

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

In the Matter of:

United Fidelity Bank, FSB
Evansville, Indiana

AA-CE-2023-40

CONSENT ORDER

WHEREAS, the Office of the Comptroller of the Currency (“OCC”) has supervisory authority over United Fidelity Bank, FSB, Evansville, Indiana (“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 practice(s), including those relating to oversight by its management and board of directors (“board”); strategic planning; capital planning; stress testing; policy development and approval; management and board reporting; contingency funding planning; model risk management; concentration risk management; credit review; credit analysis; risk assessment; allowance for credit losses methodology; data management; internal audit; and internal controls. These unsafe or unsound practice(s) are included in, but may not be limited to, the areas of corporate governance and enterprise risk management, credit underwriting and administration, liquidity risk management, and interest rate risk management;

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, 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 federal savings association within the meaning of 12 U.S.C. § 1813(q)(1)(C), and is chartered and examined by the OCC. *See* 12 U.S.C. §§ 1461 *et seq.*, 5412(b)(2)(B).

(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 has engaged in unsafe or unsound practices, including those related to its board and management oversight; strategic planning; capital planning; stress testing; policy development and approval; management and board reporting; contingency funding planning; model risk management; concentration risk management; credit review; credit analysis; risk assessment; allowance for credit losses methodology; data management; internal audit; and internal controls.

ARTICLE III

COMPLIANCE RESPONSIBILITIES

(1) The board shall monitor and oversee the Bank's compliance with the provisions of this Order. The board shall meet at least monthly and maintain minutes of its meetings.

(2) Within forty-five (45) days of the date of this Order, and thereafter within thirty (30) days after the end of each quarter, the board shall submit to the Assistant Deputy Comptroller ("ADC") 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.

ARTICLE IV

CAPITAL PLAN AND HIGHER MINIMUMS

(1) Within sixty (60) 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. Part 3:¹

- (a) a common equity tier 1 capital ratio at least equal to eight percent (8%);
- (b) a leverage ratio at least equal to nine percent (9%);
- (c) a tier 1 capital ratio at least equal to ten percent (10%); and
- (d) a total capital ratio at least equal to twelve percent (12%).

¹ For purposes of the capital conservation buffer set forth at 12 C.F.R. § 3.11, the Bank's minimum total capital ratio, minimum tier 1 capital ratio, and minimum common equity tier 1 capital ratio requirements are deemed to be those that are set forth in 12 C.F.R. § 3.10.

(2) Notwithstanding any election to use the community bank leverage ratio (“CBLR”) framework under 12 C.F.R. § 3.12, the Bank is subject to the minimum capital levels prescribed in paragraph (1) of this Article pursuant to the OCC’s authority to impose affirmative corrective actions pursuant to 12 U.S.C. § 1818(b)(6) and must demonstrate compliance with these requirements by completing Schedule RC-R to the Consolidated Reports of Condition and Income in accordance with the instructions for Banks that have not made the CBLR election in addition to Schedule RC-R, CBLR.

(3) 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. § 6.4.²

(4) Within thirty (30) days of the date of this Order, the board shall adopt 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. Thereafter, management shall implement, and the board shall verify, no less than annually, or more frequently if appropriate or required by the ADC, adherence to the capital planning process. 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*.

(5) Within sixty (60) days of the date of this Order, the board shall submit to the ADC for review and determination of no supervisory objection an acceptable written capital plan for the Bank, consistent with the Strategic Plan required by Article VI, covering at least a five-

² The Bank may not solicit, accept, renew, or roll over any brokered deposit (as defined in 12 C.F.R. § 337.6(a)(2)) except in compliance with the applicable restrictions of 12 U.S.C. § 1831f and 12 C.F.R. § 337.6.

year period (“Capital Plan”). Refer to “Capital and Dividends” booklet of the *Comptroller’s Handbook*. Except as provided in paragraph (7) of this Article, the Bank’s Capital Plan shall, at a minimum:

- (a) appropriately quantify and support reasonable board-approved capital limits, which shall in no event be less than the requirements of paragraph (1) of this Article;
 - (b) quantitatively and qualitatively evaluate all relevant risks to capital using appropriate, supported assumptions;
 - (c) determine the Bank’s capital needs in relation to material risks and strategic direction, consistent with the Strategic Plan required by Article VI;
 - (d) identify and establish a strategy to maintain capital and strengthen capital if necessary and establish a contingency commensurate with the Bank’s overall risk and complexity; and
 - (e) include appropriate capital stress testing, including for commercial real estate concentrations.
- (6) The Bank may declare or pay a dividend or make a capital distribution only:
- (a) when the dividend or capital distribution would comply with 12 U.S.C. § 1831o(d)(1) and 12 C.F.R. §§ 3.11(a)(4) and 5.55; and
 - (b) following the ADC’s prior written determination of no supervisory objection to the dividend or capital distribution.
- (7) Within thirty (30) days following receipt of the ADC’s written determination of no supervisory objection to the Bank’s Capital Plan or to any subsequent amendment to the

Capital Plan, the board shall adopt and Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Capital Plan.

The board shall review the effectiveness of the Capital Plan at least annually, no later than January 31 each year, and more frequently if necessary or if required by the OCC, and amend the Capital Plan as needed or directed by the OCC. Any amendment to the Capital Plan must be submitted to the ADC for review and prior written determination of no supervisory objection.

(8) If the Bank fails to submit an acceptable Capital Plan as required by paragraph (5) of this Article, fails to implement or adhere to a Capital Plan to which the ADC has taken no supervisory objection pursuant to paragraph (5) of this Article, or fails to achieve and maintain the minimum capital ratios as required by paragraph (1) of this Article, then in the sole discretion of the ADC, the Bank shall, upon written direction of the ADC, within sixty (60) days develop and submit to the ADC for review and prior written determination of no supervisory objection, a Disposition Plan that shall detail the board's proposal to sell or merge the Bank, or implement a voluntary liquidation plan in accordance with 12 C.F.R. § 5.48.

(9) In the event that the Disposition Plan submitted by the Bank's board outlines a sale or merger of the Bank, the Disposition Plan shall, at a minimum, address the steps that will be taken and the associated timeline to ensure that a definitive agreement for the sale or merger is executed not later than one hundred twenty (120) days after receipt of the ADC's written determination of no supervisory objection to the Disposition Plan.

(10) If the Disposition Plan outlines a voluntary liquidation of the Bank, the Disposition Plan shall detail the actions and steps necessary to accomplish the liquidation in conformance with 12 C.F.R. § 5.48, and the dates by which each step of the liquidation shall be completed, including the date by which the Bank will terminate its charter. In the event of

liquidation, the Bank shall hold a shareholder vote, pursuant to 12 C.F.R. § 5.48, and commence liquidation within one hundred twenty (120) days of receiving the ADC's written determination of no supervisory objection to the Disposition Plan.

ARTICLE V

BOARD OVERSIGHT AND MANAGEMENT SUPERVISION

(1) Within one hundred and twenty (120) days of the date of this Order, the board shall ensure that the Bank has a sufficient number of effective and qualified management in place for all senior executive officers 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.

(2) Within thirty (30) days of the date of this Order, the board shall:

- (a) engage an independent third party to review board and management supervision. The review must assess and conclude on the sufficiency of board and management composition, an assessment of the board's collective and individual director's overall strengths and weaknesses, committee structures, reporting lines, and staffing levels for each area of the Bank relative to the institution's activities and risk profile; and
- (b) establish or adjust job descriptions for the Bank's senior management

(Executive, Senior, First, and Vice President) positions.

- (3) Within ninety (90) days of the date of this Order, the board shall ensure:
- (a) the development and implementation a written plan to address findings from the independent third-party assessment required under paragraph (2)(a) of this Article;
 - (b) the population of the Bank’s policies and procedures are identified and assessed for adequacy relative to current practices and reasonable risk appetite. The assessment must determine which policies require improvement, a mechanism to monitor revisions, and approval of new or updated policies and procedures, a reasonable timeline for implementation, and an ongoing process to ensure policies remain current as management practices evolve;
 - (c) the population of the Bank’s key internal models used for decision making and risk identification is identified, and an adequate process is in place to validate the models, on a periodic basis based on risk, and to ensure that management appropriately responds to any model validation, audit, compliance, or regulatory criticisms and policy breaches; and
 - (d) the board receives and reviews sufficient reporting 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 required by law in accordance with safe and sound practices (refer to the “Corporate and Risk Governance” booklet of the

Comptroller's Handbook for guidance).

ARTICLE VI

STRATEGIC PLAN

(1) Within ninety (90) days of the date of this Order, the board shall submit to the ADC for review and prior written determination of no supervisory objection an acceptable, revised written strategic plan for the Bank, covering at least a five-year period (“Strategic Plan”). The Strategic Plan shall establish objectives for addressing the Bank’s high risk profile, earnings performance, loan and total asset growth, balance sheet mix, off-balance-sheet activities, liability structure, capital and liquidity adequacy, and market segments 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 strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) a risk profile that evaluates credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation risks in relationship to capital;
- (d) concentration limits commensurate with the Bank’s risk profile and capital base;
- (e) an assessment of the Bank’s strengths, weaknesses, opportunities and threats that impact its strategic goals and objectives; and
- (f) a realistic and comprehensive financial forecast to include projections for major balance sheet and income statement accounts and desired

financial ratios over the period covered by the Strategic Plan.

(2) At least quarterly, a written evaluation of the Bank's performance against the Strategic Plan shall be prepared by Bank management and submitted to the board. The board's review of the evaluation and discussion of any required corrective actions to address any identified shortcomings shall be documented in the board's meeting minutes.

(3) Within thirty (30) days following the board's receipt of the ADC's written determination of no supervisory objection to the revised Strategic Plan or to any subsequent update or amendment to the Strategic Plan, the board shall adopt, and Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan. The board shall review the effectiveness of the Strategic Plan, including whether the bank has sufficient staffing, expertise, internal controls, information systems; policies; procedures; and other risk management systems to effectively execute strategic initiatives in a safe and sound manner, at least annually, no later than thirty (30) days after each calendar year end, and more frequently, if necessary or required by the OCC in writing. The board shall amend the Strategic Plan as needed or directed by the OCC. Any update or amendment to the Strategic Plan must be submitted to the ADC for review and prior written determination of no supervisory objection.

(4) Until the Strategic Plan required under this Article has been submitted by the Bank for the ADC's review, has received a written determination of no supervisory objection from the ADC, 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 ADC's prior written determination of no supervisory

objection to such significant deviation.

(5) 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 ADC and has been adopted by the Board) without a prior written determination of no supervisory objection from the ADC.

(6) Any request by the Bank for prior written determination of no supervisory objection to a significant deviation described in paragraphs (4) or (5) of this Article shall be submitted in writing to the ADC at least sixty (60) 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.

(7) 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 markets, 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, asset composition and size, 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.

ARTICLE VII

CONCENTRATIONS OF CREDIT

(1) Within sixty (60) days of the date of this Order, the board shall submit to the ADC for review and prior written determination of no supervisory objection an acceptable written Concentration Risk Management Program (“Concentration Program”). Refer to the “Concentrations of Credit” booklet of the *Comptroller’s Handbook*. For purposes of this Article, a concentration of credit is as defined in the “Concentrations of Credit” booklet of the *Comptroller’s Handbook*.

- (2) The Concentration Program shall include, at a minimum:
- (a) proper identification of the Bank’s concentrations of credit including, but not limited to, the Bank’s concentration in commercial real estate, including multifamily affordable housing;
 - (b) a periodic written analysis of the concentrations of credit identified under paragraph (2), subparagraph (a) of this Article that identifies and assesses the inherent risks in Article VI, paragraph (1), subparagraph (c) and considers the impact of concentration levels on the plan in Article VI and the aspects of Article VI, paragraph (1), subparagraphs (b), (d), and (f);
 - (c) a periodic written market analysis for the primary geographic markets of the concentrations of credit identified under paragraph (2), subparagraph (a) of this Article;
 - (d) the establishment of safe and sound, formal limits and sub-limits for all concentrations of credit based on a percentage of tier 1 capital plus the

- allowance for credit losses, appropriately stratified by, but not limited to, property type, industry, geographic market, tenant concentrations, occupancy, risk rating, loan structure, loan-to-values, debt service coverage, and loans with policy exceptions;
- (e) timely and accurate reporting of concentrations to the board monthly based upon total committed amounts relative to board-approved limits;
 - (f) development and implementation of action plans, approved by the board, to reduce concentrations to conform to the established limits set in paragraph (2), subparagraph (d) of this Article, including strategies and procedures when concentrations approach or exceed board-approved limits;
 - (g) portfolio-level stress tests to quantify the impact of changes to portfolio-specific characteristics and market conditions on earnings and capital, consistent with the size, characteristics, and risk profile of the multifamily affordable housing portfolio, that contain sufficient sensitivity analysis; and
 - (h) a detailed contingency plan to reduce concentration risk in the event of adverse market conditions, including reasonable action plans.

(3) Within thirty (30) days following receipt of the ADC's written determination of no supervisory objection to the Concentration Program or to any subsequent amendment to the Concentration Program, the board shall adopt and Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Concentration Program. The board shall review the effectiveness of the Concentration Program

no later than thirty (30) days after each calendar year-end, and more frequently, if necessary or if required by the OCC in writing, and amend the Concentration Program as needed or directed by the OCC. Any amendment to the Concentration Program must be submitted to the ADC for review and prior written determination of no supervisory objection.

ARTICLE VIII

LIQUIDITY RISK MANAGEMENT

(1) Within thirty (30) days of the date of this Order, the board shall submit to the ADC for review and prior written determination of no supervisory objection an acceptable written Liquidity Risk Management Program (“Liquidity Program”) for the Bank, covering at least a five-year period. The Liquidity Program shall provide for the identification, measurement, monitoring, and control of the Bank’s liquidity risk exposure. The Liquidity Program shall emphasize the importance of a cushion of highly liquid assets; diversified funding sources; and a formal, well-developed, written contingency funding plan, with robust stress testing. Refer to the “Liquidity” booklet of the *Comptroller’s Handbook*. In addition to the general requirements set forth above, the Liquidity Program shall, at a minimum:

- (a) identify appropriate policies, procedures, and risk limits to manage liquidity risk, commensurate with the Bank’s complexity, risk profile, and business activities. Risk limits must be supported with robust analysis and informed by the potential impact of severe short-term stress testing;
- (b) ensure appropriate monthly reporting to the board, or a committee thereof, and, if established, applicable management committee including reporting on adherence to all liquidity-related policy limits;

- (c) develop a plan to improve the Bank's primary liquidity position (liquid assets) and contingent sources, including secured funding availability, over both the short- and medium-term, with timelines and key dates included; and
- (d) include an appropriate contingency funding plan that incorporates, at a minimum:
 - (i) an identification of early warning liquidity triggers;
 - (ii) a quantitative projection of expected funding capacity under appropriate short- and intermediate-term stress events, based on realistic assessments of the behaviors of funding providers during stress events; and
 - (iii) detail of reporting lines for internal and external communication throughout a stress event.

(2) Within thirty (30) days following the board's receipt of the ADC's written determination of no supervisory objection to the Liquidity Program or to any subsequent update or amendment to the Liquidity Program, the board shall adopt, and Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Liquidity Program. The board shall review and update the Liquidity Program, including after the expiration of the five-year period referenced in paragraph (1) of this Article, at least annually, no later than January 31 of each year, and more frequently, if necessary, or if required by the OCC in writing. The Bank shall submit the revised Liquidity Program to the ADC for prior written determination of no supervisory objection. At the next board meeting following receipt of the ADC'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 adhere to the revised Liquidity Program and any amendments or revisions thereto.

ARTICLE IX

INTEREST RATE RISK MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the board shall adopt a written Interest Rate Risk Program (“IRR Program”). Refer to the “Interest Rate Risk” booklet of the *Comptroller’s Handbook*, OCC Bulletin 2010-1 (“Interagency Advisory on Interest Rate Risk Management”) (Jan. 2010), OCC Bulletin 2012-5 (“Interest Rate Risk Management: FAQs on 2010 Interagency Advisory on Interest Rate Risk Management”) (Jan. 2012), and OCC Bulletin 2011-12 (“Sound Practices for Model Risk Management: Supervisory Guidance on Model Risk Management”) (Apr. 2011).

- (2) The IRR Program shall include, at a minimum:
- (a) a plan to improve the Bank’s interest rate risk exposure;
 - (b) establishment of prudent short- and long-term tolerance limits for interest rate risk the board is willing to accept, including, but not limited to, net income at risk given the Bank’s business model;
 - (c) adequate and documented support for the reasonableness of assumptions used in the Bank’s interest rate risk model and risk measurement calculations;
 - (d) implementation of effective tools to measure and monitor the Bank’s performance and overall interest rate risk profile, including, but not limited to, dynamic balance sheet model runs and exposures in changes to

the yield curve;

- (e) ongoing internal monitoring and backtesting of key deposit beta and decay assumptions on a periodic basis;
- (f) timely and appropriate quarterly reporting to the board and applicable management committee, including comparison of actual exposures to set limits, and, as applicable, specific action plans to restore exposures to within set limits; and
- (g) independent review of the Bank's adherence to the IRR Program, assumptions and inputs used in the Bank's interest rate risk model, sensitivity analysis and stress testing, validation of the Bank's interest rate risk model, and backtesting of actual performance to simulated results, including earnings at risk, and net income at risk simulations with appropriate documentation, on at least an annual basis.

(3) Upon adoption of the IRR Program, Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the IRR Program. The board shall review the effectiveness of the IRR Program at least annually, and more frequently, if necessary or if required by the OCC in writing. Any amendment to the IRR Program must be submitted to the ADC within thirty (30) days of board approval.

ARTICLE X

CREDIT UNDERWRITING AND ADMINISTRATION

(1) Within ninety (90) days of the date of this Order, the board shall adopt a credit underwriting and administration program ("Credit Underwriting and Administration 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 Underwriting and Administration Program shall be consistent with safe and sound banking practices.

(2) The Credit Underwriting and Administration Program shall, at a minimum, include:

- (a) policies that address acceptable loan types, terms, covenants, collateral requirements, supervisory loan-to-value (LTV) limits, and loan-level stress testing;
- (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 in credit presentations the borrower's and guarantor's cash flow, debt service requirements, contingent liabilities, global liquidity condition, collateral, sensitivity analysis, market analysis, inherent risks, policy exceptions, with assumptions clearly documented, in support of the credit decision;
- (d) policies and procedures to ensure consistent and accurate debt service coverage calculations are used for underwriting new and existing loans;
- (e) procedures to identify and accurately track all exceptions and efforts to mitigate or cure exceptions, including but not limited to financial

exceptions, collateral exceptions, policy exceptions, underwriting exceptions, and supervisory LTV exceptions;

- (f) procedures to ensure the number of loans with exceptions, and their aggregate dollar value, are reported to the board on a quarterly basis. The board shall establish, and management shall implement and thereafter ensure adherence to, aggregate exception level limits;
- (g) a plan to address the Bank's current exposure to loans exceeding the Bank's legal lending limit and supervisory LTV limits, with concrete strategies and associated timelines;
- (h) procedures to establish covenants and identify, track, and approve covenant waivers in accordance with the applicable loan agreements and limit the number and frequency of such exceptions;
- (i) procedures to report the number of loans with covenant waivers, and their aggregate dollar value, to the board on a quarterly basis; and
- (j) an independent loan review process, with appropriate frequency, reporting directly to the board or a designated committee thereof.

(3) Upon adoption of the Credit Underwriting and Administration Program, Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Credit Underwriting and Administration Program. The board shall review the effectiveness of the Credit Underwriting and Administration Program at least annually, and more frequently if necessary or if required by the OCC in writing. Any amendment to the Credit Underwriting and Administration Program must be submitted to the ADC within thirty (30) days of board approval.

ARTICLE XI

ANNUAL REVIEWS

(1) Within thirty (30) days of the date of this Order, the board shall adopt a written Annual Review Program for the Bank's commercial loans. The Annual Review Program shall include, at a minimum:

- (a) identification of the universe of commercial loans requiring an annual review;
- (b) development and adherence to an annual review schedule for the commercial loans identified in paragraph (1), subparagraph (a) of this Article;
- (c) risk-based reviews of commercial lending relationships to support or revise current risk ratings on at least an annual basis that:
 - (i) include an adequate analysis of repayment capacity, both primary and secondary sources of repayment, with timely and comprehensive financial information and a clear audit trail to accurate DSCR calculations with supporting narrative conclusions;
 - (ii) incorporate meaningful stress testing of key variables;
 - (iii) contain an assessment of the borrower's performance to projections or plan, as applicable, with discussion of the impact of deviations on repayment capacity and risk rating;
 - (iv) incorporate discussion of the collateral, including most recent valuation or changes thereto, and condition;

- (v) tie geographic market analysis data to the specific loan or project assumptions and reconcile key variances; and
 - (vi) address refinance risk and the potential impact of significant changes in terms upon maturity or refinance.
- (d) periodic reporting directly to the board, or designated committee thereof, regarding the status of the internal annual review process.

(2) Upon adoption of the Annual Review Program, Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Annual Review Program and any amendments thereto. The board shall review the effectiveness of the Annual Review Program at least annually, and more frequently if necessary or if required by the OCC in writing, and amend the Annual Review Program as needed or directed by the OCC in writing. Any amendment to the Annual Review Program must be submitted to the ADC within thirty (30) days of board approval.

ARTICLE XII

ALLOWANCE FOR CREDIT LOSSES

(1) Within thirty (30) days of the date of this Order, the board shall adopt a written program for maintaining and reporting an adequate allowance for credit losses (“ACL Program”) in accordance with generally accepted accounting principles (“GAAP”) and the instructions for reporting the ACL on the Consolidated Reports of Condition and Income (“call reports”). Refer to the “Allowance for Credit Losses” booklet of the *Comptroller's Handbook* and the “Interagency Policy Statement on Allowances for Credit Losses” dated April 21, 2023 (OCC Bulletin 2023-11). The ACL Program shall, at a minimum, include criteria and procedures for:

- (a) segmenting and documenting financial assets, including the multi-family

housing portfolio, that share similar risk characteristics, including risk layering, and measuring the expected credit losses from each identified group consistent with GAAP, including Accounting Standards Codification (“ASC”) Subtopic 326-20, at least quarterly;

- (b) supporting the assumptions and estimation of expected credit losses and adjustments with documentation and analysis of qualitative and environmental factors and reasonable and supportable forecasts that affect the collectability of the Bank’s financial assets in addition to consideration of historical credit losses;
- (c) independently validating the Bank’s ACL methodology on an annual basis and reporting the conclusions to the board, which shall address identified deficiencies through revision of the ACL Program in a manner consistent with this Article; and
- (d) documenting the board’s determination, at least quarterly, of the adequacy of the Bank’s ACL amount to be reported in the Bank’s call report, including the factors considered and rationale supporting the board’s conclusion.

(2) Upon adoption of the ACL Program, Bank management shall immediately implement and thereafter ensure adherence to the ACL Program.

(3) If at any time the Bank’s actual ACL balance is determined to be inappropriate in comparison to the ACL balance calculated pursuant to this Article, the board shall remedy the inadequacy through additional provisions from earnings in the quarter the inadequacy is discovered, prior to the filing of the Bank’s call report. If previously filed call reports are

determined to be inaccurate due to a miscalculated ACL, the Bank must refile such call reports within sixty (60) days of this order.

ARTICLE XIII

CREDIT DERIVATIVES

(1) Within thirty (30) days of the date of this Order, the board shall adopt a written Credit Derivatives Program. Refer to OCC Bulletin 2011-30 (“Counterparty Credit Risk Management: Interagency Supervisory Guidance”) (Jul. 2011).

(2) The Credit Derivatives Program shall include, at a minimum:

- (a) a plan to address the Bank’s current exposure to loans exceeding its legal lending limit inappropriately supported by the diminished credit derivatives’ structure;
- (b) the inclusion of gross loan balances of loans with credit derivatives to calculate credit concentrations, the ACL, and capital stress tests and update internal policies and procedures to reflect this change;
- (c) revisions to the Bank’s credit derivative policy to include:
 - (i) criteria for determining when seeking credit protection through a derivative is desired, including amount and tenor in relation to the underlying loans;
 - (ii) expectations for credit derivative risk monitoring, including MIS and reporting;
 - (iii) expectations for the credit derivative committee and board;
 - (iv) meaningful risk limits, including a limit for maximum allowable exposure to a single-name credit derivative;

- (v) expectations and criteria for monitoring counterparty credit risk;
and
- (vi) expectations for periodic independent audits and model validation of credit derivatives;
- (d) appropriate counterparty credit risk analyses that:
 - (i) include a counterparty credit risk assessment framework with established minimum standards tailored to the size and complexity of the counterparty credit risk profile, including, but not limited to, governance, risk measurement and management of counterparty risk metrics and limits, and legal and operational risk management; and
 - (ii) include an evaluation of the risk that the counterparty could default or deteriorate in creditworthiness before final settlement of contractual obligations.

(3) Upon adoption of the Credit Derivatives Program, Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Credit Derivatives Program and any amendments thereto. The board shall review the effectiveness of the Credit Derivatives Program at least annually, and more frequently if necessary or if required by the OCC in writing. Any amendment to the Credit Derivatives Program must be submitted to the ADC within thirty (30) days of board approval.

ARTICLE XIV

INTERNAL AUDIT

- (1) Within sixty (60) days of the effective date of this Order, the Bank shall revise,

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 related safe and sound principles. 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, require:

- (a) the development of an annual risk assessment of the Bank's auditable areas, with annual documented audit committee approval of the risk assessment;
- (b) the development of an internal audit plan that is risk-based, supported by the annual risk assessment, and provides adequate audit scope, coverage, and frequency for all areas of the Bank, with annual documented audit committee approval;
- (c) monthly reporting to the audit committee on any material variance from the plan and action items to get back on schedule; and
- (d) persons independent of the operational functions perform the audits, and all internal audit reports be in writing and distributed directly, not through

any intervening party, to the audit committee in a timely manner after audit completion.

(3) Upon adoption of the Internal Audit Program, Bank management, subject to board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Internal Audit Program. The board shall review the effectiveness of the Internal Audit Program at least annually, and more frequently if necessary or if required by the OCC in writing. Any amendment to the Internal Audit Program must be submitted to the ADC within thirty (30) days of board approval.

ARTICLE XV

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 they are effective in addressing the Bank's 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 XVI

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 109;
 - (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 these proceedings, the consent to and/or the issuance of this Order, as the basis for a claim of double jeopardy in any pending or future proceedings 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 XVII

OTHER PROVISIONS

(1) As a result of this Order, pursuant to 12 C.F.R. § 5.51(c)(7)(ii), the Bank is in “troubled condition,” and is not an “eligible savings association” for purposes of 12 C.F.R. § 5.3, 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 and 5.51(c)(7)(ii).

ARTICLE XVIII

CLOSING

(1) This Order is a settlement of the cease and desist proceedings 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 practices described in Article II of this Order, to the extent known to the OCC as of the effective date of this Order. The OCC expressly reserves its right to assess civil money penalties or take other enforcement actions if the OCC determines that the Bank has continued, or failed to correct, the practices described in Article II of this

Order or that the Bank otherwise is violating or has violated this Order. These actions could include additional requirements and restrictions, such as:

- (a) requirements that the Bank make or increase investments, acquire or hold additional capital or liquidity, or simplify or reduce its operations; or
- (b) restrictions on the Bank's growth, business activities, or payment of dividends.

(2) Nothing in this Order 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, including if the OCC determines that the Bank has continued, or failed to correct, the practices described in Article II of this Order or that the Bank otherwise is violating or has violated this Order;
- (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.

(3) 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.

- (4) 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).

(5) 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.

(6) 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, the board or a board-designee shall submit a written request to the ADC asking for the desired relief. Any request submitted pursuant to this paragraph shall include a statement setting forth in detail the circumstances that warrant the desired relief or prevent the Bank from complying with the

relevant provision(s) of the 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.

(7) 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.

(8) 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.

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

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

(11) 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.

(12) All reports, plans, or programs submitted to the OCC pursuant to this Order shall be forwarded through the OCC's secure portal with an email notification to the ADC.

(13) 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 signature on behalf of the Comptroller.

//s// Digitally Signed, Dated: 2023.10.31

Victor A. Osorio
Assistant Deputy Comptroller
Louisville Office

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of United Fidelity Bank, FSB, have hereunto set their signatures on behalf of the Bank.

/s/
Paul E. Becker

10/20/2023
Date

/s/
Ron Brown

10/31/23
Date

/s/
Bruce A. Cordingley

10/31/23
Date

/s/
Donald R. Neel

10-31-23
Date

/s/
Sean O' Connor

10/31/23
Date

/s/
Stephen R. Oettinger

10/20/23
Date

/s/
Gerald K. Pedigo

10/30/23
Date

/s/

Barry Schnakenburg

10/24/2023

Date

/s/

James J. Sullos, Jr.

10-20-23

Date