

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

DEPARTMENT OF SAVINGS AND MORTGAGE LENDING
AUSTIN, TEXAS

In the Matter of

THE BANK & TRUST, S.S.B.
Del Rio, Texas

Docket No. 17-023-B-SM

Cease and Desist Order Issued
Upon Consent Pursuant to the
Federal Deposit Insurance Act,
as amended

WHEREAS, The Bank & Trust, S.S.B., Del Rio, Texas (the “Bank”) is a Texas state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Department of Savings and Mortgage Lending (the “Department”) is the appropriate state supervisor for the Bank;

WHEREAS, the most recent examination of the Bank conducted by the Federal Reserve Bank of Dallas (the “Reserve Bank”) and the Department (collectively, the “Supervisors”), identified significant deficiencies in the Bank’s risk management and compliance with applicable laws, rules, and regulations relating to anti-money laundering (“AML”), including the Bank Secrecy Act (the “BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X); and the AML requirements of Regulation H of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 208.62 and 208.63) (collectively, the “BSA/AML Requirements”) resulting in a compliance program violation;

WHEREAS, the Bank, the Board of Governors, the Reserve Bank, and the Department have the common goal that the Bank operates in compliance with all applicable federal and state laws, rules, and regulations;

WHEREAS, the Bank, the Board of Governors, and the Department have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, on August 8, 2017, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Sid Cauthorn to enter into this Order on behalf of the Bank, and consenting to compliance with each and every provision of this Order by the Bank, and waiving any and all rights that the Bank may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI Act”)

(12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof, and Texas Financial Code Sections 96.101(a)(1), 96.107(a), and 96.109(a).

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to section 8(b)(1) of the FDI Act (12 U.S.C. §§ 1818(b)(1)) and Texas Financial Code Sections 96.105(a)(1) and 96.107(a), the Bank shall cease and desist and take affirmative action as follows:

Board Oversight

1. Within 60 days of this Order, the board of directors of the Bank shall submit a written plan to strengthen board oversight of the Bank's compliance with the BSA/AML Requirements and the regulations issued by the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") (31 C.F.R. Chapter V) (the "OFAC Regulations") acceptable to the Supervisors. The plan shall, at a minimum, address, consider, and include:

- (a) the actions that the board of directors will take to maintain effective control and oversight of Bank management's compliance with the BSA/AML Requirements and the OFAC Regulations;
- (b) measures to ensure adherence to approved compliance policies, procedures, and standards;
- (c) measures to ensure BSA/AML issues are appropriately tracked, escalated, and reviewed by the Bank's senior management;
- (d) measures to ensure that the person or groups at the Bank charged with the responsibility of overseeing the Bank's compliance with the BSA/AML Requirements and the OFAC Regulations possess appropriate subject matter expertise and are actively involved in carrying out such responsibilities;
- (e) adequate resources for the BSA/AML compliance officer, including sufficient staffing levels, and periodic re-evaluation of resources and staffing needs; and
- (f) measures to improve the information reported to the board of directors regarding compliance with the BSA/AML Requirements.

BSA/AML Compliance Program

2. Within 60 days of this Order, the Bank shall submit an enhanced written BSA/AML compliance program acceptable to the Supervisors. The enhanced program shall, at a minimum, include:

- (a) a system of internal controls reasonably designed to ensure ongoing compliance with the BSA/AML Requirements;
- (b) a risk assessment that appropriately identifies and considers all products and services of the Bank, customer types, and geographic locations, as appropriate, in determining inherent and residual risks;
- (c) enhanced independent testing procedures to ensure that comprehensive and timely reviews of the Bank's BSA/AML compliance program are performed on a regular basis by qualified parties who are independent of the Bank's business lines and compliance function, provided, however, that the first independent test of the Bank's BSA/AML compliance shall be conducted by an independent third party acceptable to the Supervisors;
- (d) management of the Bank's BSA/AML compliance program by a qualified compliance officer, who is given full autonomy, independence, and responsibility for implementing and maintaining an effective BSA/AML compliance program that is commensurate with the Bank's size and risk profile, and is supported by adequate staffing levels and resources; and
- (e) effective training for all personnel, including targeted training for personnel with compliance-related responsibilities, in all aspects of the BSA/AML Requirements and applicable internal policies and procedures.

Customer Due Diligence

3. Within 60 days of this Order, the Bank shall submit a written revised program for conducting appropriate levels of customer due diligence by the Bank acceptable to the Supervisors. At a minimum, the program shall include:

(a) policies, procedures, and controls to ensure that the Bank collects, analyzes, and retains complete and accurate customer information for all account holders, including, but not limited to:

(i) documentation necessary to verify the identity, source of wealth, and business activities of the customer; and

(ii) documentation necessary to understand the normal and expected transactions of the customer;

(b) a plan, with timelines, to remediate deficient due diligence for existing customer accounts;

(c) a methodology for assigning risk ratings to account holders that considers factors such as type of customer, type of products and services, and geographic location;

(d) a risk-focused assessment of the Bank's customer base to:

(i) identify the categories of customers whose transactions and banking activities are routine and usual;

(ii) identify the categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and

(iii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and

(e) procedures to ensure that periodic reviews and evaluations are conducted and documented for all account holders.

Suspicious Activity Monitoring and Reporting

4. Within 60 days of this Order, the Bank shall submit a written enhanced program acceptable to the Supervisors to reasonably ensure the identification and timely, accurate, and complete reporting by the Bank of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

(a) a well-documented methodology for establishing monitoring rules and processes that take into consideration the Bank's risk profile, products, services, customer base, geographic locations, and banking activities;

(b) policies and procedures that provide for periodic review of the monitoring rules;

(c) effective monitoring of customer accounts and transactions;

(d) policies, procedures, and processes for identifying subjects of law enforcement requests, monitoring the transaction activity of those subjects when appropriate, identifying unusual or potentially suspicious activity related to those subjects, and filing, as appropriate, suspicious activity reports related to those subjects;

(e) measures to ensure that alert dispositions are supported with adequate rationale and documentation to evidence the research performed and the due diligence that was relied upon to arrive at the analyst's conclusion; and

(f) controls to ensure that transaction monitoring systems and associated processes are subject to periodic reviews and timely updates.

Transaction Monitoring System

5. Within 60 days of this Order, the Bank shall submit a written plan acceptable to the Supervisors to ensure an adequate independent validation of the Bank's suspicious activity monitoring system by qualified personnel to ensure that the suspicious activity monitoring system is detecting potentially suspicious activity in accordance with all applicable regulatory guidance.

Transaction Review

6. (a) Within 30 days of this Order, the Bank shall engage an independent third party acceptable to the Supervisors to conduct a review of transaction activity associated with all customer accounts conducted at, by, or through the Bank from January 1, 2016 to June 30, 2016 to determine whether suspicious activity involving high risk customers and transactions at, by, or through the Bank was properly identified and reported in accordance with applicable suspicious activity reporting regulations (the "Transaction Review") and to prepare and present to the board of directors of the Bank a written report detailing the findings (the "Transaction Review Report").

(b) Based on the Supervisors' evaluation of the results of the Transaction Review, the Supervisors may direct the Bank to conduct a review of the types of transactions described in paragraph 6(a) for additional time periods.

7. Within 10 days of the engagement of the independent third party, but prior to the commencement of the Transaction Review, the Bank shall submit to the Supervisors for approval an engagement letter that sets forth:

(a) the scope of the Transaction Review;

- (b) the methodology for conducting the Transaction Review, including any sampling procedures to be followed;
- (c) the expertise and resources to be dedicated to the Transaction Review;
- (d) the anticipated date of completion of the Transaction Review and the Transaction Report; and
- (e) a commitment that all supporting material and drafts associated with the final Transaction Review and Transaction Review Report will be made available to the Supervisors upon request.

8. The Bank shall provide to the Supervisors a copy of the Transaction Review Report and any drafts thereof at the same time the report is provided to the board of directors.

9. Throughout the Transaction Review, the Bank shall ensure that all matters or transactions required to be reported that have not previously been reported are reported in accordance with applicable rules and regulations.

Office of Foreign Assets Control Compliance

10. Within 60 days of this Order, the Bank shall submit a plan to enhance the Bank's compliance with the OFAC Regulations acceptable to the Supervisors, including, but not limited to, enhanced OFAC screening procedures, an improved methodology for assessing OFAC risks, and enhanced policies and procedures to ensure compliance with the OFAC Regulations.

Compliance with the Order

11. Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors of the Bank shall submit to the Supervisors written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof.

Approval and Implementation of Plans and Programs

12. (a) The Bank shall submit written plans and programs that are acceptable to the Supervisors within the time periods set forth in paragraphs 1, 2, 3, 4, 5, and 10 of this Order. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program. An independent third party acceptable to the Supervisors shall be retained in accordance with the Supervisors' requirements by the Bank within the time period set forth in paragraph 6(a) of this Order. The engagement letter shall be submitted to the Supervisors within the time period set forth in paragraph 7 of this Order.

(b) Within 10 days of approval by the Supervisors, the Bank shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans and programs, and thereafter fully comply with them.

(c) During the term of this Order, the approved plans, programs, and engagement letter shall not be amended or rescinded without the prior written approval of the Supervisors.

Communications

13 All communications regarding this Order shall be sent to:

- (a) Mr. John S. Insley, Jr.
Vice President
Banking Supervision Department
Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201-2272

- (b) Ms. Stephany Trotti
Chief Thrift Examiner
Department of Savings and Mortgage Lending
State of Texas
2601 North Lamar Boulevard, Suite 201
Austin, Texas 78705

- (c) Mr. Sid Cauthorn
Chief Executive Officer
The Bank & Trust, S.S.B.
1200 Veterans Boulevard
Del Rio, Texas 78840-3972

Miscellaneous

14. Notwithstanding any provision of this Order, the Supervisors may, in their sole discretion, jointly grant written extensions of time to the Bank to comply with any provision of this Order.

15. The provisions of this Order shall be binding upon the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

16. Each provision of this Order shall remain effective and enforceable until stayed, modified, suspended or terminated in writing by the Supervisors.

17. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors and the Department of Savings and Mortgage Lending, effective this 18th day of August, 2017.

THE BANK & TRUST, S.S.B.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Sid Cauthorn
Sid Cauthorn
Chief Executive Officer

By: /s/ Ann Misback
Ann Misback
Secretary of the Board

DEPARTMENT OF SAVINGS
AND MORTGAGE LENDING

By: /s/ Caroline C. Jones
Caroline C. Jones
Commissioner