#2014-103

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY

In the Matter of:	)	
The National Republic Bank of Chicago	)	**AA-EC-2014-66**
Chicago, Illinois	)	

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, The National Republic Bank of Chicago, Chicago, Illinois ("Bank") was adequately capitalized pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6; and

WHEREAS, the Office of the Comptroller of the Currency ("OCC") is authorized pursuant to 12 U.S.C. § 1831o(g) and 12 C.F.R. § 6.4 to reclassify institutions based on supervisory criteria other than capital; and

WHEREAS, on April 9, 2014, the OCC notified the Bank (i) that it deems the institution to be engaging in unsafe or unsound practices, and (ii) of its intention to reclassify the Prompt Corrective Action ("PCA") capital category of the Bank to undercapitalized pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 6 & Part 19; and

WHEREAS, the Bank was deemed to have consented to the OCC's proposed reclassification of its PCA capital category by not filing a written response within the specified time period pursuant to 12 C.F.R. § 19.221(d); and

WHEREAS, on April 29, 2014, the OCC notified the Bank that (i) it is reclassifying the Bank's capital category from adequately capitalized to undercapitalized pursuant to 12 U.S.C. § 1831o(g) and 12 C.F.R. Part 6 & Part 19, and (ii) it may initiate other actions that are appropriate for the Bank's capital category; and

WHEREAS, the OCC is authorized, pursuant to 12 U.S.C. § 1831o, to take certain supervisory actions against undercapitalized banks, including those available pursuant to 12 U.S.C. § 1831o(e)(5) and (f)(2); and

WHEREAS, the Comptroller of the Currency ("Comptroller") finds it necessary in order to carry out the purpose of 12 U.S.C. § 1831o to issue this PCA Directive ("Directive") requiring the Bank to immediately follow proscriptions and take actions; and

NOW THEREFORE, pursuant to the authority in 12 U.S.C. § 1831o, the Comptroller hereby issues this Directive.

ARTICLE I

<u>JURISDICTION</u>

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1, *et seq.*

(2) The OCC is the "appropriate Federal banking agency" regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1831o.

(3) The Bank is an "insured depository institution" within the meaning of 12 U.S.C. § 1831o.

(4) This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

(5) A violation of this Directive constitutes a violation of a final order under 12 U.S.C. § 1831o and is subject to the assessment of civil money penalties under 12 U.S.C. § 1818(i)(2).

ARTICLE II

COMPLIANCE COMMITTEE

(1) Effective immediately, the Bank's Compliance Committee appointed and maintained pursuant to Article I of the Consent Order issued pursuant to 12 U.S.C. § 1818 on August 31, 2013 ("2013 Order"), shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Directive and the 2013 Order.

(2) Within ten (10) days of the date of this Directive, the Compliance Committee shall submit a written progress report to the Bank's Board of Directors ("Board") setting forth in detail its actions taken to ensure compliance with this Directive. This report shall be included in the Board minutes and a copy of the report shall be sent to the Director for Special Supervision ("Director").

(3) Thereafter, the Bank's Compliance Committee shall submit monthly written compliance reports to the Board, with a copy to the Director. These written compliance reports shall replace the quarterly Compliance Committee reporting required by paragraph (3) of Article I of the 2013 Order. Within ten (10) days of the end of each month, or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the actions to be taken to comply with each Article of this Directive and the unfulfilled requirements of the 2013 Order;

(b) the actions taken to comply with each Article of this Directive and the 2013 Order; and

(c) the results and status of those actions.

(4) The Board shall ensure that the Bank has sufficient processes, personnel, and control systems to effectively implement and adhere to all provisions of this Directive and the 2013 Order,

and that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Directive and the 2013 Order.

(5) Nothing in this Directive diminishes the responsibility of the entire Board to comply with this Directive and the terms of the 2013 Order.

ARTICLE III

DISMISSAL OF CERTAIN SENIOR EXECUTIVE OFFICERS AND DIRECTORS

(1) Pursuant to 12 U.S.C. § 1831o(f)(2) and 12 C.F.R. § 6.21(a)(2), the Board shall immediately dismiss (i) Hiren Patel from any and all positions as a director and/or senior executive officer of the Bank, including the positions of Chief Executive Officer ("CEO"), Chairman of the Board, and/or director; and (ii) Edward Fitzgerald from any and all positions as a director and/or senior executive officer of the Bank, including the positions of President and/or director. For the purposes of this Directive, the term "senior executive officer" shall be defined by 12 U.S.C. §§ 1831o and 375b.

(2) Following the Board's dismissal of Mr. Patel and Mr. Fitzgerald, the Board shall ensure that Mr. Patel and Mr. Fitzgerald immediately relinquish all Bank-owned or Bank-issued property in their possession. The Board shall provide Mr. Patel and Mr. Fitzgerald twenty-four (24) hours to relinquish any Bank-owned or Bank-issued property currently located at any non-Bank location. Such Bank-owned or Bank-issued property may include, but is not limited to: vehicles and keys; keys to all Bank premises; credit cards; computers and disc drives; printers; fax machines; photocopiers; cell phones; audiovisual equipment; other electronic devices; supplies; and documents that are originals and/or copies of the Bank's books and records.

(3) Immediately following the Board's dismissal of Mr. Patel and Mr. Fitzgerald, the Board also shall take immediate action to eliminate Mr. Patel's and Mr. Fitzgerald's access to Bank premises, data systems, books, and records, and to implement procedures to prevent Mr. Patel and Mr. Fitzgerald from removing Bank-owned or Bank-issued property. However, Mr. Patel and Mr. Fitzgerald may retain access to their personal Bank accounts to the same extent granted to other Bank customers.

(4) The Bank shall make no payments of any kind to, or on behalf of, Mr. Patel or Mr. Fitzgerald without the prior written determination of no supervisory objection from the Director. Any request for the Director's written determination of no supervisory objection shall be in writing and shall include a justification setting forth the basis for the determination that the Bank should be permitted to continue such benefit or make any payment.

(5) Pursuant to 12 U.S.C. § 1831o(f)(2)(J), the Bank shall not cause any indemnification payments to be made to, or on behalf of, Mr. Patel or Mr. Fitzgerald without obtaining the prior written determination of no supervisory objection from the Director. Any request for the Director's written determination of no supervisory objection shall include a legal opinion from independent counsel setting forth the basis under which such indemnification payments fully satisfy the requirements of 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359.

(6) The requirements and restrictions on the Bank set forth in paragraphs (2) through (5) of this Article are applicable to the Bank with respect to all directors or officers dismissed by the Board, as well as directors or officers who resign or retire. The Board shall ensure that paragraphs (2) through (5) of this Article are followed with respect to each such dismissed, resigning, or retiring director or officer.

ARTICLE IV

APPOINTMENT OF NEW CEO/PRESIDENT AND DIRECTOR

(1) No later than September 2, 2014, the Bank shall appoint a qualified, capable, full-time, and permanent CEO/President and director. Pursuant to 12 U.S.C. § 1831i and 12 C.F.R. § 5.51, the Bank must receive a written notice of intent not to disapprove from the OCC before appointing an individual as permanent CEO or President. Accordingly, no later than August 2, 2014, the Bank shall provide the OCC with the prior written notice required by 12 U.S.C. § 1831i and 12 C.F.R. § 5.51 to appoint a qualified, capable, full-time, and permanent CEO/President and director.

(2) No later than September 2, 2014, the Bank shall appoint at least one qualified and capable director with banking, finance, accounting, or legal expertise to serve on the Bank's Board. The director required by this paragraph is in addition to the director required by paragraph (1) of the Article. Pursuant to 12 U.S.C. § 1831i and 12 C.F.R. § 5.51, the Bank must receive a written notice of intent not to disapprove from the OCC before appointing an individual as director. Accordingly, no later than August 2, 2014, the Bank shall provide the OCC with the prior written notice required by 12 U.S.C. § 1831i and 12 C.F.R. § 5.51 to appoint a qualified and capable director.

(3) Prior to the appointment of any individual as director or senior executive officer of the Bank, the Board shall submit to the Director written notice as required by 12 C.F.R. § 5.51 and in accordance with the Comptroller's Licensing Manual.

ARTICLE V

CONTRACTS WITH FORMER OFFICERS OR DIRECTORS

(1) The Bank shall not employ or enter into or renew any contracts or engagements with Mr. Patel or Mr. Fitzgerald, or any company affiliated with either Mr. Patel or Mr. Fitzgerald, without obtaining the prior written determination of no supervisory objection from the Director.

(2) Any request for the Director's written determination of no supervisory objection pursuant to paragraph (1) of the Article shall include:

(a) a description of the services to be performed, including a copy of the proposed contract or engagement;

(b) a description of the Bank's due diligence process for selecting either Mr. Patel or Mr. Fitzgerald, or any of their affiliated companies, as a contractor or service provider and the results of the due diligence review, including a description of why Mr. Patel or Mr. Fitzgerald or any of their affiliates was selected;

(c) a cost/benefit analysis for engaging either Mr. Patel or Mr. Fitzgerald, or any of their affiliated companies, as a contractor or service provider;

(d) a determination by the Board that the contract or engagement is being entered into at arm's length on terms and conditions fair and reasonable to the Bank, including the ability of the parties to perform under the contract or commitment; and

(e) a determination by the Board that the contract is in the best interests of the Bank.

(3) Following any determination of no supervisory objection granted by the Director, the Board must routinely monitor the performance of Mr. Patel, Mr. Fitzgerald, and any of their

affiliated companies to ensure that committed goods and services are received, and that they are in compliance with the written contract or engagement.

(4) For any former director or senior executive officer of the Bank who left that office within the sixty (60) days prior to the date of this Directive and is currently employed or retained by the Bank in any capacity, the Board shall within five (5) days of the date of this Directive submit a report to the Director that includes:

(a) a description of the individual's present and anticipated role, responsibilities, and authority;

(b) a description of the individual's compensation package;

(c) a copy of the individual's contract or engagement with the Bank;

(d) a description of the processes, personnel, and control systems the Board will utilize to ensure that the individual will not participate in major policymaking functions of the Bank; and

(e) a written certification from each director voting in favor of the individual's employment or retention that such employment or retention is in the best interests of the Bank;

(5) Nothing in paragraph (4) diminishes the responsibility of the entire Board to comply with paragraphs (1) – (3) of this Article.

ARTICLE VI

PRESERVATION OF BOOKS AND RECORDS

(1) The Board shall immediately ensure that all of the Bank's documents, books, and records are accurately maintained and preserved on the premises of the Bank and shall ensure that no Bank documents, books, or records are destroyed, altered, or removed from the Bank's premises

until further written notice from the Director. However, such documents, books, and records may be altered and amended in the course of ordinary Bank business to accurately and timely record routine banking transactions, including but not limited to: taking and withdrawal of deposits, making loans, and receiving loan payments.

(2) For purposes of this Article, "documents, books, and records" shall have the broadest possible meaning reasonably imaginable and shall include, without limitation, paper and electronic records of all kinds, reports, notes, calendars, phone logs, electronic mail, voice mail, financial instruments, and tapes.

(3) The Board also shall take action to ensure that it maintains in its possession accurate and complete information concerning the books and records of any Bank affiliates or agents, and that such information is sufficient and adequate for the Bank to carry out its activities and monitor operations.

(4) The Board shall ensure that, within twenty-four (24) hours of the date of this Directive, all of the Bank's documents, books, records, and other property that are not currently maintained on the Bank's premises are returned to the Bank and thereafter maintained in accordance with paragraph (1) of this Article.

(5) The Bank shall not permit, and the Board shall ensure that, effective immediately, no Bank director, officer, employee, former director or officer or employee, agent, or independent contractor shall permit Mr. Patel or Mr. Fitzgerald access to any of the Bank's documents, books, or records, whether such documents, books, or records are located on the Bank's premises or are not currently maintained on the Bank's premises.

(6) The Bank shall provide OCC personnel with prompt and unrestricted access to the documents, books, records, directors, officers, and staff of the Bank. The Board also shall ensure all

agents and representatives of the Bank provide OCC personnel with prompt and complete access to the documents, books, and records of the Bank.

(7) The Bank shall provide full and complete details of the purpose of any transactions (i) by and between the Bank and any of its customers, (ii) by and between the Bank and any of its affiliates or subsidiaries, or (iii) by and between the Bank and any of its current or former directors, officers, employees, contractors, or agents, to OCC personnel upon inquiry.

(8) Effective immediately, the Bank and Board, directors, officers, and staff shall cease and desist from any action that directly or indirectly conceals transactions from the OCC, hinders or obstructs the OCC examination process, or constitutes the making of false entries or statements on any of the Bank's documents, books, or records.

ARTICLE VII

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

(1) Effective immediately, the Board shall ensure the Bank's books and records are maintained in compliance with Generally Accepted Accounting Principles ("GAAP") and are consistent with safe and sound banking practices including, but not limited to, ensuring all assets are accounted for in accordance with GAAP and appropriate adjustments are made as required by any Reports of Examination.

ARTICLE VIII

CREDIT AND LENDING ADMINISTRATION PRACTICES

(1) Effective immediately, the Bank shall not make, extend, renew, modify, or commit to make, extend, renew, or modify any loan or extension of credit, as defined in 12

C.F.R. § 32.2(q), including substitution of a new borrower on an existing loan or extension of credit, until the Board has documented its analysis of the transaction and each director voting in favor of the loan or extension of credit has individually certified in writing to the following:

(a) the loan or extension of credit is in the best interest of the Bank based on a comprehensive, current, and documented credit analysis;

(b) the loan or extension of credit complies with each applicable Article of the 2013 Order;

(c) the loan or extension of credit fully complies with all applicable requirements of the January 29, 2014 Board-approved lending policies and procedures;

(d) the loan or extension of credit complies with applicable law, regulation, regulatory guidance, GAAP, and other safe or sound lending practices; and

(e) the loan or extension of credit includes a feasibility study for any commercial construction lending.

(2) The analysis and certification required in paragraph (1) shall be made a part of the applicable meeting(s) of the Board, with a copy retained in the applicable borrower's credit file. The complete loan package, including the signature of each individual Board member on a Board resolution approving the loan or extension of credit, must be forwarded to the OCC within thirty (30) days of the Board meeting or date the Board took action on the loan or extension of credit.

(3) Effective immediately, the Bank shall not advance funds or increase loan commitments on any commercial construction or renovation loan or extension of credit until the Board has documented its analysis of the transaction and each director voting in favor of the loan or extension of credit has individually certified in writing to the following:

(a) the advance of funds or increase in loan commitment is supported by written invoices, bills, or other appropriate documentation;

(b) the request for advance of funds or increase in loan commitment includes a written budget/variance report with a complete explanation of any variances;

(c) the advance of funds or increase in loan commitment is supported by a written independent inspection report including appropriate supporting documentation;

(d) the request for the advance of funds or increase in loan commitment includes the general contractor's sworn statement and/or a lien waiver from the appropriate vendor/contractor; and

(e) the request for the advance of funds or increase in loan commitment includes a documented updated title search or policy as applicable.

(4) The analysis and certifications required in paragraph (3) shall be made a part of the minutes of the applicable meeting(s) of the Board, with a copy retained in the applicable borrower's credit file. The complete package documenting the transaction, including the signature of each individual Board member on a Board resolution approving the request for advance of funds or increase in loan commitment, must be forwarded to the OCC within thirty (30) days of the Board meeting or date the Board took action on the advance of funds or increase in loan commitment.

(5) Effective immediately, the Bank shall not finance the sale of other real estate owned ("OREO"), as described in 12 C.F.R. § 34.81(e), until the Bank has developed comprehensive policies and procedures governing Bank financing of the sale of OREO and received the OCC's prior written determination of no supervisory objection to the proposed policies and procedures.

(6) Effectively immediately, the Bank shall cease the following unsafe or unsound credit administration practices:

(a) repurchasing any participation in any problem loan outside of the contractual arrangement established in the participation loan agreement;

(b) repurchasing any participation in any loan that will result in a violation of the Bank's legal lending limit;

(c) disbursing construction loan proceeds or other undisbursed loan proceeds to permit the borrower to make contractually obligated interest or principal payments, payments for legal expenses, insurance premiums, real estate tax payments, or for any other purpose not in strict accordance with the contractual terms of the loan;

(d) using any loan escrow account to make interest or principal payments on the loan or for any other purpose not specifically designated by the terms of the loan escrow agreement; and

(e) accepting loan payments from Bank deposit accounts that are overdrawn either prior to, or as a result of, the loan payment.

(7) Effective immediately, the Bank shall not purchase high risk, complex structured investments (*e.g.* inverse floaters, range floaters, structured collateralized mortgage obligations). Further, the Bank must immediately divest of its current holdings in such high risk, complex structured investments unless the Bank receives the prior written determination of no supervisory objection from the Director to a particular security. Any request for the Director's written determination of no supervisory objection must be submitted within ten (10) days of the date of this Directive and shall include a written plan, with stop loss limits, to monitor and manage the risk of such high risk, complex structured investments.

ARTICLE IX

OTHER ACTIONS REQUIRED

(1) Immediately upon issuance of this Directive, the Bank shall not do any of the following without the prior written approval of the Board and the prior written determination of no supervisory objection of the Director:

(a) enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, or other similar action;

(b) engage in the sale or transfer of any Bank asset or pool of assets exceeding a fair market value of two hundred fifty thousand dollars ($250,000). Any asset sale or transfer less than $250,000 should be reported to the Director immediately after the sale;

(c) transfer any asset to a current or former institution-affiliated party, as defined by 12 U.S.C. § 1813(u), a current or former institution-affiliated party's related interests, including any family member, or to an affiliate, as defined by 12 U.S.C. § 371c, or to its holding company or other affiliated party or person;

(d) amend the Bank's charter or bylaws, except to the extent necessary to carry out any other requirement of law, regulation, or order;

(e) increase compensation or other payments, including bonuses, to the Bank's employees, agents, or independent contractors;

(f) make any change in accounting methods;

(g) enter into any new product or service, or undertake a significant expansion of any existing product or service; and

(h) engage in any transaction for the transfer of funds, the extension of credit, the acceptance or transference of risk, and/or the conferring of another type of benefit, directly or indirectly, involving any Bank affiliates, as defined in 12 U.S.C. § 371c, or current or former Bank directors, shareholders, senior executive officers, or their respective family members.

(2) The Bank shall cooperate fully with the efforts of the Federal Deposit Insurance Corporation ("FDIC") to avoid a loss or otherwise minimize exposure to the Deposit Insurance Fund. Such cooperation includes, but is not limited to, responding to requests for information, providing full access to personnel, agents, and service providers, accommodating on-site visits, and permitting the FDIC to provide otherwise confidential information to third parties to facilitate the liquidation or other resolution of the Bank in anticipation of the possible appointment of the FDIC as conservator, receiver, or other legal custodian.

ARTICLE X

CLOSING

(1) The provisions of this Directive supplement and, unless otherwise stated in this Directive, do not replace the requirements of the 2013 Order.

(2) This Directive is enforceable under 12 U.S.C. § 1818(i). Each provision of this Directive shall be binding upon the Bank, its subsidiaries, its current or former directors, officers, employees, agents, successors, assigns, and other persons participating in the affairs of the Bank or its subsidiaries.

(3) Although the Bank is required to submit certain proposed actions and programs for the review and prior written determination of no supervisory objection of the Director, the

Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(4) In each instance in this Directive in which the Board or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank, including the obligation to implement plans, policies or other actions, it is intended to mean that the Board or Board committee shall:

(a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Directive;

(b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Directive;

(c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and

(d) require corrective action be taken in a timely manner on any non-compliance with such actions.

(5) Any time limitations imposed by this Directive shall begin to run from the date of this Directive. Calculation of time limitations for compliance with the terms of this Directive shall be based on calendar days, unless otherwise noted. Time limitations may be extended in writing by the Director for good cause upon written application by the Board. Such application shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with the Directive within the required timeframe, and be accompanied by relevant supporting documentation and any other facts upon which the Bank relies. The Director's decision concerning a request is final and not subject to further review.

(6) The provisions of this Directive are effective upon issuance of this Directive by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Directive shall have been amended, suspended, waived, or terminated in writing by the Director.

(7) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the laws of the United States of America to undertake any action affecting the Bank, or any institution-affiliated party of the Bank, nothing in this Directive shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(8) The Bank may submit a request for modification or recession of this Directive to the OCC upon a change in circumstance pursuant to 12 C.F.R. § 6.24. During review of any such request, this Directive shall remain in effect.

IT IS SO ORDERED, this 2nd day of July, 2014.

*/s*______________________________
Henry Fleming
Director for Special Supervision