

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

In the Matter of:)	
The First National Bank of Bellville)	AA-SO-2023-57
Bellville, Texas)	

CONSENT ORDER

WHEREAS, the Office of the Comptroller of the Currency (“OCC”) has supervisory authority over The First National Bank of Bellville, Bellville, Texas (“Bank”);

WHEREAS, on January 2, 2024, the OCC initiated cease and desist proceedings against the Bank pursuant to 12 U.S.C. § 1818(b), through the issuance of a Notice of Charges for an order to Cease and Desist (“Notice of Charges”), alleging that the Bank engaged in unsafe or unsound practices, including those relating to the Bank’s investment strategy directed by the Bank’s holding company, Industry Bancshares, Inc. (“Industry BHC”) that led to alleged unsafe or unsound interest rate risk and thereafter, at the continued direction of Industry BHC, the Bank failed to take action to mitigate such interest rate risk;

WHEREAS, the OCC intends to amend its Notice of Charges, to further include unsafe or unsound practices relating to corporate governance and credit risk management identified in the OCC’s March 2024 Examination;

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”), without admitting to the allegations contained in the Notice of Charges, 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

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) members of which a majority 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 quarterly and maintain minutes of its meetings.

(2) Within ninety (90) days of the date of this Order and thereafter within thirty (30) days after the end of each quarter, 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) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board to the Director within ten (10) days of receiving such report or within such other time period as the Director may require in writing.

ARTICLE III

BOARD OVERSIGHT AND CORPORATE GOVERNANCE

(1) Within one-hundred twenty (120) days of the date of this Order, the Bank shall adopt an acceptable written program to govern the Bank's overall direction, oversight, and corporate governance and to ensure the Bank's relationship with Industry BHC is conducted in a safe and sound manner, with sufficient Board independence to protect the Bank's best interests ("Board Oversight and Corporate Governance Program"). Refer to the "Related Organizations" and "Corporate and Risk Governance" booklets of the *Comptroller's Handbook* for guidance.

(2) The Board Oversight and Corporate Governance Program shall, at a minimum, include:

- (a) procedures designed to ensure that any strategic goals, policies, and procedures provided by Industry BHC appropriately serve the best interests of the Bank;
- (b) clear lines of responsibility assigned for strategic direction and decision-making for the Bank, including the identification of any “senior executive officer” (as defined in 12 C.F.R. § 5.51(c)(4)), with clear identification of functional and staffing responsibilities to be performed by the Bank and Industry BHC, respectively;
- (c) policies governing the Bank’s oversight of its relationship with Industry BHC, Industry Bancshares Services LLC, and any other affiliates to address:
 - (i) Board and management expectations, roles, and responsibilities for services and functions provided by any affiliate organization;
 - (ii) identification of the types of transactions that occur between the Bank and any affiliate organization and processes to ensure compliance with the affiliate transaction laws and regulations;
 - (iii) expectations and controls regarding sharing Bank information with any affiliate organization; and
 - (iv) documentation and periodic evaluation of the Bank’s relationships with any affiliate organization;
- (d) procedures and documentation governing the Bank’s oversight of Industry BHC, Industry Bancshares Services LLC, and any other affiliates to include at a minimum:

- (i) the establishment of contractual agreements between the Bank and any affiliate organization that provides services or functions to the Bank that clearly define:
 - a. Bank rights and responsibilities;
 - b. measurable performance monitoring standards for the affiliate organization; and
 - c. controls over data integrity and confidentiality;
- (ii) ongoing review, evaluation, and periodic reporting to the Board about whether each affiliate relationship and provision of services are in the Bank's best interests and are being conducted in accordance with contracts, Bank policies and procedures, and in compliance with affiliate transaction laws and regulations;
- (iii) periodic detailed written evaluations of the services and functions provided by each affiliate organization to ensure:
 - a. such parties have the appropriate knowledge and expertise to perform the function or services; and
 - b. the services and functions provided by each affiliate organization are being conducted on market terms, including support from detailed comparable quotes from non-affiliates;
- (e) a comprehensive conflict of interest and insider lending policy applicable to the Bank's and its affiliates' directors, principal shareholders, executive officers, and employees ("Bank and Affiliate Insiders") and related

interests of such Bank and Affiliate Insiders;

- (f) risk management (including audit) and compliance management systems suitable for the Bank's size and activities, including but not limited to, revisions to compliance risk assessments and consumer compliance policies to reflect the Bank's structure, practices, and risk profile;
- (g) processes to ensure that management timely corrects all audit, compliance, and regulatory criticisms with a written action plan that contains corrective actions to be taken, deadlines for taking the corrective action, and the individual(s) responsible for making the corrective action;
- (h) procedures to ensure each individual Board member provides full and active participation in the oversight of the affairs of the Bank and provides credible challenge to, and demonstrates judgment independent of any officer or director of Industry BHC, including those that are advisory directors, or to any Bank senior executive officer or Board member; and
- (i) procedures for the Board to periodically evaluate the size, composition, expertise, and independence and autonomy of the Board, as well as individual Board member participation and contributions, with additions or other changes to the Board, as appropriate.

Nothing in paragraph (2) of this Article shall preclude the Bank from adopting policies, procedures, and agreements prepared by Industry BHC or delegating items herein to Industry BHC or another third-party service provider; *provided*, the Bank shall retain responsibility for ensuring all such policies, procedures, agreements, and services meet the requirements of this Order.

(3) Upon adoption of the Board Oversight and Corporate Governance Program, Bank management, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Board Oversight and Corporate Governance Program and any amendments thereto. The Board shall review the effectiveness of the Board Oversight and Corporate Governance Program at least annually and more frequently if necessary or if required by the OCC in writing, and amend the Board Oversight and Corporate Governance Program as needed or directed by the OCC. The Board shall forward a copy of the adopted Board Oversight and Corporate Governance Program, and any subsequent amendments thereto, to the Director within five (5) days of adoption.

ARTICLE IV

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by December 31, 2024, and thereafter maintain the following minimum capital ratios as defined in and as calculated in accordance with 12 C.F.R. § 3.10(b):

- (a) a leverage ratio at least equal to ten percent (10%); and
- (b) a total capital ratio at least equal to twelve percent (12%).

(2) The Bank shall also achieve by the following dates and thereafter maintain, the following minimum capital ratios as defined in and as calculated in accordance with 12 C.F.R. § 3.10(b), but without including the adjustments to common equity tier 1 capital provided at 12 C.F.R. § 3.22(b)(2):

By December 31, 2025:

- (a) a leverage ratio at least equal to three percent (3%); and
- (b) a total capital ratio at least equal to eight percent (8%); and

By December 31, 2026:

- (a) a leverage ratio at least equal to six percent (6%); and
- (b) a total capital ratio at least equal to ten percent (10%).

For purposes of paragraph (2) of this Article, the Bank shall include all components of accumulated other comprehensive income (“AOCI”), including net unrealized losses, in its calculation of common equity tier 1 capital, regardless of whether the Bank has made the AOCI opt-out election.¹

(3) 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 paragraphs (1) and (2) of this Article pursuant to the OCC’s authority to impose affirmative corrective actions pursuant to 12 U.S.C. § 1818(b)(6). If the Bank elects to use the CBLR framework, it must demonstrate compliance with the minimum capital levels prescribed in paragraphs (1) and (2) of this Article by providing to the Director, within five (5) days of the month end following each calendar quarter, a complete 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.

(4) 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

¹ The requirement to include the components of AOCI in the Bank’s calculation of equity tier 1 capital only applies to the calculation of the minimum capital ratios set forth in paragraph (2) of this Article. The Bank must also continue to calculate the standard capital ratios as set forth in 12 C.F.R. Part 3 and to determine the Bank’s capital category pursuant to 12 C.F.R. § 6.4.

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.

(5) Effective as 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 paragraphs (1) and (2) of this Article. Thereafter, management shall implement, and the Board shall verify, no less than annually, 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* 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 appropriate, or required by the Director in writing.

(6) Within ninety (90) days of the date of this Order, the Board shall submit to the Director for review and prior written determination of no supervisory objection an acceptable revised written capital plan for the Bank, consistent with the Strategic Plan required by Article V, covering at least a three (3) year time period ("Capital Plan"). Refer to "Capital and Dividends" booklet of the *Comptroller's Handbook* for guidance.

(7) Except as provided in paragraph (8) of this Article, the Bank's Capital Plan shall, at a minimum:

- (a) include specific plans for the maintenance of adequate capital, which shall in no event be less than the requirements of paragraphs (1) and (2) 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 and strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
- (e) include detailed quarterly financial projections which shall be consistent with the Strategic Plan required by Article V; and
- (f) 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.

(8) If the Bank's Capital Plan includes a proposed sale or merger of the Bank, including a transaction pursuant to 12 U.S.C. § 215a-3, the Capital Plan shall, at a minimum, address the steps that shall be taken and the associated anticipated timeline to effect the implementation of that proposed sale or merger.

- (9) The Bank may declare or pay a dividend or make a capital distribution only:
- (a) when the Bank is in compliance with its Board-approved Capital Plan and would remain in compliance with such Capital Plan immediately following the declaration or payment of any dividend or capital distribution;
 - (b) when the dividend or capital distribution would comply with 12 U.S.C. §§ 56, 60 and 1831o(d)(1) and 12 C.F.R. § 3.11(a)(4); and
 - (c) following the Director's prior written determination of no supervisory objection to the dividend or capital distribution.

(10) Within thirty (30) days following receipt of the Director'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 in writing, and amend the Capital Plan as needed or directed by the OCC. Any amendment to the Capital Plan must be submitted to the Director for review and prior written determination of no supervisory objection.

(11) At least quarterly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the 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 a description of any extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board and management will take to address any deficiencies. At least quarterly, management shall prepare, and the Board shall review, a written evaluation of the Bank's performance against the Capital Plan, which shall include a description of the actions the Board and management will take to address any deficiencies. The Board's monthly reviews and quarterly written evaluations shall be documented in the Board meeting minutes. The Board shall forward a copy of these monthly reviews and quarterly written evaluations and Board meeting minutes to the Director within five (5) days of completion of its monthly reviews and quarterly written evaluations, respectively.

(12) If the Bank fails to maintain the capital ratios required by paragraphs (1) and (2) of this Article, or fails to submit a Capital Plan as required by paragraph (6) 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. Following written notification from the Director that the Bank is deemed undercapitalized for purpose of this Order, the Bank shall take such corrective measures as the OCC 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 paragraphs (1) and (2) of this Article, and any other action deemed necessary by the OCC to address the Bank's capital deficiency or the safety and soundness of its operations.

ARTICLE V

STRATEGIC PLAN

(1) Within one-hundred twenty (120) days of the date of this Order, the Board shall submit to the Director for review and prior written determination of no supervisory objection an acceptable revised written strategic plan for the Bank, covering at least a three (3) year-period ("Strategic Plan"). 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 strategic goals and objectives to be accomplished, including key financial indicators, risk tolerances, and realistic strategies to improve the overall condition of the Bank;
- (c) a risk profile that evaluates credit, interest rate, liquidity, price, operational, compliance, strategic, and reputation risks in relationship to capital;
- (d) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact its strategic goals and objectives;
- (e) a realistic and comprehensive budget that corresponds to the Strategic Plan's goals and objectives;
- (f) an action plan to improve and sustain the Bank's earnings and accomplish identified strategic goals and objectives, including specific plans to attain compliance with the Bank's IRR mitigation plan discussed in Article VI;
- (g) a financial forecast to include projections for significant balance sheet and income statement accounts and desired financial ratios over the period covered by the Strategic Plan;
- (h) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of Article IV;
- (i) a detailed description, assessment and timeframes for any major capital expenditures, changes in the investment portfolio, changes in infrastructure and personnel, and any other significant actions required to achieve the goals and objectives of the Strategic Plan and return the Bank to a safe and sound condition;

- (j) an identification and prioritization of initiatives and opportunities, including timeframes that comply with the requirements of this Order, including but not limited to, those relating to the Bank's sales of significant portions of its investment portfolio, plans to increase lending, and the steps to control interest rate risk during the transition and completion of such actions;
- (k) concentration and other limits commensurate with the Bank's strategic goals and objectives and risk profile;
- (l) assigned roles, responsibilities, and accountability for the strategic planning process; and
- (m) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) If the Strategic Plan under paragraph (1) of this Article includes a proposed sale or merger of the Bank, including a transaction pursuant to 12 U.S.C. § 215a-3 the Strategic Plan shall, at a minimum, address the steps that shall be taken and the associated timeline to effect the implementation of that alternative.

(3) Upon receipt of the Director'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 and update the Strategic Plan to cover the next three (3) year period at least annually, and more frequently if necessary or if 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 Director 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 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, except that the Bank may de-risk its investment portfolio and restructure existing bank-owned life insurance in a safe and sound manner, consistent with the best interests of the Bank.

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

(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 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.

(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 investment portfolio, markets, marketing strategies, products and services, marketing partners, significant third-party vendors, 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.

(8) Within thirty (30) days after the end of each quarter, 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. 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. Upon completion of the Board's review, the Board shall submit to the Director a copy of the evaluation as well as a detailed description of the corrective actions the Board will require the Bank to take to address any identified shortcomings.

ARTICLE VI

INTEREST RATE RISK MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Bank shall submit to the Director for review and prior written determination of no supervisory objection an acceptable

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 “Model Risk Management,” booklet of the *Comptroller’s Handbook* for guidance.

(2) The IRR Program shall include a detailed plan with timeframes to revise applicable policies, reduce interest rate risk and municipal bond exposures, and attain compliance with acceptable interest rate risk, portfolio composition, portfolio concentration, and portfolio maturity limits, and to develop risk management systems to identify, measure, monitor, and control interest rate risk (“IRR”), to include at a minimum:

- (a) a detailed plan that includes timeframes for the Bank to:
 - (i) immediately reduce its long-term fixed rate investments, proportion of long-term municipal bonds, and the AOCI;
 - (ii) attain compliance with its revised IRR, composition and concentration, and portfolio maturity limits;
 - (iii) attain compliance with its revised, acceptable IRR mitigation plan that addresses various interest rate scenarios, including but not limited to, rates remaining elevated or increasing;
- (b) the establishment of formal policies, procedures, and governance commensurate with the Bank’s complexity and business activities, to include:
 - (i) the establishment of IRR appetite and risk management objectives with specific approved and prohibited strategies for managing IRR;

- (ii) standards for measuring and monitoring IRR;
 - (iii) the frequency of IRR measurement;
 - (iv) determinations of how the Bank will measure the *quality* of IRR management; and
 - (v) procedures to monitor, escalate, and address any breaches of established IRR limits;
- (c) accurate and timely risk identification which identify and quantify the major sources and types of IRR;
- (d) IRR measurement systems that are not dependent on just one measurement system for estimating the Bank's IRR exposure that, at a minimum, estimates the Bank's short-term and long-term IRR exposure;
- (e) the establishment of risk monitoring processes to provide sufficient information on which to base sound IRR management decisions from both an earnings and economic perspective with recognition and consideration of all risks (repricing, basis, yield-curve, and options), to include:
- (i) limits on IRR exposures that considers the Bank's risk appetite, complexity of operations, earnings performance, liquidity position, and capital adequacy; and
 - (ii) IRR reporting standards and procedures that specify the frequency and types of reports senior management and the Board will use to monitor the Bank's IRR that address:
 - a. the level and trends of aggregate Bank IRR exposure;

- b. whether management's strategies are within the Bank's established risk appetite and policy;
 - c. the sensitivity of any key assumptions;
 - d. whether the Bank holds sufficient capital for its level of IRR; and
 - e. whether management's major interest rate strategies balance risk with reward, including at a minimum, an evaluation of a potential adverse rate movement against the potential rewards of a favorable rate movement;
- (f) processes to ensure the retention of qualified personnel with sufficient authority and responsibility to manage and monitor IRR, which may include additional training or the addition of qualified staff;
 - (g) clearly assigned roles, responsibilities, and accountability for IRR risk management and the specific requirements of this Article;
 - (h) the establishment of controls over the impact of changes in interest rates on liquid asset valuations, including but not limited to, thresholds or triggers in asset valuation declines with specific action(s) to be taken by the Bank to ensure it maintains sufficient access to asset-based and liability-based liquidity to meet funding needs in both expected and adverse conditions, to include at a minimum, rapidly rising interest rate scenarios;
 - (i) an immediate evaluation and corrective action (as well as ongoing procedures) to ensure the Bank properly operates its IRR model;

- (j) adequate and documented support for the reasonableness of assumptions used in the Bank's IRR model;
- (k) periodic review and adjustment, when there are material changes to the Bank's balance sheet and otherwise, as needed, of the assumptions and inputs used in the Bank's IRR model, that includes sensitivity analysis and model stress testing, with appropriate documentation and governance that requires approval for changes;
- (l) independent validation of the Bank's IRR model and processes when there are material changes to the Bank's balance sheet and otherwise, as needed, but in no event, less than on an annual basis;
- (m) procedures to test the Bank's IRR model to compare, reconcile, and report actual performance to simulated results including both earnings at risk and economic value of equity simulations;
- (n) procedures that require the Board to review and discuss, on at least a quarterly basis, the model test results required by this Article; and
- (o) an annual review of the Bank's adherence to the IRR Program.

(3) Within five (5) days following receipt of the Director's written determination of no supervisory objection to the IRR Program or to any subsequent amendment to the IRR Program, the Board shall adopt and 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, and amend the IRR Program as

needed or directed by the OCC. Any amendment to the IRR Program must be submitted to the Director for review and prior written determination of no supervisory objection.

ARTICLE VII

CONTINGENCY FUNDING PLAN

(1) Within ninety (90) days of the date of this Order, the Board shall adopt a written Contingency Funding Plan. Refer to the “Liquidity” booklet of the *Comptroller’s Handbook* for guidance.

(2) The Contingency Funding Plan shall provide policies, procedures, action plans and projection reports to ensure the Bank’s liquidity sources are sufficient to meet its needs under stress events, unexpected circumstances and ongoing adverse business conditions, to include, at a minimum:

- (a) a definition of a liquidity crisis for the Bank;
- (b) the identification of plausible stress events relating to internal and external events or circumstances, including systemic or market events, that could lead to a Bank liquidity crisis, including but not limited to, continued financial deterioration, loss of primary credit status at the Federal Reserve, and the expiration or loss of any primary or contingent sources of liquidity;
- (c) determinations of how each identified stress event will affect the Bank’s earnings, capital, and ability to obtain funding needs under different levels of severity;
- (d) quantitative projection and evaluation of funding needs under each identified stress event;

- (e) the identification of the actions management would take under each stress event to include all potentially viable funding sources for addressing each identified stress event with a priority listing of preferred funding sources as well as alternative funding sources of incremental liquidity;
- (f) processes that ensure the Bank maintains access and the operational capability to monetize all funding sources that are relied upon for each stress event;
- (g) the identification of timely early warning triggers to alert management to potential liquidity problems;
- (h) development of a detailed plan for addressing each identified early warning trigger and stress event;
- (i) assigned management responsibility for implementation of all funding plan phases as well as the appointment of a qualified liquidity crisis management team and administrative structure;
- (j) preparation of weekly liquidity crisis reports to monitor the Bank's ability to meet its current and future liquidity needs, to include at a minimum:
 - (i) funding capacity reports by funding type;
 - (ii) funding source concentration reports;
 - (iii) liquid asset levels including the fair value of unencumbered investment securities in available-for-sale and held-to-maturity portfolios, and the adequacy of established methods to monetize assets; and
 - (iv) level of uninsured deposits; and

- (k) an internal and external communication process, including:
 - (i) the identification of relevant report and other information for dissemination to various stakeholders that may include the Board, management, staff, and Director;
 - (ii) processes and assigned responsibility for periodic reporting to the various stakeholders;
 - (iii) detailed plans and processes for controlling negative publicity, including assigned responsibility and plans for addressing customer concerns and negative publicity, including social media; and
 - (iv) procedures to test components of the Contingency Funding Plan to assess its reliability under times of stress.

(3) Upon adoption of the Contingency Funding Plan, Bank management, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Contingency Funding Plan and any amendments thereto. The Board shall review the effectiveness of the Contingency Funding Plan at least annually, and more frequently if necessary or if required by the OCC in writing, and amend the Contingency Funding Plan as needed or directed by the OCC. The Board shall forward a copy of the adopted Contingency Funding Plan, and any subsequent amendments thereto, to the Director within thirty (30) days of adoption.

ARTICLE VIII

CREDIT ADMINISTRATION

(1) Within sixty (60) days of the date of this Order, the Board shall adopt an acceptable written credit administration program (“Credit Administration Program”) designed to ensure the risks that are inherent in the credit process are managed and controlled and are consistent with safe and sound banking practices. Refer to the “Deposit Related Credit” booklet of the *Comptroller’s Handbook*, OCC Bulletin 2020-81, “Risk Management of Loan Purchase Activities,” (Sept. 10, 2020), and the “Commercial Real Estate Lending” booklet of the *Comptroller’s Handbook* (specifically, the section on *Acquisition, Development, and Construction Credit Administration*), for guidance.

- (2) The Credit Administration Program shall include, at a minimum:
- (a) requirements for the ongoing retention of a Chief Credit Officer who has the knowledge, skills, ability, and authority to effectively manage the Bank’s loan portfolio and credit function;
 - (b) a requirement to maintain sufficient staff and expertise in the Bank’s credit department to effectively manage the Bank’s loan portfolio and credit function;
 - (c) requirements for the periodic review (no less than annually) and updating, as appropriate, of the Bank’s loan policy to ensure it provides for proper underwriting, reflects proper risk tolerance, addresses when policy exceptions are allowed, provides for problem loan identification and management, and establishes clear lines of responsibility;

- (d) requirements for officer periodic review and risk rating of significant credit relationships with required threshold amounts and triggers for review based upon deteriorating trends, with a minimum portfolio annual penetration of seventy percent (70%) of the outstanding balance, beginning with calendar year 2025 and every calendar year thereafter;
- (e) revised procedures and systems to identify, track, analyze, report, and control credit, collateral, and loan policy exceptions;
- (f) procedures and systems to track and analyze concentrations of credit (with stratification by higher risk products, industries, and geographies), significant economic factors, and general market conditions, and their impact on the credit quality of the loan portfolio(s);
- (g) procedures for establishing and maintaining an effective process to ensure the adequacy of the Allowance for Credit Losses to include support for qualitative factors and adjustments and independent review procedures;
- (h) procedures and systems that provide for stress testing to determine the potential effect of adverse financial and economic conditions on the performance of individual loans, concentrations, and portfolio segments and on the Bank's earnings and capital;
- (i) requirements for consideration of stress testing results in the Bank's loan portfolio goals, marketing efforts, and lending policies;
- (j) the establishment of processes and procedures for managing the Bank's overdrafts, to include at a minimum:

- (i) reasonable customer limits relating to overdrafts for checks, electronic funds transfer, and automated clearinghouse transactions;
- (ii) processes and requirements for approval of overdrafts, including daily and cumulative amounts, fee waivers, and charge-offs;
- (iii) officer authority limits addressing intraday, daily, and cumulative overdraft amounts;
- (iv) reporting and monitoring of overdrafts by customer and officer relating to:
 - a. amount and period outstanding;
 - b. waived NSF fees with reason for waiver; and
 - c. charge-offs; and
- (v) officer follow-up review procedures based upon reasonable threshold overdraft amounts and time outstanding;
- (k) threshold policy limits for the identification of customers with chronic overdrafts relating to amount, frequency, and period outstanding;
- (l) quarterly review and analysis of customers with chronic overdrafts, including at a minimum: total indebtedness, overdrafts, reason for overdrafts, repayment ability, risk rating, profitability, and plan for disposition;
- (m) the establishment of policies and procedures for underwriting and monitoring loan participations, to include at a minimum:
 - (i) standards for:

- a. pre-purchase documentation;
 - b. independent credit and underwriting analysis; and
 - c. assessment of collateral value and lien status, commensurate with the size, complexity, and risk profile of the proposed credit;
- (ii) processes for assessing the originating bank's expertise with the proposed credit;
 - (iii) processes and assigned responsibility for documenting transfer, servicing, events of default, collections, and recourse and risk-sharing arrangements;
 - (iv) expectations for lead bank administration and controls over collateral;
 - (v) requirements and assigned responsibility for obtaining ongoing financial and collateral information necessary to properly monitor and risk rate any loan participations purchased; and
 - (vi) processes for effective management, independent risk rating, and Board reporting of loan participations purchased; and
- (n) the establishment of policies and procedures for monitoring construction loans, to include at a minimum:
 - (i) loan policy revisions to address construction lending inspection requirements, including at a minimum, requirements that:
 - a. the person performing the inspection is qualified to perform the inspection and is independent of the loan officer;

- b. inspection frequency is commensurate with the risk profile of the borrower and construction project; and
 - c. inspection reports assess construction progress and compliance with construction plans, budget, and specifications;
- (ii) formal draw request procedures that demonstrate that advances do not exceed progress, and include at a minimum: the purpose, amount of the draw, amount of undisbursed funds, invoices, and construction progress;
 - (iii) procedures to ensure construction appraisals conform to 12 C.F.R. § 34.44; and
 - (iv) controls and assigned responsibility to ensure compliance with the Bank's construction lending policies and procedures.

(3) Upon adoption of the Credit Administration Program, Bank management, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Credit Administration Program and any amendments thereto. The Board shall review the effectiveness of the Credit Administration Program at least annually and more frequently if necessary or if required by the OCC in writing, and amend the Credit Administration Program as needed or directed by the OCC. The Board shall forward a copy of the adopted Credit Administration Program, and any subsequent amendments thereto, to the Director within five (5) days of adoption.

ARTICLE IX

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 that 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 X

WAIVERS

- (1) The Bank, by executing and consenting to this Order, waives:
 - (a) any and all rights to the issuance of an Amended Notice of Charges for an Order to Cease and Desist based on the unsafe or unsound practices described in the third paragraph on page 1 of this Order and issued 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 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 XI

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 bank” for purposes of 12 C.F.R. § 5.3 or 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, 5.51(c)(7)(ii), and 24.2(e)(4).

ARTICLE XII

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 Notice of Charges and in the third paragraph on page 1 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 the Notice of Charges and in the third paragraph on page 1 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 practices described in the Notice of Charges and in the third paragraph on page 1 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 practices described in the

Notice of Charges and in the third paragraph on page 1 of this Order, or any other findings; or

- (d) relying on the practices described in the Notice of Charges and in the third paragraph on page 1 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.

(5) 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 Director 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.

(6) 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.

(7) 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.

(8) 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.

(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, via email, to Julie A. Thieman, Director for Special Supervision.

(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 her signature on behalf of the Comptroller.

//s// Digitally Signed, Dated: 2024.10.21
Julie A. Thieman
Director for Special Supervision

Date

