

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

In the Matter of:)
)
The First National Bank and Trust Company of Vinita) AA-EC-2020-43
Vinita, Oklahoma)
)

CONSENT ORDER

WHEREAS, the Office of the Comptroller of the Currency (“OCC”) has supervisory authority over The First National Bank and Trust Company of Vinita, Vinita, Oklahoma (“Bank”);

WHEREAS, the OCC intends to initiate cease and desist proceedings against the Bank pursuant to 12 U.S.C. § 1818(b), through the issuance of a Notice of Charges, for engaging in unsafe or unsound practices, including those relating to strategic and capital planning, liquidity risk management, problem loans, the Allowance for Loan and Lease Losses (“ALLL”), commercial credit risk management, concentrations, and audit;

WHEREAS, in the interest of cooperation and to avoid additional costs associated with administrative and judicial proceedings with respect to the above matter, the Bank, by and through its duly elected and acting Board of Directors (“Board”), consents to the issuance of this Consent Order (“Order”), by the OCC through the duly authorized representative of the Comptroller of the Currency (“Comptroller”); and

NOW, THEREFORE, pursuant to the authority vested in the OCC by Section 8(b) of the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818(b), the OCC hereby orders that:

ARTICLE I

JURISDICTION

(1) The Bank is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c)(2).

(2) The Bank is a national banking association within the meaning of 12 U.S.C. § 1813(q)(1)(A), and is chartered and examined by the OCC. *See* 12 U.S.C. § 1 *et seq.*

(3) The OCC is the “appropriate Federal banking agency” as that term is defined in 12 U.S.C. § 1813(q) and is therefore authorized to initiate and maintain this cease and desist action against the Bank pursuant to 12 U.S.C. § 1818(b).

ARTICLE II

COMPTROLLER’S FINDINGS

The Comptroller finds, and the Bank neither admits nor denies, the following:

(1) The Bank’s strategic and capital planning, capital ratios, liquidity risk management, problem loan processes, ALLL methodology, credit risk management, concentration risk management, and audit are deficient given the Bank’s size, complexity, and risk profile.

(2) The Bank’s failure to implement and maintain satisfactory strategic and capital planning, capital ratios, liquidity risk management, problem loan processes, ALLL methodology, credit risk management, concentration risk management, and audit are, individually and collectively, unsafe or unsound practices.

ARTICLE III

COMPLIANCE COMMITTEE

(1) Within five (5) days of the date of this Order, the Board shall appoint a Compliance Committee of at least three (3) directors. Within forty-five (45) days of the date of this Order, the Board shall ensure the majority of members of this committee shall be directors who are not employees or officers of the Bank or any of its subsidiaries or affiliates. The Board shall submit in writing to the Director for Special Supervision (“Director”) the names of the members of the Compliance Committee within ten (10) days of their appointment. In the event of a change of the membership, the Board shall submit in writing to the Director within ten (10) days the name of any new or resigning committee member. The Compliance Committee shall monitor and oversee the Bank’s compliance with the provisions of this Order. The Compliance Committee shall meet at least monthly and maintain minutes of its meetings.

(2) Within sixty (60) days, and thereafter by the last day of each month, the Compliance Committee shall submit to the Board a written progress report setting forth in detail:

- (a) a description of the corrective actions needed to achieve compliance with each Article of this Order;
- (b) the specific corrective actions undertaken to comply with each Article of this Order; and
- (c) the results and status of the corrective actions.

(3) Upon receiving each written progress report, the Board shall forward a copy of the report, with any additional comments by the Board, to the Director within ten (10) days of the Board’s receipt of such report.

ARTICLE IV

BOARD SUPERVISION AND MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Board shall ensure that the Bank has effective and qualified management in place for all senior executive officer positions to carry out the Board's policies, take the necessary steps to implement corporate governance and decision-making processes to correct the deficiencies identified in the most recent Report of Examination and to timely address deficiencies described in future or any supervisory or regulatory communications, and take the necessary steps to ensure compliance with applicable laws, rules, and regulations and compliance with the Order. For the purposes of this Order, "deficiencies" includes deficient practices (including policies, procedures, practices, and controls) and violations of laws, regulations, final agency orders, conditions imposed in writing, or written agreements). Within ninety (90) days of the date of this Order, the Board shall ensure the following:

- (a) capable senior executive officers are in place to perform present and anticipated duties, factoring in each officer's performance, experience, and qualifications as compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan required by Article V of this Order, achieve and maintain the minimum capital ratios required by Article VI of this Order and correct the deficiencies identified in the most recent Report of Examination;
- (b) identification of future senior executive management staffing requirements of each area of the Bank;

- (c) clear lines of responsibility and authority exist for each member of senior executive management;
- (d) a management employment and succession plan is in place to promote adequate staffing and continuity of capable management;
- (e) Bank management and personnel have sufficient training and authority to execute their duties and responsibilities under this Order;
- (f) an adequate process is in place to evaluate, at least annually, the Bank's overall internal operations; staffing; Board and management oversight; information systems, policies, procedures; and other risk management systems, with strategies with associated timelines to address any deficiencies;
- (g) a sufficient process is in place to ensure that management appropriately responds to any audit, compliance, and/or regulatory criticisms; and
- (h) the Board receives and reviews sufficient information from management (including scope, frequency, timing and content) regarding the operation of the Bank and compliance with this Order to enable the Directors to provide oversight and fulfill their fiduciary duties and other responsibilities as required by law and in accordance with safe and sound practices (refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* for guidance).

(2) The Board shall take immediate action to add at least two members of the Board that are independent, outside directors. The term "independent, outside director" means a person who is not an officer or employee of the Bank, is not a director, officer or employee of any of the

Bank's affiliates (as the term "affiliate" is defined in 12 U.S.C. § 371c(b)(1)), and is not a family member of such a person (refer to the "Corporate and Risk Governance" booklet of the *Comptroller's Handbook* for guidance). The Board shall file a notice it is adding or replacing independent, outside directors to the Director in accordance with 12 U.S.C. § 1831i and 12 C.F.R. § 5.51 (refer to the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the *Comptroller's Licensing Manual*). The Director may disapprove the appointment of a proposed director. However, the lack of disapproval of such individual does not constitute an approval or endorsement of the proposed director.

(3) The Board shall ensure that an annual written performance appraisal is performed and prepared for all Bank senior executive officers. The Board shall ensure that each written performance appraisal is completed by sufficiently qualified and independent Board members. If necessary and as appropriate, the Board shall engage a qualified independent third party to assist the Board in preparing the written appraisals; refer to "Third-Party Relationships: Risk Management Guidance" (OCC Bulletin 2013-29) for guidance. Each annual written performance appraisal shall evaluate the performance of each senior executive officer according to the position's description and responsibilities. Each annual written performance appraisal also must evaluate the following:

- (a) compliance with objectives established by the Board;
- (b) compliance with Board-approved policies and procedures;
- (c) compliance with Board-approved strategic and capital plans;
- (d) compliance with laws, regulations, and the Order; and
- (e) appropriateness of compensation and benefits in accordance with Safety and Soundness standards in 12 C.F.R. Part 30, Appendix A, Section III.

(4) Within ninety (90) days of the date of this Order, the Board will develop, and thereafter implement and ensure adherence to, a written plan to ensure that compensation for each officer and director, at minimum:

- (a) is connected to an identifiable position at the Bank;
- (b) is market-based, reasonable, and proportionate to the services rendered;
- (c) considers the Bank's ability to pay the compensation and the impact of such payments on the financial condition of the Bank; and
- (d) is consistent with the Strategic Plan required by Article V of this Order.

Refer to "Incentive Compensation: Interagency Guidance on Sound Incentive Compensation Policies" (OCC Bulletin 2010-24) for guidance. The Board shall review its compensation practices annually and ensure that they comply with Safety and Soundness standards in 12 C.F.R. Part 30, Appendix A, Section III.

ARTICLE V

STRATEGIC PLAN

(1) Within one hundred and twenty (120) days of the date of this Order, the Board shall forward to the Director pursuant to paragraph (2) of this Article, a written Strategic Plan for the Bank covering at least a three-year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, and capital and liquidity adequacy, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

- (b) the Bank's strategic goals and objectives, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact its strategic goals and objectives;
- (d) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems, policies, and procedures for their adequacy and contribution to the accomplishment of the strategic goals and objectives developed under paragraph (1)(b) of this Article;
- (e) an action plan to improve and sustain the Bank's earnings and accomplish identified strategic goals and objectives;
- (f) a realistic and comprehensive annual budget that corresponds to the Strategic Plan's goals and objectives and includes projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the Strategic Plan;
- (g) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of Article VI;
- (h) a detailed description and assessment of major capital expenditures required to achieve the goals and objectives of the Strategic Plan;
- (i) an identification and prioritization of initiatives and opportunities, including timeframes that comply with the requirements of this Order;
- (j) a description of the Bank's target market(s) and competitive factors in its identified target market(s), and a description of control systems to mitigate risks in the Bank's target market(s);

- (k) an identification and assessment of the present and planned product lines (including assets, liabilities, and off-balance-sheet activities) and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;
- (l) assigned roles, responsibilities, and accountability for the strategic planning; and
- (m) a description of systems and metrics to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) Prior to adoption by the Board, a copy of the Strategic Plan and any subsequent amendments, revisions, or updates, shall be submitted to the Director for prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt, and Bank management, subject to Board review and ongoing monitoring, shall immediately implement and ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(3) Until the Strategic Plan required under this Article has been submitted by the Bank for the Director's review, has received a written determination of no supervisory objection from the Director and has been adopted by the Board, the Bank shall not significantly deviate from the products, services, asset composition and size, funding sources, structure, operations, policies, procedures, and markets of the Bank that existed immediately before the effective date of this Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation.

(4) The Bank may not initiate any action that significantly deviates from a Strategic Plan (that has received written determination of no supervisory objection from the Director and

has been adopted by the Board) without a prior written determination of no supervisory objection from the Director.

(5) Any request by the Bank for a prior written determination of no supervisory objection to a significant deviation described in paragraphs (3) or (4) of this Article shall be submitted in writing to the Director at least thirty (30) days in advance of the proposed significant deviation. Such written request by the Bank shall include an assessment of the effects of such proposed change on the Bank's condition and risk profile, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the proposed change.

(6) For the purposes of this Article, changes that may constitute a significant deviation include, but are not limited to, a change in the Bank's marketing strategies, products and services, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in the aggregate, may have a material effect on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors that may have a material effect on the Bank's operations or financial performance.

(7) At least monthly, a written evaluation of the Bank's performance against the Strategic Plan shall be prepared by Bank management and submitted to the Board. Within ten (10) days after submission of the evaluation, the Board shall review the evaluation and determine the corrective actions the Board will require Bank management to take to address any identified shortcomings. At least quarterly, the Board shall prepare a written evaluation of the Bank's

performance against the Strategic Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies. The Board's monthly reviews and preparation of the quarterly written evaluations shall be documented in the Board's meeting minutes. The Board shall retain a copy of these quarterly reviews and Board meeting minutes and shall forward a copy of these quarterly written evaluations and Board meeting minutes to the Director within ten (10) days of completion of its quarterly written evaluations.

(8) The Board shall review and update the Strategic Plan no later than January 31 every year and more frequently if necessary or if required by the Director in writing. Any updates, amendments, or revisions shall be submitted to the Director for prior written determination of no supervisory objection.

ARTICLE VI

CAPITAL PLAN AND HIGHER MINIMUMS

(1) Within ninety days (90) days of the date of this Order, the Bank shall achieve and thereafter maintain the following capital ratios as defined in and as calculated in accordance with 12 C.F.R. Parts 3 and 6:

(a) total risk-based capital to risk-weighted assets of twelve percent (12%);

and

(b) tier 1 capital to adjusted total assets of nine percent (9%).

(2) The requirement in this Order to meet and maintain a specific capital level for any capital measure means that the Bank may not be deemed to be "well capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6, pursuant to 12 C.F.R. § 6.4(b)(1)(i)(E).

(3) Within one hundred and twenty (120) days of the date of this Order, the Board

shall develop and implement an effective internal capital planning process to assess the Bank's capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall in no event be less than the requirements of paragraph (1) of this Article. The capital planning process shall be consistent with safe and sound practices and ensure the integrity, objectivity, and consistency of the process through adequate governance. Refer to the "Capital and Dividends" booklet of the *Comptroller's Handbook* for guidance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Director in writing.

(4) Within one hundred and twenty (120) days of the date of this Order, the Board shall forward to the Director for review, pursuant to paragraph (7) of this Article, a written Capital Plan for the Bank, consistent with the Strategic Plan required by Article V, covering at least a three (3) year period. The written Capital Plan shall, at a minimum:

- (a) include specific plans for the achievement and maintenance of adequate capital, which shall in no event be less than the requirements of paragraph (1) of this Article;
- (b) identify and evaluate all material risks;
- (c) determine the Bank's capital needs in relation to material risks and strategic direction;
- (d) identify and establish a strategy to maintain capital adequacy and strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity; and
- (e) include specific plans detailing how the Bank will comply with

restrictions or requirements set forth in this Order that will have an impact on the Bank's capital.

(5) If the Bank's written Capital Plan outlines a sale or merger of the Bank, the written Capital Plan shall, at a minimum, address the steps and the associated timeline to ensure that within ninety (90) days after the receipt of the Director's written determination of no supervisory objection to the written Capital Plan, a definitive agreement for the sale or merger is executed.

- (6) The Bank may declare or pay a dividend or make a capital distribution only:
- (a) when the Bank is in compliance, and would remain in compliance, with a written Capital Plan that has received a prior written of no supervisory objection from the Director immediately following the declaration or payment of any dividend or capital distribution;
 - (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60 and 12 C.F.R. §§ 5.63 and 5.64; and
 - (c) following the prior written determination of no supervisory objection from the Director.

(7) Prior to adoption by the Board, a copy of the Bank's written Capital Plan shall be submitted to the Director for written determination of no supervisory objection. The Board shall review and update the Bank's written Capital Plan at least annually, no later than January 31 each year, and more frequently if requested by the Director in writing. Revisions to the written Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and

the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

(8) At least monthly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the written Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board will require the Bank to take to address any deficiencies. At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the written Capital Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies. The Board's monthly reviews and preparation of the quarterly written evaluations shall be documented in the Board's meeting minutes. The Board shall retain a copy of these monthly reviews and Board's meeting minutes and shall forward a copy of these quarterly written evaluations and Board meeting minutes to the Director within ten (10) days of completion of its quarterly written evaluations.

(9) If the Bank fails to maintain capital ratios required by paragraph (1) of this Article, fails to submit a Capital Plan as required by paragraph (4) of this Article, or fails to implement a Capital Plan to which the Director has provided a written determination of no supervisory objection, then the Bank may, in the Director's sole discretion, be deemed "undercapitalized" for purposes of this Order. The Bank shall take such corrective measures as the Director may direct in writing from among the provisions

applicable to undercapitalized depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Part 6. For purposes of this requirement, an action “necessary to carry out the purpose of this section” under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank’s capital to the minimum ratios required by this Order and any other action deemed advisable by the Director to address the Bank’s capital deficiency or the safety and soundness of its operations.

ARTICLE VII

AUDIT PROGRAM

(1) Within forty-five (45) days of the effective date of this Order, the Bank shall develop and the Board shall adopt a comprehensive, written internal audit program that adequately assesses controls and operations to allow the Board and management to understand the sufficiency of the Bank’s internal controls system (“Internal Audit Program”). Upon adoption, Bank management, subject to Board review and ongoing monitoring, shall immediately implement and adhere to the Internal Audit Program and any amendments or revisions thereto.

(2) Management shall ensure the Internal Audit Program’s compliance with the standards for internal audit systems set forth in Section II.B of the Interagency Guidelines Establishing Standards for Safety and Soundness, Appendix A to 12 C.F.R. Part 30. Refer to the “Internal and External Audits” booklet of the *Comptroller’s Handbook* for guidance. The Internal Audit Program shall incorporate standards of safety and soundness that are commensurate with the Bank’s size, complexity, scope of activities, and risk profile and shall, at a minimum:

- (a) require the development of an internal audit plan that is risk-based and provides adequate audit scope, coverage, and frequency for all areas of the Bank, with annual documented Board approval of the internal audit plan and Board notification of any material variance from the plan;
- (b) address the use of third parties to complete any internal audit activities, including documented Board approval of selection and termination of third parties; refer to “Third-Party Relationships” (OCC Bulletin 2013-29) for guidance;
- (c) evaluate the reliability, adequacy, and effectiveness of the Bank’s internal controls system, whether operated by the Bank or a third party;
- (d) evaluate whether the Bank’s internal controls system results in prompt and accurate recording of transactions and proper safeguarding of assets;
- (e) determine whether the Bank complies with laws and regulations and adheres to its established policies, procedures, and processes;
- (f) determine whether management is taking appropriate and timely steps to address control deficiencies and audit report recommendations, that the progress of such steps is adequately validated, documented, and tracked, and that such progress is reported to the Board on at least a monthly basis;
- (g) require all internal audit reports to be in writing and distributed directly, not through any intervening party, to the Board in a timely manner after audit completion; and
- (h) require audit work papers and documentation that provide a meaningful audit trail and validation for audit findings, conclusions, and

recommendations.

(3) The Board shall provide effective oversight of the Internal Audit Program, including:

- (a) verifying that management has adequately staffed the internal audit function, using internal resources and/or third parties, with respect to both the number of auditors required and their knowledge, skills, and experience;
- (b) verifying the internal audit function is independent and objective. The person responsible for implementing the Internal Audit Program shall functionally report directly to the Board, which shall direct his or her activities, set compensation, and evaluate performance;
- (c) verifying management's actions to address material weaknesses in a timely manner and, where appropriate, directing management to take additional action; and
- (d) verifying management satisfies all statutory, regulatory, and supervisory requirements.

(4) The internal audit staff shall have access to any records necessary for the proper conduct of its activities. The OCC shall have access to all reports and work papers of the internal audit staff and any third parties providing internal audit services.

(5) Within thirty (30) days following the Board's adoption of the Internal Audit Program, the Bank shall forward a copy of the program to the Director.

(6) The Board shall review the effectiveness of the Internal Audit Program at least annually, and more frequently if necessary or if required by the Director in writing, and, if

necessary, revise the program. Within thirty (30) days following the Board's adoption of any revisions to the Internal Audit Program, the Bank shall forward a copy of the revised program to the Director.

(7) Within ninety (90) days of the date of this Order, the Board shall identify an independent third party to perform an audit of the Bank's financial statements. Prior to engaging the independent third party, the Board shall submit the name and qualifications of the independent third party, and a copy of the proposed contract with the independent third party, to the Director for a prior written determination of no supervisory objection; refer to "Third-Party Relationships: Risk Management Guidance" (OCC Bulletin 2013-29) for guidance. The independent third party must complete and submit a written report to the Board within ninety (90) days of the Board's receipt of the Director's written determination of no supervisory objection. Immediately following completion, the Bank shall submit the results of the independent third party's review and evaluation to the Director.

ARTICLE VIII

CREDIT RISK MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Bank shall adopt, implement and thereafter ensure adherence to a credit underwriting and administration program (the "Credit Risk Management Program") designed to ensure the Bank obtains and analyzes credit and collateral information sufficient to identify, monitor, and report the Bank's credit risk, properly account for loans, and assign accurate risk ratings in a timely manner. The Credit Risk Management Program shall be consistent with safe and sound banking practices and at minimum shall include:

- (a) policies that address acceptable loan types, terms, concentration limits, and collateral requirements and exceptions;
- (b) a description of the types of credit information required from borrowers and guarantors prior to making a loan determination, including annual audited statements, interim financial statements, personal financial statements, and tax returns with supporting schedules;
- (c) procedures that require any extensions of credit are granted, by renewal or otherwise, only after obtaining the required credit information and adequately analyzing and documenting the borrower's and guarantor's global financial condition, including, but not limited to, cash flow, debt service requirements, contingent liabilities, liquidity condition, and sensitivity analysis in support of the credit decision;
- (d) procedures to identify and track all exceptions and efforts to mitigate or cure exceptions, including but not limited to financial, collateral, policy, and underwriting exceptions. The number of loans with exceptions, and their aggregate dollar value, shall be reported to the Board on a monthly basis. The Board shall establish aggregate exception level limits. The Bank shall consider each loan officer's exceptions in conducting periodic performance reviews and compensation decisions;
- (e) established criteria to limit the number or frequency of, and procedures to identify, track, and approve, extensions, renewals, or rewrites of existing extensions of credit. The number of loans that have been extended, renewed, or rewritten, and their aggregate dollar value, shall be reported to

the Board on a monthly basis and documented in the Board's meeting minutes;

- (f) policies regarding the appropriateness of the capitalization of interest, which shall be prohibited unless doing so is conducted in a safe and sound manner. Refer to "Guidelines for Capitalization of Interest on Loans," Examining Circular 229, and the OCC Bank Accounting Advisory Series for guidance;
- (g) procedures for the identification of, and accounting treatment for, nonaccrual loans that are consistent with the accounting requirements contained in the appropriate Federal Financial Institutions Examination Council's ("FFIEC") Instructions for Preparation of Consolidated Reports of Condition and Income ("Call Reports");
- (h) policies and procedures for monitoring loan participations (refer to "Purchase of Loans In Whole or In Part – Participations," Banking Circular 181 (REV), for guidance);
- (j) establishment of a Loan Committee composed of at least three (3) Board members of which a majority shall be directors who are not employees or officers of the Bank or any of its subsidiaries or affiliates, which will meet at least monthly, maintain minutes of its meetings, and review the documentation of loan approvals and the management information systems;
- (i) specific assignment of responsibility and accountability over the credit administration process to ensure the Credit Risk Management Program

- developed pursuant to this Article is effectively implemented;
- (j) an annual review of the experience level of lending staff to ensure employees have the requisite knowledge to perform their duties;
 - (k) a plan to hire additional staff and/or provide training where staffing and/or knowledge gaps exist;
 - (l) annual risk-based reviews of commercial lending relationships greater than \$350,000 to support or revise risk ratings on at least an annual basis;
 - (m) an independent loan review process reporting directly to the Board; and
 - (n) related management information systems and Board reporting sufficient to support the credit risk of the Bank.

ARTICLE IX

PROBLEM LOAN MANAGEMENT

(1) Effective as of the date of this Order, the Board shall take immediate and continuing action to protect the Bank's interests in assets designated as classified or special mention during the most recent examination, during any subsequent examination or in supervisory communications, by internal or external loan reviews, by the Bank, or in any list provided to management by the Director (hereafter, the "problem assets").

(2) Within ninety (90) days of the date of this Order, the Board shall identify an independent third party to identify and evaluate the Bank's current credit risk. Refer to "Third-Party Relationships: Risk Management Guidance" (OCC Bulletin 2013-29) for guidance. The independent third party must complete and submit a written report to the Board within sixty (60) days of engagement. Immediately following completion, the Bank shall submit the results of the

independent third party's evaluation to the Director.

(3) Within ninety (90) days of the date of this Order, the Board shall adopt, implement and thereafter ensure Bank adherence to a written program designed to reduce the Bank's problem assets (the "Problem Assets Program") to a safe and sound level and to govern the management of problem assets. The Problem Assets Program shall include or address the following matters:

- (a) policies that detail responsibility of problem loan management, including oversight of action plans, reporting, and escalation;
- (b) oversight of obtaining updated collateral valuations by applicable committee; and
- (c) oversight of problem loan management by a qualified senior executive officer.

(4) Within ninety (90) days of the date of this Order, the Board shall develop written procedures for the quarterly submission and review of problem asset reports ("PARs") for all problem assets totaling three hundred and fifty thousand dollars (\$350,000) or above. The PARs shall require, at a minimum, analysis and documentation of the following:

- (a) current information and analysis of expected sources of repayment and collateral;
- (b) trigger dates for borrower actions or for loan officers to reassess the strategy and enact collection plans;
- (c) the root causes of the credit weakness;
- (d) an analysis of current and satisfactory credit information;
- (e) a determination of whether the loan is impaired and the amount of the

impairment, consistent with generally accepted accounting principles (“GAAP”);

- (f) specific action plans and trigger dates for risk rating changes and documentation of the analysis and reasoning to support the risk rating; and
- (g) a review, at least quarterly, by the Board and management to:
 - (i) measure progress and evaluate the suitability of the action plans; and
 - (ii) document the effectiveness of the responsible officer’s efforts to eliminate the weakness in each problem asset relationship.

(5) A copy of each PAR prepared pursuant to Paragraph (4) of this Article, along with any Board comments regarding the effectiveness of the effort to eliminate the weaknesses in each credit, shall be submitted to the Director within forty-five (45) days of each calendar quarter end.

(6) Effective as of the date of this Order, the Bank may not extend credit, directly or indirectly, including renewals, extensions, or capitalization of accrued interest, but excluding advances on previously approved lines of credit, to a borrower whose loans or other extensions of credit are considered problem assets by the OCC examiners, external loan review, or the Bank, and whose aggregate loans or other extensions of credit, exceed three hundred and fifty thousand dollars (\$350,000) unless each of the following conditions is met:

- (a) a majority of the full Board approves the credit extension;
- (b) the Board explains in writing how the extension of additional credit is necessary to promote the best interests of the Bank;
- (c) the Board explains in writing how the extension of additional credit will

not compromise the Board's formal plan to collect or strengthen the problem asset; and

- (d) the Board's written determinations required by this Article are maintained in the borrower's credit file.

ARTICLE X

CONCENTRATIONS OF CREDIT

(1) Within ninety (90) days of the date of this Order, the Board shall adopt, implement and thereafter ensure Bank adherence to a written concentration management program. The written concentration management program shall be consistent with safe and sound banking practices. Refer to the "Concentrations of Credit" booklet of the *Comptroller Handbook*, "Commercial Real Estate Concentrations" (OCC Bulletin 2006-46), and "Capital and Dividends" (OCC Bulletin 2018-20) for guidance. The program shall include, but not be limited to, the following:

- (a) policies and procedures to control and monitor concentrations;
- (b) market analyses of the portfolio's primary geographic concentrations to determine whether the Board's lending strategy and policies remain appropriate;
- (c) written analyses of concentrations identified to identify and assess the inherent credit, liquidity, and interest rate risks and to document any concentrations that approach or exceed Board-approved limits, accounting for market, industry and other relevant trends;
- (d) Board-approved limits commensurate with the Bank's strategic goals and

objectives and risk profile, updated at least annually to reflect the results of portfolio stress testing, for all significant lines of business, including but not limited to participations, oil and gas loans, and mortgage warehouse lending;

- (e) related management information systems and Board reporting;
- (f) portfolio-level stress tests to quantify the impact of changes to portfolio-specific characteristics and market conditions on earnings and capital; and
- (g) quarterly stress tests of the Bank's concentration limits to support and/or adjust concentration limits.

(2) The Board shall ensure that future concentrations are subjected to the analysis required by subparagraph (c) of paragraph (1) of this Article and that concentrations will not exceed Board-approved limits.

(3) The Board shall forward copies of any analysis performed pursuant to subparagraphs (c), (f) and (g) of paragraph (1) of this Article on a quarterly basis. The Board shall forward copies of any analysis performed pursuant to subparagraph (b) of paragraph (1) of this Article on an annual basis.

ARTICLE XI

ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within sixty (60) days of the date of this Order, the Board shall adopt, implement, and thereafter, ensure adherence to safe and sound written policies and procedures for maintaining an adequate ALLL, including adequate loan classification. The Board shall ensure the policies and procedures establish loss reserves in accordance with the Federal Accounting

Standards Advisory Board's ("FASB") GAAP. Refer to the FFIEC's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" (OCC Bulletin 2006-47); "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions" dated July 20, 2001 (OCC Bulletin 2001-37); and the "Allowance for Loan and Lease Losses," booklet of the *Comptroller's Handbook* for guidance.

The policies and procedures shall at a minimum include the following:

- (a) a determination of whether a loan is impaired and measuring the amount of impairment, consistent with Accounting Standards Codification ("ASC") 310-10 (Receivables - Overall - Subsequent Measurement – Impairment);
- (b) a segmentation of the loan portfolio and estimating losses on groups of loans that are consistent with ASC 450-20 (Loss Contingencies);
- (c) a validation of the ALLL methodology;
- (d) support for each of the qualitative factor adjustments and impairment analysis calculations included in the written analysis;
- (e) a description of the individuals responsible and methodology used to determine the ALLL;
- (f) a process for ensuring that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
 - (i) trends in the Bank's internal risk ratings as well as in delinquent and nonaccrual loans;
 - (ii) results of the Bank's independent loan review;

- (iii) concentrations of credit in the Bank;
 - (iv) present and prospective economic conditions; and
 - (v) applicable experience of the Bank's lending staff;
- (g) a review of ALLL on at least a quarterly basis, to determine the adequacy of the ALLL. The Board shall maintain written documentation indicating the factors considered and conclusions reached in its determination of the adequacy of the ALLL; and
- (h) a summary with supporting documentation for the Board's prior review and approval of the ALLL amount to be reported in the Call Report.

(2) The Board shall ensure adherence to written policies and procedures to ensure that all regulatory reports filed by the Bank accurately reflect an adequate ALLL balance as of the date that such reports are submitted. Any difference between the ALLL balance as determined by the analysis required by this Article and the Bank's actual ALLL balance shall be remedied through appropriate account adjustments in the quarter it is discovered, prior to filing the Call Report.

ARTICLE XII

LIQUIDITY RISK MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall update and adopt, and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to, a comprehensive written Liquidity Risk Management Program for the Bank. This Liquidity Risk Management Program shall provide for the identification, measurement, monitoring, and control of the Bank's liquidity risk exposure, and

shall emphasize cash flow projections, diversified funding sources, a cushion of high-quality liquid assets, and a formal, well-developed contingency funding plan as primary tools for measuring and managing liquidity risk. Refer to the “Liquidity” booklet of the *Comptroller’s Handbook* for guidance. In addition to the general requirements set forth above, the Liquidity Risk Management Program shall, at minimum:

- (a) identify and implement appropriate strategies, policies, procedures, and limits to monitor and manage, on an ongoing basis, liquidity risk, commensurate with the Bank’s complexity and business activities;
- (b) assess, on an ongoing basis, the Bank’s current and projected funding needs, including the development of cash flow projections under both expected and adverse conditions;
- (c) ensure that sufficient funds or access to funds exist to meet those needs under both expected and adverse conditions;
- (d) assess the risks related to brokered deposit restrictions, deposit runoff, or rollovers;
- (e) detail action plans to identify and obtain sources of liquidity to meet projected shortfalls from existing sources under both expected and adverse conditions and to track the Bank’s use of sources of liquidity against policy limits;
- (f) include a Contingency Funding Plan that incorporates, at a minimum, a quantitative projection and evaluation of expected funding needs and funding capacity based on realistic assessments of the behaviors of funding providers during stress events; a definition of a liquidity crisis for

the Bank; an identification of early warning liquidity triggers; and provision for management processes, reporting, and internal as well as external communication throughout the stress event;

(g) detail management information systems and Board reporting on the Bank's liquidity risk; and

(h) include corrective actions the Bank will take if it becomes out of compliance with any component of the Liquidity Risk Management Program.

(2) The Board shall review the effectiveness of the Liquidity Risk Management Program annually or more frequently if necessary or required by the Director in writing, and, if necessary, shall revise the Liquidity Risk Management Program.

ARTICLE XIII

VIOLATIONS OF LAW

(1) The Board shall require, and the Bank shall immediately take, all necessary steps to correct each violation of law, rule, or regulation cited in the most recent Report of Examination, or brought to the Board or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within thirty (30) days after the violation is cited or brought to the Board or Bank's attention, the Board shall provide to the Director a plan to correct the violation by a specific date.

(2) The monthly progress reports required by Article III of this Order shall include the date and manner in which each correction has been effected during that reporting period.

(3) Within sixty (60) days of the date of this Order and thereafter within sixty (60)

days of receipt of a Report of Examination, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent violations cited in the most recent Report of Examination and any future Report of Examination or any supervisory or regulatory communication; and
- (b) written procedures addressing compliance management that incorporate internal controls systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

ARTICLE XIV

GENERAL BOARD RESPONSIBILITIES

(1) The Board shall ensure that the Bank has timely adopted and implemented all corrective actions required by this Order, and shall verify that the Bank adheres to the corrective actions and that those actions effectively address the deficiencies that resulted in this Order.

(2) In each instance in which this Order imposes responsibilities upon the Board, it is intended to mean that the Board shall:

- (a) authorize, direct, and adopt corrective actions on behalf of the Bank as may be necessary to perform the obligations and undertakings imposed on the Board by this Order;
- (b) ensure the Bank has sufficient processes, management, personnel, control systems, and corporate and risk governance to implement and adhere to all provisions of this Order;

- (c) require that Bank management and personnel have sufficient training and authority to execute their duties and responsibilities pertaining to or resulting from this Order;
- (d) hold Bank management and personnel accountable for executing their duties and responsibilities pertaining to or resulting from this Order;
- (e) require appropriate, adequate, and timely reporting to the Board by Bank management of corrective actions directed by the Board to be taken under the terms of this Order; and
- (f) address any noncompliance with corrective actions in a timely and appropriate manner.

ARTICLE XV

WAIVERS

- (1) The Bank, by executing and consenting to this Order, waives:
 - (a) any and all rights to the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818;
 - (b) any and all procedural rights available in connection with the issuance of this Order;
 - (c) any and all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818 and 12 C.F.R. Part 19;
 - (d) any and all rights to seek any type of administrative or judicial review of this Order;

- (e) any and all claims for fees, costs, or expenses against the OCC, or any of its officers, employees, or agents related in any way to this enforcement matter or this Order, whether arising under common law or under the terms of any statute, including, but not limited to, the Equal Access to Justice Act, 5 U.S.C. § 504 and 28 U.S.C. § 2412;
- (f) any and all rights to assert this proceeding, the consent to and/or the issuance of this Order, as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity; and
- (g) any and all rights to challenge or contest the validity of this Order.

ARTICLE XVI

OTHER PROVISIONS

(1) As a result of this Order, the Bank is in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(7)(ii), unless otherwise informed in writing by the OCC. In addition, as a result of this Order, the Bank is not an “eligible bank” for purposes of 12 C.F.R. § 5.3(g)(5) and 12 C.F.R. § 24.2(e), unless otherwise informed in writing by the OCC.

(2) This Order supersedes all prior OCC communications issued pursuant to 12 C.F.R. §§ 5.3(g)(5), 5.51(c)(7)(ii), and 24.2(e)(4).

ARTICLE XVII

CLOSING

(1) This Order is a settlement of the cease and desist proceeding against the Bank contemplated by the OCC, based on the unsafe or unsound practices described in the Comptroller's Findings set forth in Article II of this Order. The OCC releases and discharges the Bank from all potential liability for a cease and desist order that has been or might have been asserted by the OCC based on the unsafe or unsound practices described in Article II of this Order, to the extent known to the OCC as of the effective date of this Order. Nothing in this Order, however, shall prevent the OCC from:

- (a) instituting enforcement actions other than a cease and desist order against the Bank based on the Comptroller's Findings set forth in Article II of this Order;
- (b) instituting enforcement actions against the Bank based on any other findings;
- (c) instituting enforcement actions against institution-affiliated parties (as defined by 12 U.S.C. § 1813(u)) based on the Comptroller's Findings set forth in Article II of this Order, or any other findings; or
- (d) utilizing the Comptroller's Findings set forth in Article II of this Order in future enforcement actions against the Bank or its institution-affiliated parties to establish a pattern or the continuation of a pattern.

(2) Nothing in this Order is a release, discharge, compromise, settlement, dismissal, or resolution of any actions, or in any way affects any actions that may be or have been brought

by any other representative of the United States or an agency thereof, including, without limitation, the United States Department of Justice.

(3) This Order is:

- (a) a “cease-and-desist order issued upon consent” within the meaning of 12 U.S.C. § 1818(b);
- (b) a “cease-and-desist order which has become final” within the meaning of 12 U.S.C. § 1818(e);
- (c) an “order issued with the consent of the depository institution” within the meaning of 12 U.S.C. § 1818(h)(2);
- (d) an “effective and outstanding . . . order” within the meaning of 12 U.S.C. § 1818(i)(1); and
- (e) a “final order” within the meaning of 12 U.S.C. § 1818(i)(2) and (u).

(4) This Order is effective upon its issuance by the OCC, through the Comptroller’s duly authorized representative. Except as otherwise expressly provided herein, all references to “days” in this Order shall mean calendar days and the computation of any period of time imposed by this Order shall not include the date of the act or event that commences the period of time. The provisions of this Order shall remain effective except to the extent that, and until such time as, such provisions are amended, suspended, waived, or terminated in writing by the OCC, through the Comptroller’s duly authorized representative. If the Bank seeks an extension, amendment, suspension, waiver, or termination of any provision of this Order, or within any plan or program submitted pursuant to this Order, the Board or a Board-designee shall submit a written request to the Director asking for relief. Any request submitted pursuant to this paragraph shall include a statement setting forth in detail the special circumstances that prevent

the Bank from complying with the relevant provision(s) of the Order or plan or program submitted pursuant to this Order, and shall be accompanied by relevant supporting documentation. The OCC's decision concerning a request submitted pursuant to this paragraph, which will be communicated to the Board in writing, is final and not subject to further review.

(5) The Bank will not be deemed to be in compliance with this Order until it has adopted, implemented, and adhered to all of the corrective actions set forth in each Article of this Order; the corrective actions are effective in addressing the Bank's deficiencies; and the OCC has verified and validated the corrective actions. An assessment of the effectiveness of the corrective actions requires sufficient passage of time for the Bank to demonstrate the sustained effectiveness of the corrective actions.

(6) This Order is not a contract binding on the United States, the United States Treasury Department, the OCC, or any officer, employee, or agent of the OCC and neither the Bank nor the OCC intends this Order to be a contract.

(7) Each citation, guidance, or issuance referenced in this Order includes any subsequent citation, guidance, or issuance that replaces, supersedes, amends, or revises the referenced cited citation, guidance, or issuance.

(8) This Order applies to the Bank and all its subsidiaries.

(9) No separate promise or inducement of any kind has been made by the OCC, or by its officers, employees, or agents, to cause or induce the Bank to consent to the issuance of this Order.

(10) All reports, plans, or programs submitted to the OCC pursuant to this Order shall be forwarded by email to the Director.

(11) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his duly authorized representative, has hereunto set his/her signature on behalf of the Comptroller.

//s// Digitally Signed, Date: 2020.07.16
Julie A. Thieman
Director for Special Supervision

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of The First National Bank and Trust Company of Vinita have hereunto set their signatures on behalf of the Bank.

NAMES:	SIGNATURES:	DATES:
James N. Ratcliff	<u>/s/</u>	<u>7/16/2020</u>
H. Dee Robison	<u>/s/</u>	<u></u>
Richard Mark Londagin	<u>/s/</u>	<u>7/16/20</u>
Joann L. Sauer	<u></u>	<u></u>