

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

BANKING COMMISSIONER  
OF THE  
TEXAS DEPARTMENT OF BANKING  
AUSTIN, TEXAS

In the Matter of

COMMERCIAL STATE BANK  
Andrews, Texas

Docket No. 18-037-B-SM

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

WHEREAS, Commercial State Bank, Andrews, Texas (the “Bank”) is a Texas state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Banking Commissioner of the Texas Department of Banking (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 December 13, 2018, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing John E. Grist 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 35.002, 35.004, and 35.209.

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 section 35.002(b-1), 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 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;
- (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; and
- (d) adequate resources for the BSA/AML compliance officer, including sufficient staffing levels, and periodic re-evaluation of resources and staffing needs.

## **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 BSA/AML 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;
- (b) a system of internal controls reasonably designed to ensure ongoing compliance with the BSA/AML Requirements;

(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; and

(d) 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 processes to ensure that the Bank collects, analyzes, and retains complete, accurate, and current customer information for all account holders, including, but not limited to, 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) policies, procedures, and processes to ensure the Bank conducts the appropriate level of due diligence necessary for those customers that pose a higher-risk for money laundering; and

(e) procedures for performing ongoing monitoring of customer relationships in order to maintain and update customer information.

### **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, procedures, and processes that provide for periodic review of the monitoring rules;

(c) effective monitoring of customer accounts and transactions;

(d) policies, procedures, and processes with respect to the review and analysis of suspicious activity, including the escalation and resolution of concerns, and 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

(e) policies, procedures, and processes to ensure that transaction monitoring systems are subject to periodic reviews and timely updates.

## **Transaction Monitoring System**

5. Within 60 days of this Order, the Bank shall engage an independent third party acceptable to the Supervisors to: (i) validate the effectiveness of the Bank's transaction monitoring system ("Transaction Monitoring System Validation") and (ii) prepare a written report of findings, conclusions, and recommendations (the "Transaction Monitoring System Report").

6. Within 10 days of the engagement of the independent third party, but prior to the commencement of the Transaction Monitoring System Validation, the Bank shall submit to the Supervisors for approval an engagement letter that provides, at a minimum, for the independent third party to:

- (a) evaluate the appropriateness of filtering criteria and thresholds used in the Bank's transaction monitoring system;
- (b) test the Bank's transaction monitoring system to ensure that intended information is accurately captured;
- (c) complete the Transaction Monitoring System Validation within 60 days of the Supervisors' approval of the engagement letter;
- (d) provide to the Supervisors a copy of the Transaction Monitoring System Report at the same time the report is provided to the Bank; and
- (e) commit that any and all interim reports, drafts, workpapers, or other supporting materials associated with the Transaction Monitoring System Validation will be made available to the Supervisors upon request.

7. Within 30 days of the completion of the Transaction Monitoring System Report, the Bank shall submit to the Supervisors an acceptable written plan to address findings and correct deficiencies cited in the report.

### **Independent Testing**

8. Within 60 days of this Order, the Bank shall submit to the Supervisors an acceptable written plan for independent testing of the Bank's compliance with all applicable BSA/AML requirements. At a minimum, the plan shall include:

(a) procedures to evaluate the adequacy and effectiveness of the Bank's compliance with the BSA, the rules and regulations issued thereunder, and all other applicable AML requirements, including monitoring of customer activity to ensure reporting of suspicious activity;

(b) provisions for independent testing to be performed on a periodic basis by qualified parties who are independent of the Bank's business lines and compliance function;

(c) procedures for the review of independent testing results by senior Bank management and escalation to the board of directors of the Bank in appropriate circumstances;

(d) procedures to ensure that senior Bank management institute and complete appropriate actions in response to the independent testing results; and

(e) procedures to ensure that independent testing results are communicated to the Supervisors on a regular basis and retained for subsequent supervisory review.

### **Compliance with the Order**

9. 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**

10. (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, 7 and 8 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 5 of the Order. The engagement letter shall be submitted to the Supervisors within the time period set forth in paragraph 6 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 and programs shall not be amended or rescinded without the prior written approval of the Supervisors.

### **Communications**

11. 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) Charles G. Cooper  
Banking Commissioner  
Texas Department of Banking  
2601 North Lamar Boulevard, Suite 201  
Austin, Texas 78705
  
- (c) John E. Grist  
Chairman, President, and Chief Executive Officer  
Commercial State Bank  
200 South Main Street  
Andrews, TX 79714

**Miscellaneous**

12. 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.

13. 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.

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

15. 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 Banking of the State of Texas,  
effective this 26<sup>th</sup> day of December, 2018.

COMMERCIAL STATE BANK

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By: /s/ John E. Grist  
John E. Grist  
Chairman, President, and  
Chief Executive Officer

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

BANKING COMMISSIONER OF THE  
TEXAS DEPARTMENT OF BANKING

By: /s/ Charles G. Cooper  
Charles G. Cooper