFPR ROE noted that to address issues identified in the 2003 examination, the BOD had amended the loan policy to include a concentration of credit report with appropriate guidelines and established a maximum limit of 400 percent of risk-based capital for CRE loans. Specific lending criteria and monitoring programs were adopted and included LTV ratios, internal risk ratings, an identification of term changes since the last update, and a listing of all construction and land development loans. Heritage management tracked and presented this information to the BOD on a quarterly basis.

The FDIC 2005 examination stated that the Board and senior management continued to provide sufficient oversight of Heritage, as evidenced by its strong financial condition. The IDFPR 2006 examination stated that BOD oversight was provided by a knowledgeable directorate, possessing immense experience. However, management continued to be very active in extensions of credit in the real estate construction and development areas and raised the limit for CRE lending to 600 percent of risk based capital. In that regard, table 3 presents the growth of the funded and total construction loans as a percentage of Tier 1 Capital from December 31, 2002 to December 31, 2007.[7]

Table 3: Heritage's ADC Concentrations

Examination Start Date	ADC Concentration Information as of Date	Funded ADC Loans as a Percentage of Tier 1 Capital	Total ADC Loans as a Percentage of Tier 1 Capital
January 6, 2003	December 31, 2002	126%	199%
July 19, 2004	April 30, 2004	195%	266%
September 19, 2005	June 30, 2005	343%	500%
August 28, 2006	July 31, 2006	469%	634%
March 31, 2008	December 31, 2007	461%	Not available

Source: DSC ROEs.

In contrast, the FDIC 2008 examination placed full responsibility for Heritage's financial condition on the Board and senior management. Examiners stated that the BOD and senior management failed to effectively develop risk management systems to monitor and control risk. The ROE stated that the deterioration in asset quality resulted from the failure to properly monitor credits after origination, identify developing risk exposures in a timely and comprehensive manner, and establish appropriate CRE limits.

Risk Rating System (Internal and External). FDIC examiners first identified weaknesses in Heritage's internal rating system in the January 2003 examination. Examiners found two large construction loan relationships with inaccurate ratings and suggested that Heritage's management consider expanding the risk rating definitions to include risk aspects of construction lending that might signal weaknesses. Examiners suggested including aspects of construction lending such as borrower's equity contributions to the project, borrowing history at the bank or familiarity of borrower to loan officer, cost overruns, out-of-balance conditions, material change in construction plans, LTV percentages, and financing commitments. The IDFPR's 2004 examination cites that the internal loan rating system was consistently applied and considered adequate. The FDIC 2005 ROE was silent on the issue of Heritage's internal rating system. The IDFPR 2006 ROE stated that internal and external reviews should be enhanced in line with the sophistication and complexity of the loan portfolio.

[7] Total loans represent the funded and unfunded loan commitments. Unfunded loan commitments are contractual obligations for future funding.

In contrast, in the March 2008 examination report, FDIC examiners described Heritage's internal rating system as an obstruction to the oversight and risk mitigation process of the loan portfolio. Examiners concluded that the system was inadequate for identifying, monitoring, and controlling the risks within the loan portfolio. Examination review noted a large number of credits where rating downgrades were not recognized despite the credit being put on the impaired list. Specifically, the 2008 examination reported that 18, or 28 percent, of the adversely classified CRE/ADC loans were given inaccurate internal risk ratings. According to examiners, each loan demonstrated a high-risk profile for an extended period. Examiners commented that the high-risk profile should have alerted the bank's management to loan deterioration, and appropriate downgrades should have been assigned. The examiners downgraded 17 out of 18 loans to a 6 rating, while Heritage rated each between 3 and 5.[8]

Moreover, in the March 2008 ROE, examiners noted that the most recent loan review in February 2008 was exception-based and comments made in the loan review regarding overall credit administration were general, primarily focused on missing or outdated documentation and policy exceptions, and did not identify any issues noted by examiners. Further, examiners noted that no recommendations were made by the independent loan reviewers to downgrade loans that had high-risk indicators such as increased construction cost and elevated LTV through interest reserve recapitalization.

The examiners recommended a comprehensive loan review and Heritage's BOD subsequently approved two independent loan reviews to be performed. The two independent loan reviews were performed in April 2008 and June 2008. The April 2008 review was performed by Heritage's external auditors who had performed external loan reviews for Heritage quarterly during 2007. The 2007 quarterly loan reviews consistently reported the overall loan quality as good. However, the April 2008 loan review report stated that risk ratings for commercial loans mostly disagreed with the bank's risk rating. The report also recommended 30 downgrades due to weak borrower performance and stated that the bank needed to improve its process of properly assessing risk in a given transaction and assigning the proper risk grade as defined in the bank's loan policy. In addition, the report stated that the bank was not consistent in applying risk ratings across the portfolio. According to the report, bank management acknowledged that it had not been diligent in updating and applying proper risk ratings to the commercial portfolio.

Further, the June 2008 loan review, performed by an independent loan reviewer that specialized in real estate loans, found the following:

- The bank's underwriting, documentation, and monitoring systems were not functioning properly to protect the bank from undue risk. In addition, the President's portfolio appeared too large and was not receiving the proper level of attention.

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[8] According to the bank's loan rating system, a 6 rating (Substandard) is a loan inadequately protected by the sound worth and paying capacity of the borrower or the collateral pledge. A 3 rating (Marginal Risk) is a good quality business credit. A 4 rating (Management Attention) is an average business credit, and a 5 rating (Other Loans Especially Mentioned) is a below-average business credit containing potential weaknesses.

- Initial and/or subsequent lending decisions were made with incomplete analysis or out-of-date information.
- There was no verification of guarantor or borrower liquid assets.
- Examples of financial statements that were unsigned, undated, and incomplete.
- No reconciling of inspection report items to draws.

Table 4 shows the bank's asset quality deterioration between 2003 and 2008. Loan classifications significantly increased, from $8.7 million in 2006 to over $54.5 million in 2008 with corresponding significant increases in the ALLL. Examiners found that the bank's methodology for determining the ALLL adequacy complied with regulatory and accounting guidance. However, the independent loan review performed in June 2008 resulted in a dramatic increase in the ALLL from $4.5 million reported in the March 2008 ROE to $14.6 million as of June 30, 2008, according to Heritage's Call Report.

Table 4: Heritage Loan Classifications and ALLL

	Asset Quality (Dollars in Thousands)					
	Loan Classifications				Analysis of ALLL	
Examination Date	Substandard	Doubtful	Loss	Total Classified Items	ALLL Computed by Heritage	Increase In ALLL Required by Examiners
January 03	$2,787	0	0	$2,787	$1,722	0
July 04	$3,876	0	0	$3,876	$1,837	0
September 05	$3,157	0	0	$3,157	$2,290	0
August 06	$8,640	0	$13	$8,653	$2,566	0
March 08	$52,316	0	$2,200	$54,516	$4,456	0

Source: ROEs for Heritage.

Watch List. FDIC examiners first recommended that Heritage establish a formal watch list in their January 2003 examination. The July 2004 IDFPR examination stated that Heritage had developed a watch list as recommended in the prior examination; moreover, the ROE stated that classified loans were included on the list and assigned ratings consistent with ratings stipulated in Heritage's loan policy. The topic was not mentioned again in the ROEs until the March 2008 examination. The 2008 ROE noted that a large segment of the loan portfolio and correspondingly a large volume of the watch and impaired loans were comprised of construction loans and condominium conversion loans. Accordingly, examiners suggested that these loans should be grouped together on the report with sufficient commentary regarding the risks particular to the type of loan. Examiners also recommended specific factors to be summarized for any construction loan on the watch list such as:

- Estimated completion costs in relation to remaining funding availability.
- A recap of the interest reserve position.
- Sales activity with comparisons to original projections.
- Borrower/guarantor support capacity.

Performance Incentives. The 2003 ROE expressed concern regarding the bank's performance incentives. Specifically, the ROE stated that a loan officer could originate poor quality loans, collect the incentive award, and leave the bank before or after losses were incurred. Examinations completed in July 2004, September 2005, and August 2006 did not mention any concerns with Heritage's incentive compensation structure. The 2008 examination did, however. The March 2008 examination stated that two bank officials were responsible for originating approximately 90 percent of all commercial credits and that one of the officials had originated the vast majority of loans adversely classified at $52,687,000 or 97 percent of total classifications. That official was paid $737,000 in related incentive awards over a 5-year period.

Dual Role of the President. The 2008 examiners also took exception to the dual roles performed by the President and attributed, to him directly, the lax oversight of the excessive concentrations in the CRE portfolio. The examination performed in 2006 did not mention any concern with the dual role of the President nor question the President's ability to execute his responsibilities. According to DSC officials, during the period 2004 through 2006, he was being groomed directly by the bank's Chairman to eventually assume full responsibilities of bank president.

Interest Reserves. FDIC examiners identified the inappropriate use of interest reserves that may have masked additional loan delinquencies in the 2008 examination. Examiners encouraged Heritage's management to gain a more comprehensive understanding of interest reserves. Examiners warned that the volume of loans where extensions of credit had been financed with additional interest reserves could present a substantial risk to capital and overstatement of earnings and that reasons for extending multiple interest reserves on individual projects should be well documented and approved. Examples of large loans with replenished reserves and subsequently adversely classified are illustrated in Table 5 that follows:

Table 5: Interest Reserves Paid and Replenished on Substandard Loans

Loan Amount At March 2008	Reserves Paid in 2007	Replenished in 2007	FDIC Examiner Loan Review Performed March 2008	External Loan Review Performed April 2008	External Loan Review Performed June 2008
$2,229,000	$104,000	$100,000	Substandard /Loss of $200M	Loan not Included in Sample	Loan not Included in Sample
$5,640,447	$165,000	$250,000	Substandard	Substandard	Substandard $3,000M / Doubtful $2,640M
$2,925,000	$294,000	$200,000	Substandard	Substandard	Doubtful
$4,110,740	$225,000	$173,000	Substandard	Loan not Included in Sample	Doubtful
$5,004,434	$360,000	$271,000	Substandard	Loan not Included in Sample	Substandard $3,504M / Doubtful $1,5000M

Source: DSC ROE work papers.

Examiners suggested that Heritage's management

- establish maximum exposure limits for the use of interest reserves and enhance the bank's monitoring system to track the total volume of interest reserves utilized within a project, especially the part that may, in limited instances, need to be capitalized;
- document reasons and approvals for extending multiple interest reserves on projects;
- consider and document loan rating adjustments and watch list inclusions; and
- provide performance trends for management and the BOD to monitor.

In addition, examiners pointed out that Heritage's management did not provide specific dollar amounts of interest reserves with quantitative support for the calculation of reserves on construction projects.

Weaknesses in Offsite Monitoring. Based on the IDFPR's August 2006 examination, Heritage met the criteria under section 10(d) of the FDI Act that allowed for annual examination intervals to be extended to 18 months if the insured institution had assets totaling less than $500 million and was well managed and well capitalized. The information obtained through the use of offsite monitoring techniques during the 18-month interval that followed provided the examiners with limited insight regarding Heritage's condition. Moreover, the information gathered during this period did not prompt the FDIC to take additional supervisory action or alter the on-site examination schedule. It was not until Heritage appeared on the Offsite Review List (ORL) shortly before the onsite review was to begin in March 2008 that examiners became aware of the probability that Heritage would be downgraded.

FDIC examiners stated that the 18-month interval between examinations was too long a period for Heritage without an onsite examination, especially during the downturn in the economy in the Chicago region. Examiners suggested that if an onsite examination had taken place at the 12-month mark, examiner recommendations and management's implementation of those recommendations may have mitigated the bank's losses.

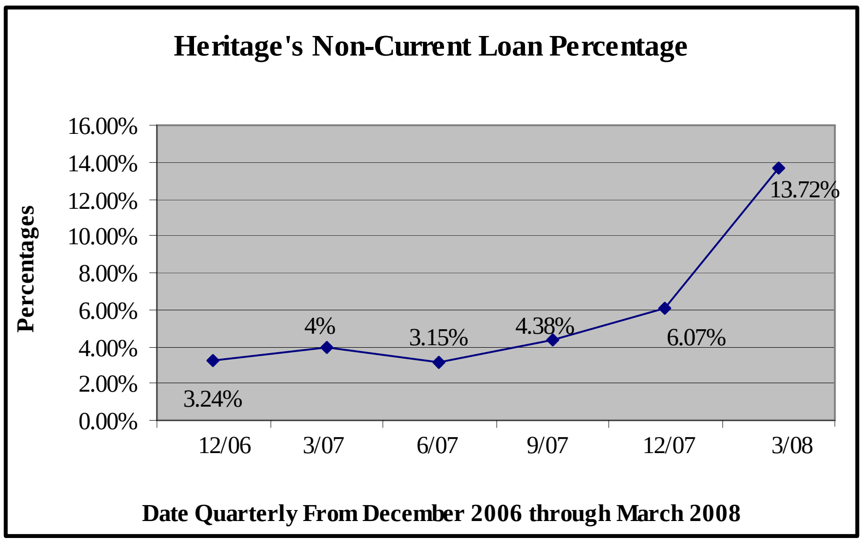
The FDIC's offsite monitoring process is designed to alert examiners to changes within an institution and monitor activity between examinations. The FDIC implemented three offsite monitoring procedures during the 18-month interval, including:

Interim Bank Contact - April 2007. An FDIC examiner conducted a telephone interview with Heritage's President to determine if any significant changes were taking place at Heritage. Heritage's President brought two issues to the examiners attention:

- **Holding Company Debt.** The offsite monitoring interview revealed that Heritage's HC, Heritage Community Bancorporation, Inc., had taken on debt for the first time. The examiners asked the President whether the bank had entered into any new type of business or offered any new products or made any significant changes to its business plan. Heritage's President stated that the holding company had a $4 million line of credit and used $3 million to purchase stock from a shareholder that owned 10 percent and added that there were no plans to re-issue the stock. This was significant because it represented a change at the holding company level that could place pressure on the bank to pay additional dividends to service the holding company debt.

- **Increase in Non-Current Loans.** The examiner asked whether there were any trends in key UBPR ratios that warranted concern. The President confirmed that there had been a higher than normal level of nonperforming loans. Specifically, the level of non-current loans as a percentage of total loans had increased to 4 percent in March 2007 from 3.24 percent in December 2006. However, the President stated that the bulk of the loan issues were based on personality conflicts rather than any change in market conditions or in the local economy. Nevertheless, the bank had allocated additional personnel to diligently monitor these loans and pursue legal action when necessary. We found no evidence of follow-up by the examiners on the President's statement. Figure 3 illustrates the subsequent growth of non-current loans.

Figure 3: Heritage's Non-Current Loan Percentage



Source: Quarterly UBPRs from December 2006 through March 2008.

Targeted Emerging Risk Contact - June 2007. Examiners contacted Heritage because Heritage had 100 percent or more of capital exposed on construction and development lending. To that end, an examiner asked Heritage's President to describe the 1-4 family residential construction activity in the bank's market. In response, the President stated that the 1-4 family residential construction activity in the bank's market area slowed down, but was better than the long-term national average. Further, the examiner asked whether the President was aware of any builders encountering significant financial problems and the President's response was "no." We found no evidence of follow-up on the President's statement; however, as indicated in Figure 3, the non-current loan percentage decreased from March 2007 to June 2007.

Analysis of Offsite Review List (ORL) – March 2008. The FDIC has developed various offsite tools, including the ORL, to monitor insured institutions between examinations. One of the measures used to produce the ORL is the Statistical CAMELS Offsite Rating (SCOR) model, which uses statistical techniques to measure the likelihood that an institution will receive a rating downgrade at the next examination. The output of the SCOR model is derived from historical examination results as well as from Call Reports.[9] Heritage was included on the ORL based on December 31, 2007 Call Report Data (meaning the offsite analysis took place during the first quarter 2008). SCOR indicated a probability of downgrade for asset quality of 91 percent, management of 58 percent, earnings of 28 percent, and composite of 53 percent. The offsite analysis alerted the FDIC to Heritage's potential condition, but that insight was only gained shortly before the onsite review was scheduled to begin in March 2008.[10]

IMPLEMENTATION OF PCA

The purpose of PCA is to resolve problems of insured depository institutions at the least possible long-term cost to the DIF. PCA establishes a system of restrictions and mandatory supervisory actions that are to be triggered by an institution's capital levels. Part 325 of the FDIC's Rules and Regulations implements PCA requirements by establishing a framework for taking prompt corrective action against insured nonmember banks that are not adequately capitalized.

The FDIC and IDFPR evaluated Heritage's capital position, assigned capital component ratings, included capital-related provisions in a formal enforcement action, and provided PCA notification letters. The FDIC's March 2008 examination concluded that the substantial decline in earnings had eroded capital to a critically deficient level and assigned a 5 to the capital component. On August 5, 2008, the FDIC informed the bank that, based on capital ratios reported in the June 30, 2008 Call Report, the institution was undercapitalized and was required to submit a capital restoration plan.

Further, on October 10, 2008, the FDIC and IDFPR issued a C&D that required Heritage to achieve and maintain a Tier 1 Capital ratio of no less than 9 percent and a Total Risk-Based Capital ratio of no less than 14 percent. Further, the C&D included requirements

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[9] According to the *Case Manager Procedures Manual*, "[E]ach institution on the ORL must have an Offsite Review to determine whether supervisory attention is warranted before the next regularly scheduled examination or a rating change should be initiated, if the review indicates that the institution poses a greater risk to the insurance fund than indicated by the composite rating. The manual also states that offsite reviews must be completed and approved within 3½ months after each Call Report date.

[10] As discussed in a recent FDIC OIG report, offsite monitoring systems used to create the ORL are largely based on historical financial information, provided by the financial institution, that may not be accurate and may not fully consider current and emerging risks. As a result, the FDIC's offsite monitoring systems may not be capturing a complete picture of the current and emerging risks facing 1- and 2-rated institutions or identifying those institutions at risk of significant ratings downgrades [OIG Report No. AUD-09-004, *FDIC's Controls Related to the Offsite Review List* dated February 2009].

regarding the reduction of substandard assets and delinquencies; charge-off of losses; concentration and LTV exception reductions; implementation of a comprehensive loan grading and review system; evaluation of staffing including qualified management; asset and liability contingency planning; dividend restrictions; Board loan approvals; and expansion of the loan policy.

In response, Heritage submitted a capital restoration plan on September 18, 2008. The plan was later updated on December 31, 2008. The plan proposed pursuing an equity investment from strategic investors to raise approximately $20 million in order to meet the capital requirements under the C&D. However, the bank was unsuccessful in raising the additional capital. On February 19, 2009, the FDIC notified Heritage that based on capital calculations provided by the institution, Heritage was considered to be critically undercapitalized for PCA purposes. Heritage failed on February 27, 2009, shortly after this notification.

PCA's focus is on capital, and capital can be a lagging indicator of an institution's financial health. Heritage's capital remained in the well capitalized range long after its operations had begun to deteriorate because of problems related to management, asset quality, risk management controls, and net losses. Further, by the time Heritage's capital levels fell below the required thresholds necessary to implement PCA, the bank's condition had deteriorated to the point at which the institution could not raise additional needed capital.

CORPORATION COMMENTS

After we issued our draft report, we met with management officials to further discuss our results. Management provided additional information for our consideration, and we revised our report to reflect this information, as appropriate. On September 16, 2009, the Director, Division of Supervision and Consumer Protection (DSC), provided a written response to the draft report. That response is provided in its entirety as Appendix 3 of this report.

DSC reiterated the OIG's conclusions regarding the cause of Heritage's failure. With regard to our assessment of the FDIC's supervision of Heritage, DSC's response stated that it uses various tools to monitor institutions between examinations and the offsite monitoring process was integral to the supervisory process in this case. DSC stated that one of its offsite models accurately predicted Heritage's future downgrade during the first quarter of 2008. Further DSC stated that information discovered through offsite monitoring merited a Prompt Corrective Action Plan in December 2008 and notification to Heritage that it was critically undercapitalized in February 2009. We agree that offsite monitoring is an integral part of the supervisory process, and did occur in the case of Heritage. However, as we discuss in the report, in hindsight, offsite monitoring between 2006 and 2008 did not prompt closer on-site supervisory review that may have provided more timely insight into Heritage's condition and enabled the FDIC to more effectively mitigate losses.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

We performed this audit in accordance with section 38(k) of the FDI Act, which provides that if a deposit insurance fund incurs a material loss with respect to an insured depository institution, the Inspector General of the appropriate federal banking agency shall prepare a report to that agency reviewing the agency's supervision of the institution. The FDI Act requires that the report be completed within 6 months after it becomes apparent that a material loss has been incurred.

Our audit objectives were to (1) determine the causes of the financial institution's failure and resulting material loss to the DIF and (2) evaluate the FDIC's supervision of the institution, including implementation of the PCA provisions of section 38.

We conducted this performance audit from March to July 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Scope and Methodology

The scope of this audit included an analysis of Heritage's operations from January 6, 2003 until its failure on February 27, 2009. Our review also entailed an evaluation of the regulatory supervision of the institution from 2003 to 2009.

To achieve the objectives, we performed the following procedures and techniques:

- Analyzed examination and visitation reports prepared by the FDIC and IDFPR from 2003 to 2008.

- Reviewed the following:

  - Bank data and correspondence maintained at DSC's Chicago Regional and Field Office.

  - Reports prepared by the Division of Resolutions and Receiverships (DRR) and DSC relating to the bank's closure.

  - Records of the bank's external auditor.

    - Pertinent DSC policies and procedures.

- Interviewed the following FDIC officials:

    - DSC management in Downers Grove, Illinois.

    - DSC examiners in the Chicago Field and Regional Offices who participated in the Heritage examination.

- Met with officials from the IDFPR to discuss their historical perspective of the institution, its examinations, state banking laws, and other activities regarding the state supervision of the bank.

- We performed the audit field work at the DSC offices in Chicago and Downers Grove, Illinois.

Internal Control, Reliance on Computer-processed Information, Performance Measurement, and Compliance with Laws and Regulations

Consistent with the audit objectives, we did not assess DSC's overall internal control or management control structure. We relied on information in DSC systems, reports, ROEs, and interviews of examiners to understand Heritage's management controls pertaining to causes of failure and material loss as discussed in the body of this report.

We obtained data from various FDIC systems but determined that information system controls were not significant to the audit objectives, and therefore, did not evaluate the effectiveness of information system controls. We relied on our analysis of information from various sources, including ROEs, correspondence files, and testimonial evidence to corroborate data obtained from systems that were used to support our audit conclusions.

The Government Performance and Results Act of 1993 (the Results Act) directs Executive Branch agencies to develop a customer-focused strategic plan, align agency programs and activities with concrete missions and goals, and prepare and report on annual performance plans. For this material loss review, we did not assess the strengths and weaknesses of DSC's annual performance plan in meeting the requirements of the Results Act because such an assessment is not relevant to the audit objectives. DSC's compliance with the Results Act is reviewed in program audits of DSC operations.

Regarding compliance with laws and regulations, we performed tests to determine whether the FDIC had complied with provisions of PCA and limited tests to determine compliance with certain aspects of the FDI Act. The results of our tests were discussed, where appropriate, in the report. Additionally, we assessed the risk of fraud and abuse related to our objectives in the course of evaluating audit evidence.

GLOSSARY OF TERMS

Term	Definition
Adversely Classified Assets	Assets subject to criticism and/or comment in an examination report. Adversely classified assets are allocated on the basis of risk (lowest to highest) into three categories: Substandard, Doubtful, and Loss.
Allowance for Loan and Lease Losses (ALLL)	Federally insured depository institutions must maintain an ALLL that is adequate to absorb the estimated loan losses associated with the loan and lease portfolio (including all binding commitments to lend). To the extent not provided for in a separate liability account, the ALLL should also be sufficient to absorb estimated loan losses associated with off-balance sheet loan instruments such as standby letters of loan.
Cease and Desist Order (C&D)	A C&D is a formal enforcement action issued by a financial institution regulator to a bank or affiliated party to stop an unsafe or unsound practice or a violation of laws and regulations. A C&D may be terminated when the bank's condition has significantly improved and the action is no longer needed or the bank has materially complied with its terms.
Concentration	A concentration is a significantly large volume of economically related assets that an institution has advanced or committed to a certain industry, person, entity, or affiliated group. These assets may, in the aggregate, present a substantial risk to the safety and soundness of the institution.
Prompt Corrective Action (PCA)	The purpose of PCA is to resolve the problems of insured depository institutions at the least possible long-term cost to the DIF. Part 325 of the FDIC Rules and Regulations, 12 Code of Federal Regulations, section 325.101, et. seq., implements section 38, *Prompt Corrective Action*, of the FDI Act, 12 United States Code section 1831o, by establishing a framework for taking prompt supervisory actions against insured nonmember banks that are less than adequately capitalized. The following terms are used to describe capital adequacy: (1) *Well Capitalized*, (2) *Adequately Capitalized*, (3) *Undercapitalized*, (4) *Significantly Undercapitalized*, and (5) *Critically Undercapitalized*. A PCA Directive is a formal enforcement action seeking corrective action or compliance with the PCA statute with respect to an institution that falls within any of the three categories of undercapitalized institutions.
Uniform Bank Performance Report (UBPR)	The UBPR is an individual analysis of financial institution financial data and ratios that includes extensive comparisons to peer group performance. The report is produced by the Federal Financial Institutions Examination Council for the use of banking supervisors, bankers, and the general public and is produced quarterly from Call Report data submitted by banks.

CORPORATION COMMENTS

FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990 | Division of Supervision and Consumer Protection

September 16, 2009

MEMORANDUM TO: Stephen Beard
Assistant Inspector General for Material Loss Reviews

FROM: Sandra L. Thompson
Director

SUBJECT: Draft Audit Report Entitled, Material Loss Review of Heritage Community Bank, Glenwood, Illinois (Assignment No. 2009-028)

Pursuant to Section 38(k) of the Federal Deposit Insurance Act (FDI Act), the Federal Deposit Insurance Corporation's Office of Inspector General (OIG) conducted a Material Loss Review of Heritage Community Bank (HCB), Glenwood, Illinois, which failed on February 27, 2009. The Division of Supervision and Consumer Protection (DSC) received the OIG's Draft Audit Report (Report) on September 1, 2009, providing information on the cause of failure and an assessment of the FDIC's supervision of HCB.

The Report notes HCB failed due the Board of Directors and management not adequately managing the risks associated with HCB's commercial real estate (CRE) concentrations. Weaknesses associated with HCB's loan underwriting and credit administration, in combination with the downward economic cycle, contributed to the significant and rapid deterioration in asset quality resulting in the depletion of capital. HCB ultimately closed due to its inability to raise capital to offset the significant loan losses.

The Report finds that DSC and the Illinois Department of Financial Professional Regulation (IDFPR) conducted ongoing supervisory oversight with examinations in 2003, 2004, 2005, 2006, and 2008, and interim off-site monitoring in 2007. Although the Report notes that FDIC and IDFPR made recommendations to improve CRE concentrations in the 2003, 2004, and 2006 examinations, regulators generally concluded that HCB's overall financial condition was sound and additional risk was adequately managed. During the first quarter of 2008, the Statistical CAMELS Offsite Rating (SCOR) model accurately predicted HCB's future downgrade, and the institution was placed on the Offsite Review List. HCB was placed under a Cease and Desist Order in October 2008.

As part of our supervisory program, DSC uses various offsite tools, including personal contacts with bank management, to monitor institutions between examinations. Information discovered through offsite monitoring merited a revised Prompt Corrective Action Plan in December 2008 and a notification to HCB that it was critically undercapitalized in February 2009. DSC's off-site monitoring process was integral to the supervisory function, in this case since the bank failed shortly after the February 2009 notification.

Thank you for the opportunity to review and comment on the Report.

ACRONYMS IN THE REPORT

Acronym	**Definition**
ADC	Acquisition, Development, and Construction
ALLL	Allowance for Loan and Lease Losses
BOD	Board of Directors
C&D	Cease and Desist Order
CAMELS	**C**apital, **A**sset Quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to Market Risk
CRE	Commercial Real Estate
DIF	Deposit Insurance Fund
DRR	Division of Resolutions and Receiverships
DSC	Division of Supervision and Consumer Protection
FDI	Federal Deposit Insurance
FDIC	Federal Deposit Insurance Corporation
IDFPR	Illinois Department of Financial Professional Regulation
LTV	Loan-to-value
OIG	Office of Inspector General
ORL	Offsite Review List
PCA	Prompt Corrective Action
ROE	Report of Examination
SCOR	Statistical CAMELS Offsite Rating
SVP	Senior Vice President
UBPR	Uniform Bank Performance Report
UFIRS	Uniform Financial Institutions Rating System