

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

COMMONWEALTH OF KENTUCKY

DEPARTMENT OF FINANCIAL INSTITUTIONS

FRANKFORT, KENTUCKY

In the Matter of)	
)	
FIRST & PEOPLES BANK AND TRUST)	CONSENT ORDER
COMPANY)	
RUSSELL, KENTUCKY)	FDIC-23-0090b
)	KDFI 2023-AH-0025
)	
(KENTUCKY CHARTERED)	
INSURED NONMEMBER BANK))	

First & Peoples Bank and Trust Company, Russell, Kentucky, (“Bank”), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law or regulation alleged to have been committed by the Bank, including those related to the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330, and its implementing regulations including 12 C.F.R. Part 326, Subpart B, and 31 C.F.R. Chapter X (hereinafter collectively, the “Bank Secrecy Act” or “BSA”), and of its right to a hearing on the charges under 12 U.S.C. § 1818(b), and under Ky. Rev. Stat. Ann. Section 286.3-690, regarding hearings before the Department of Financial Institutions for the Commonwealth of Kentucky (“KDFI”), and having waived those rights, entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”) with representatives of the Federal Deposit Insurance Corporation (“FDIC”) and the KDFI, dated December 12, 2023, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound

banking practices and violations of law, rule, or regulation, the Bank consented to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC and the KDFI.

The FDIC and the KDFI have determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and § 286.3-690 of the Kentucky Revised Statutes have been satisfied, the FDIC and the KDFI HEREBY ORDER that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, take affirmative action as follows:

THIRD-PARTY LOAN PROGRAM

1. (a) Within 60 calendar days from the effective date of this ORDER, the Bank shall develop and implement a written plan to recover losses resulting from the Bank’s relationship with the third-party loan program referenced in the Report of Examination dated April 17, 2023 (“ROE”) and reduce the Bank’s risk position in the third-party loan program referenced in the ROE. The written plan shall be submitted to the Regional Director and the Commissioner. The plan should include the following:
 - (i) Any legal strategies the Bank plans to pursue;
 - (ii) Any collection strategies the Bank may pursue;
 - (iii) Procedures to measure and monitor credit concentrations, including review of the portfolio composition by relevant risk characteristics and the aggregate exposure relative to Bank capital;
 - (iv) Procedures to monitor loan-level delinquency information and report delinquency metrics for each loan pool to the Bank’s Board of Directors (“Board”) monthly;
 - (v) Procedures to ensure loans are internally graded and charged-off in

a timeframe that aligns with the Uniform Retail Credit Classification Guidelines; and adequate controls and accounting practices. The plan should provide that these controls and accounting practices are periodically reviewed by the Bank's internal audit function.

(b) The Board shall increase its participation in the Bank's affairs to include monthly review of management's legal and collection efforts relating to the third-party loan programs referenced in the ROE. The monthly Board reviews shall include: credit concentrations, credit risk and performance metrics, liquidity monitoring reports, and management's efforts to correct the deficiencies identified in the ROE.

(c) Management shall submit written status reports regarding the third-party loan program referenced in the ROE to the Board monthly and document the Board's review and relevant discussion in meeting minutes.

(d) During the life of this ORDER, the Bank is prohibited from granting any additional extensions of credit through, or advances of interest accrued but not paid to, adversely classified or criticized loans related to third-party loan program referenced in the ROE.

(e) The Bank shall contact loan servicers for the third-party loan programs referenced in the ROE and directly obtain servicer reports with loan level information, including delinquency and other relevant risk metrics, on all the loan pools of the third-party loan programs referenced in the ROE. Until these reports are obtained directly from loan servicers, management must develop procedures to review for discrepancies in the reports obtained from the third-party loan programs.

(f) The Bank, consistent with the financial statement requirements outlined in the Bank's Loan Policy, shall maintain complete loan documentation and current financial information sufficient to support the outstanding indebtedness of each borrower in the

third-party loan program and the purchased loan participations referenced in the ROE.

The Bank shall correct all loan documentation exceptions listed in the ROE unless waived by the Regional Director and the Commissioner on the Bank's showing that reasonable efforts to obtain documents from third parties were unsuccessful.

CAPITAL

2. (a) As of the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("leverage ratio") at a minimum of ten (10%) percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total capital ratio") at a minimum of twelve (12%) percent should the Bank fall below the Community Bank Leverage Ratio minimum thereby requiring the calculation and reporting of the total capital ratio. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 324 of the FDIC Rules and Regulations ("Part 324"), 12 C.F.R. Part 324.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal and, if applicable, state securities laws. Prior to the implementation of the plan and, in any event, not less than 20 calendar days prior to the dissemination of such materials, the materials used in the sale of the securities shall be

submitted to the FDIC Registration and Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429 and to the KDFI, 500 Mero Street, Frankfort, Kentucky 40601 for review. Any changes requested to be made in the materials by the FDIC or the KDFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes that are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

(d) Should the Bank be unable to reach the required capital levels within the time frames specified in subparagraph (a) above, or be unable to maintain those levels, then within 60 calendar days, the Bank shall develop, adopt, and implement a written plan to immediately obtain a sufficient capital investment into the Bank to fully meet the capital requirements of this paragraph. A copy of the plan required by this paragraph shall be submitted to, and determined to be acceptable by, the Regional Director and the Commissioner.

DIVIDEND RESTRICTION

3. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Commissioner.

MANAGEMENT

4. (a) During the life of this ORDER, the Bank shall have and retain qualified

management. At a minimum, such management will supervise the Bank and fully address all deficiencies noted in the ROE. The Board shall ensure that Bank management is provided all necessary written authority and resources to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to:

- (i) Comply with the requirements of this ORDER;
- (ii) Operate the Bank in a safe and sound manner;
- (iii) Comply with applicable laws, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity and sensitivity to market risk.

(b) During the life of this ORDER, prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall request and obtain the FDIC's and the KDFI's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and 12 C.F.R. § 303.101(b).

ASSET/LIABILITY MANAGEMENT

5. (a) Within 60 calendar days from the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner, for review and comment, a written plan addressing liquidity and asset/liability management, including implementing corrective action relating to weaknesses in funds management and interest rate risk management practices identified in the ROE. During the life of this ORDER, the Bank shall annually review this plan for adequacy and, based upon such review, shall make appropriate revisions to the plan that are necessary to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. A copy of

the plan and each revision thereto shall also be submitted to the Regional Director and the Commissioner upon completion. The initial plan shall include, at a minimum, provisions:

- (i) Establishing a desirable range for the net non-core funding dependence ratio as computed in the Uniform Bank Performance Report;
- (ii) Identifying the source and use of borrowed and/or volatile funds;
- (iii) Establishing appropriate lines of credit at correspondent banks, including the Federal Reserve Bank of Cleveland, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (iv) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;
- (v) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (vi) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (vii) Addressing the proper use of borrowings (*i.e.*, seasonal credit needs, match funding mortgage loans, etc.) and providing for appropriate tenor commensurate with the use of the borrowed funds, addressing concentration of funding sources, pricing and collateral requirements with specific allowable funding channels identified (*i.e.*, brokered

deposits, internet deposits, Federal funds purchased and other correspondent borrowings);

- (viii) Establishing procedures for managing the Bank's sensitivity to interest rate risk as illustrated in the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996) and the Joint Supervisory Statement on Investment Securities and End-user Derivative Activities (April 23, 1998); and
- (ix) Submitting weekly liquidity reports to the FDIC and KFDI, unless provided in writing by the FDIC and KFDI that such reports are no longer required.

- (b) Within 30 calendar days from the receipt of all such comments from the Regional Director and the Commissioner, and after revising the plan as necessary, the Bank shall adopt the plan, which adoption shall be recorded in the minutes of the Board's meeting the plan was adopted. Thereafter, the Bank shall implement the plan.

ALLOWANCE FOR CREDIT LOSSES

- 6. (a) From the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the Board shall review the adequacy of the Bank's allowance for credit losses ("ACL"), provide for an adequate ACL, and thereafter maintain and accurately report the same. Specifically, management shall review updated credit risk metrics and loss data for the third-party loan programs referenced in the ROE and ensure appropriate provisions to the ACL relative to this information. The minutes of the Board's meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ACL recommended, if any, and the

basis for determining the amount of ACL provided. In making these determinations, the Board shall consider the Federal Financial Institutions Examination Council Instructions for the Reports of Condition and Income and any analysis of the Bank's ACL provided by the FDIC.

(b) ACL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

PROFIT PLAN AND BUDGET

7. (a) Within 60 calendar days from the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner, for review and comment, a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2024. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to improve the Bank's net interest income and overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components. A copy of the plan shall be submitted to the Regional Director and the Commissioner upon its completion.

(b) The written profit plan shall address, at a minimum:

(i) Identification and description of the major strategies for improving earnings performance, specifically interest income and the net interest margin, as well as reducing noninterest expense.

(c) Within 30 calendar days from the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Board shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the

evaluation, and note any actions taken by the Bank in the minutes of the Board's meeting at which such evaluation is undertaken.

(d) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Commissioner for review and comment within 30 calendar days of the end of each year. Within 30 calendar days of receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Board meeting approving such plan. Thereafter, the Bank shall implement and follow the plan.

BANK SECRECY ACT

8. (a) Within 60 calendar days of the effective date of this ORDER, the Board must ensure that the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) Program is reasonably designed to assure and monitor the Bank's compliance with the BSA and provides clear and up-to-date guidance to Bank staff. At a minimum, the Board must ensure that the AML/CFT Program:

- (i) Is commensurate with the Bank's money laundering/terrorist financing (ML/TF) and other illicit financial activity risk profile (ML/TF Risk Profile);
- (ii) Meets all requirements of Part 326.8 of the FDIC Rules and Regulations;
- (iii) Addresses the AML/CFT deficiencies and weaknesses identified in the ROE;
- (iv) Includes the appropriate assessment and oversight, both initial and ongoing, of any entity or party that has entered or will enter into a

business relationship or arrangement with the Bank wherein any AML/CFT regulatory requirement or obligation of the Bank's is outsourced to any third party with satisfactory documentation of such assessment and oversight; and

(v) Satisfies the requirements of this ORDER.

(b) Within 60 calendar days of the effective date of this ORDER, the Board shall ensure the AML/CFT Program incorporates the following:

(i) Appropriate policies and procedures relating to third-party risk management. Policies and procedures must be commensurate with the Bank's ML/TF risk tolerance and the level of risk and complexity of its third-party relationships;

(ii) Sufficient due diligence and ongoing monitoring of third parties who complete AML/CFT responsibilities on behalf of the Bank to ensure the Bank maintains compliance with the AML/CFT laws;

(iii) Procedures to ensure timely corrective action is taken by third parties when deficiencies with AML/CFT responsibilities are identified; and

(iv) Periodic reporting of third party compliance with legal, contractual, and service level responsibilities, and management actions to address deficiencies.

(c) Within 60 calendar days of the effective date of this ORDER, the Board should ensure compliance with Customer Identification Program regulations for third party-originated accounts, including obtaining full name from customers at account opening, and review all existing third party-originated accounts to identify instances where information required under CIP regulations was not obtained at account opening.

(d) Within 60 calendar days of the effective date of this ORDER, the Board shall develop and implement a revised, comprehensive training program for all directors and staff commensurate with Bank's ML/TF Risk Profile and complexity level and any changes thereto. Training should cover products and services offered by the Bank; the characteristics of geographic locations and customers served by the Bank; and how to appropriately manage third-party relationships entered into by the Bank.

LOSS CHARGE-OFF

12. Within 10 calendar days of the receipt of any Reports of Examination or Visitation subsequently issued by the FDIC or KDFI, the Bank shall charge off from its books and record any asset classified as "Loss."

CORRECTION OF VIOLATIONS

13. (a) Within 60 calendar days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulation listed in the ROE, unless specifically excused in writing by the Regional Director and the Commissioner.

(b) Within 60 calendar days from the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws, rules, and regulations.

COMPLIANCE WITH ORDER

14. (a) Within 60 calendar days from the effective date of this ORDER, the Board shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

(b) Following the required date of compliance with subparagraph (a) of this paragraph, the Board shall review the Bank's compliance with this ORDER and record its review in the minutes of each regularly scheduled Board meeting.

PROGRESS REPORTS

15. Within 30 calendar days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Commissioner written progress reports, signed by each member of the Board, detailing the actions taken to secure compliance with this ORDER the results thereof.

NOTIFICATION TO SHAREHOLDER

16. Following the effective date of this ORDER, the Bank shall send to its holding company, as the Bank's sole shareholder, a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice of proxy statement preceding the Bank's next shareholder meeting.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of its issuance by the FDIC and KDFI.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision has been modified, terminated, suspended, or set aside by the FDIC and KDFI.

Pursuant to delegated authority.

Dated: December 28, 2023.

/s/
Gregory Bottone
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

/s/
Marni Rock Gibson
Acting Commissioner
Commonwealth of Kentucky
Department of Financial
Institutions