

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

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In the Matter of:)	
)	AA-SO-23-55
The First National Bank of Shiner)	
Shiner, Texas)	
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NOTICE OF CHARGES FOR AN ORDER TO CEASE AND DESIST

Take notice that on a date to be determined by the Administrative Law Judge, a hearing will commence in the Southern District of Texas, or such other location to be determined by the Administrative Law Judge, pursuant to 12 U.S.C. § 1818(b), concerning the charges set forth herein. The Office of the Comptroller of the Currency (“OCC”) has reasonable cause to believe that The First National Bank of Shiner, Shiner, Texas (“Bank”), has engaged, is engaging, or is about to engage, in unsafe or unsound practices in conducting the affairs of the Bank.

The OCC hereby issues this Notice of Charges (“Notice”) for the purposes of determining whether an appropriate order should be issued against the Bank under the provisions of 12 U.S.C. § 1818(b). The hearing shall be open to the public unless the Comptroller, in his discretion, determines that an open hearing would be contrary to the public interest.

In support of this Notice, the OCC alleges the following:

ARTICLE I
JURISDICTION

At all times relevant to the charges set forth below:

- (1) The Bank is a national banking association, chartered and examined by the OCC.

See 12 U.S.C. § 1 *et seq.*

- (2) The Bank is an “insured depository institution” as defined in 12 U.S.C. § 1813(c)(2) and within the meaning of 12 U.S.C. § 1818(b).

- (3) The OCC is “the appropriate Federal banking agency” within the meaning of 12 U.S.C. § 1813(q)(1) and for the purposes of 12 U.S.C. § 1818(b) to initiate an enforcement proceeding against a national banking association.

ARTICLE II
BACKGROUND

- (4) This Article repeats and re-alleges all previous Articles in this Notice.

(5) The Bank is a community bank headquartered in Shiner, Texas that operates five full-service branches. The Bank is wholly owned by Industry Bancshares, Inc., a bank holding company in Industry, Texas (“Holding Company”). As of September 30, 2023, the Bank had approximately \$806 million in total assets.

- (6) The Bank’s historical strategy of investing in long-term securities funded by short-term and rate sensitive liabilities (“investment strategy”) has resulted in excessive concentration risk and interest rate and liquidity exposures.

ARTICLE III

BANK IS LESS-THAN-SATISFACTORY

(7) This Article repeats and re-alleges all previous Articles in this Notice.

(8) During the third calendar quarter of 2023, the OCC performed its regular quarterly review to assess any changes in the financial condition and risk profile of the Bank utilizing Bank information as of June 30, 2023, supplemented with additional information from the third quarter where available (“2nd Quarter Examination”).

(9) The OCC issued a report of examination on November 7, 2023, which notified the Bank of the results of the 2nd Quarter Examination.

(10) The OCC determined that the Bank’s Capital and Management, are less-than-satisfactory and that Earnings, Liquidity and Sensitivity to Market Risk are deficient. The OCC also determined that the Bank’s overall condition is less-than-satisfactory and that the Bank is in troubled condition.

Earnings are Deficient

(11) The OCC has determined that the Bank’s Earnings are deficient for the following non-exclusive reasons:

- a. Earnings are insufficient to support operations, maintain appropriate capital and allowance levels, and support the Bank’s high-risk profile.
- b. Earnings have declined substantially because of significant increases in the Bank’s cost of funds and from losses realized on sales of securities.
- c. Bank management projects that net income will decline significantly over both the 12- month and 24-month time horizon due to continuing high cost of funds and expected write-downs.

- d. The Bank’s available-for-sale (“AFS”) securities have declined in value by substantial amounts, with substantial unrealized losses. Earnings levels and their sustainability could be severely impacted from sales of AFS securities caused by the Bank’s high-risk liquidity profile.

Capital is Less-Than-Satisfactory

(12) The OCC has determined that the Bank’s Capital is less-than-satisfactory for the following non-exclusive reasons:

- a. Capital levels do not fully support the Bank’s high-risk profile.
- b. As a result of the Bank’s investment strategy, the Bank has a significant level of unrealized losses in its AFS securities that has resulted in negative total equity capital as of September 30, 2023.
- c. Capital planning is insufficient and fails to reflect adequate consideration of capital adequacy relative to the excessive level of interest rate risk, including the amount of unrealized AFS securities losses that could materialize.

Management is Less-Than-Satisfactory

(13) The OCC has determined that the Bank’s Management is less-than-satisfactory for the following non-exclusive reasons:

- a. The Board of Directors (“Board”) and management deferred to two dominant policy makers that served on the Board, and who also served on the board of the Holding Company. These individuals caused the Bank to pursue its investment strategy, which increased the Bank’s risk profile substantially.

- b. The Board and management were slow to recognize the sustained increase in interest rates and failed to enact meaningful corrective measures to address the effects of rising interest rates over the past 18 months.
- c. The Board and management failed to ensure that risk management practices remained commensurate with the increasing size and changing risk profile of the Bank.
- d. The Board and management inadequately identified, measured, monitored, or controlled significant risks to the Bank.
- e. The Board and management took reactionary measures to monitor deposit activity and enact plans to address and monitor liquidity and interest rate risk exposure. However, these measures have now prompted concerns regarding strategic and capital planning, contingency funding planning, and interest rate risk that require prompt attention.
- f. The Bank's risk management practices remain insufficient for the high-risk profile of the Bank.

Liquidity is Deficient

(14) The OCC has determined that the Bank's Liquidity is deficient for the following non-exclusive reasons:

- a. The Bank is reliant on funding sources that may not be available in the event of further financial stress or changes in market conditions.
- b. The Bank's liquidity is also dependent upon high-cost time deposits.

- c. To cover uninsured deposits, the Bank strengthened on-hand liquidity through borrowings and secured borrowing lines; however, this resulted in increased costs and further depletion of earnings.
- d. Liquidity risk management is insufficient, and the contingency funding plan does not appropriately consider stress scenarios including concentration exposure, capital erosion, or changes in access to wholesale funding sources.

Sensitivity to Market Risk is Deficient

(15) The OCC has determined that the Bank’s Sensitivity to Market Risk is deficient for the following non-exclusive reasons:

- a. The Bank’s control of market risk sensitivity is at an unacceptable level because of the potential ongoing adverse impact from interest rates on the Bank’s earnings and capital due to the Bank’s investment strategy. The Bank’s investment strategy has resulted in substantial unrealized losses in the AFS securities portfolio.
- b. The Board and management’s interest rate mitigation efforts have been ineffective with modeling continuing to project adverse impact to earnings and capital from current interest rates.
- c. Risk management practices remain deficient for the size and level of market risk accepted by the Bank.

ARTICLE IV

UNSAFE OR UNSOUND PRACTICES

(16) This Article repeats and re-alleges all previous Articles in this Notice.

Strategic and Capital Planning

(17) Contrary to safe and sound banking practices, the Bank’s investment strategy

increased the Bank's risk profile substantially.

(18) Contrary to safe and sound banking practices, the Bank failed to maintain sufficient capital, and to plan for and provide for sufficient sources of contingency capital for its investment strategy and high-risk profile.

Interest Rate Risk Management

(19) Contrary to safe and sound banking practices, the Bank's control of market risk sensitivity is at an unacceptable level because of the potential adverse impact from changes in interest rates to the Bank's earnings and capital due to the composition of the Bank's investment portfolio.

(20) Contrary to safe and sound banking practices, the Bank's interest rate risk mitigation efforts have been ineffective, as the Bank's modeling continues to project adverse impact to earnings and capital. The projected adverse impacts are also greater than the Board's stated risk tolerance.

(21) Contrary to safe and sound banking practices, the Bank's risk management practices remain deficient for the size and level of market risk accepted by the Bank.

Liquidity

(22) Contrary to safe and sound banking practices, the Bank failed to maintain adequate sources of liquidity for its high-risk profile and investment strategy.

(23) Contrary to safe and sound banking practices, the Bank is dependent upon high-cost and uninsured deposits, as well as wholesale funding sources which are also relatively high in cost.

(24) Contrary to safe and sound banking practices, the Bank failed to prepare a

satisfactory contingency funding plan that considers the risks from the Bank's dependency on uninsured deposits, the Bank becoming less than well-capitalized, and the potential loss of contingent sources of liquidity.

ARTICLE V

LEGAL BASIS FOR REQUESTED RELIEF

(25) This Article repeats and re-alleges all previous Articles in this Notice.

(26) Based on the allegations described in Articles II through IV, the OCC seeks an Order to Cease and Desist against the Bank pursuant to 12 U.S.C. § 1818(b) on the grounds that the Bank has engaged, is engaging, or is about to engage in unsafe or unsound practices in conducting the affairs of the Bank.

PRAYER FOR RELIEF

The OCC prays for relief in the form and content in the issuance of the attached Proposed Order to Cease and Desist.

ANSWER AND OPPORTUNITY FOR HEARING

The Bank is directed to file a written Answer to this Notice within twenty (20) days from the date of service of this Notice in accordance with 12 C.F.R. § 19.19(a) and (b). The original and one copy of any Answer shall be filed with the Office of Financial Institution Adjudication, 3501 North Fairfax Drive, Suite VS-D8113, Arlington, Virginia 22226-3500. The Bank is encouraged to file any Answer electronically with the Office of Financial Institution Adjudication at ofia@fdic.gov. A copy of any Answer shall also be filed with the Hearing Clerk, Office of the Chief Counsel, Office of the Comptroller of the Currency, 400 7th Street SW,

Washington, D.C. 20219, HearingClerk@occ.treas.gov, and with the attorney whose name appears on the accompanying certificate of service. **Failure to answer within this time period shall constitute a waiver of the right to appear and contest the allegations contained in this Notice, and shall, upon the OCC's motion, cause the Administrative Law Judge or the Comptroller to find the facts in this Notice to be as alleged, upon which an appropriate order may be issued.**

Witness, my hand on behalf of the OCC.

//s// Digitally Signed, Dated: 2023.12.20

Troy L. Thornton
Deputy Comptroller
South & Southeast Regions

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

In the Matter of:)	
The First National Bank of Shiner)	AA-SO-2023-55
Shiner, Texas)	

[PROPOSED] ORDER TO CEASE AND DESIST

Pursuant to 12 U.S.C. § 1818(b), Enforcement Counsel for the Office of the Comptroller of the Currency (“OCC”) initiated this action in December 2023 by filing a Notice of Charges for an Order to Cease and Desist against The First National Bank of Shiner, Shiner, Texas (“Bank”). An Administrative Law Judge subsequently held a hearing and the Bank was afforded an opportunity to be heard.

Having considered the entire record in this matter, including the evidence presented at hearing and the Administrative Law Judge’s recommended decision, the Comptroller hereby imposes the following Order to Cease and Desist (“Order”) pursuant to 12 U.S.C. § 1818(b):

ARTICLE I

COMPLIANCE COMMITTEE

(1) Within one (1) day 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 one (1) day 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 ten (10) 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) Upon receiving each written progress report, the Board shall forward a copy of the report, with any additional comments by the Board, to the Director within five (5) days of the first Board meeting following the Board's receipt of such report.

ARTICLE II

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall maintain the following capital ratios as defined in and as calculated in accordance with 12 C.F.R. Part 3¹:

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

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.

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). If the Bank elects to use the CBLR framework, it must demonstrate compliance with the minimum capital levels prescribed in paragraph (1) of this Article 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) 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 paragraph (1) 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*. 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.

(5) Within fifteen (15) 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

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.

III, covering at least a three (3) year time period (“Capital Plan”). Refer to “Capital and Dividends” booklet of the *Comptroller’s Handbook*.

(6) Except as provided in paragraph (7) 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 paragraph (1) of this Article;
- (b) identify and evaluate all material risks;
- (c) determine the Bank’s capital needs in relation to material risks and strategic direction;
- (d) identify and establish a strategy to maintain capital 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 III; 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.

(7) If the Bank’s Capital Plan outlines a 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 and the associated timeline to ensure that within thirty (30) days after the receipt of the Director’s written determination of no supervisory objection to the Capital Plan, a definitive agreement for the sale or merger is executed.

(8) 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.

(9) 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.

(10) At least monthly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the 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.

(11) If the Bank fails to maintain the capital ratios required by paragraph (1) of this Article, or fails to submit a Capital Plan as required by paragraph (5) 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 paragraph (1) 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 III

STRATEGIC PLAN

(1) Within fifteen (15) 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;
- (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 II;
- (i) a detailed description and assessment of major capital expenditures required to achieve the goals and objectives of the Strategic Plan;
- (j) an identification and prioritization of initiatives and opportunities, including timeframes that comply with the requirements of this Order;
- (k) concentration 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.

(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 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.

(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 IV

INTEREST RATE RISK MANAGEMENT

(1) Within sixty (60) 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*.

(2) The IRR Program shall include risk management systems to identify, measure, monitor, and control interest rate risk (“IRR”), to include at a minimum:

- (a) 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;
- (b) accurate and timely risk identification which identify and quantify the major sources and types of IRR;
- (c) 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;
- (d) 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;
- (e) requirements for 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;
- (f) 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;

- (g) an immediate evaluation and corrective action (as well as ongoing procedures) to ensure the Bank properly operates its IRR model;
- (h) adequate and documented support for the reasonableness of assumptions used in the Bank's IRR model;
- (i) 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;
- (j) 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;
- (k) 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;
- (l) procedures that require the Board to review and discuss, on at least a quarterly basis, the model test results required by this Article; and
- (m) 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 V

CONTINGENCY FUNDING PLAN

(1) Within five (5) 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*.

(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;
- (c) determinations of how each identified stress event will affect the Bank’s 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 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) vault cash management reports;
 - (iv) 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;

- (v) levels and trends in uninsured deposits;
 - (vi) certificate of deposit breakage and early redemptions;
 - (vii) aggregate wire transfer activity levels and trends;
 - (viii) account runoff attributed to deposit rate restrictions;
 - (ix) reports describing alternative funding sources of incremental liquidity, including standby emergency sources of liquidity;
 - (x) information and reports on the stability, pricing and performance of the markets from which funds would be obtained; and
 - (xi) cash flow projections and run-off reports;
- (j) 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
- (m) 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, the 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 VI

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 VII

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 VIII

CLOSING

(1) This Order is effective upon its issuance. 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.

(2) The provisions of this Order shall remain effective and enforceable 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 special 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.

(3) 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 to demonstrate the sustained effectiveness of the corrective actions.

(4) 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.

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

SO ORDERED:

MICHAEL J. HSU
ACTING COMPTROLLER OF THE CURRENCY