

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

and

OKLAHOMA STATE BANKING DEPARTMENT  
OKLAHOMA CITY, OKLAHOMA

_____	)	
In the Matter of	)	
	)	CONSENT ORDER
THE STATE EXCHANGE BANK	)	
LAMONT, OKLAHOMA	)	FDIC-24-0035b
	)	OSBD-24-C&D-2
	)	
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for THE STATE EXCHANGE BANK, LAMONT, OKLAHOMA (“Bank”), under 12 U.S.C. § 1813(q).

The Oklahoma State Banking Department (“State”) is the appropriate state banking agency for the Bank, pursuant to Oklahoma law under the Oklahoma Banking Code, Title 6 Okla. Stat. § 101 *et seq.* (the “Code”).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”) with counsel for the FDIC and a representative of the State dated July 1, 2024, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of a CONSENT ORDER (“ORDER”) by the FDIC and the State.

The FDIC and the State considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. Having determined that the requirements for issuance of an order under 12

U.S.C. § 1818(b) and section 204(B) of the Code, Okla. Stat. tit. 6, § 204(B), and the provisions of the Oklahoma Administrative Procedures Act, Title 75 Okla. Stat. § 250 *et seq.*, have been satisfied, the FDIC and the State hereby order that:

**CAPITAL PLAN AND MAINTENANCE**

1. (a) Within ninety (90) days from the effective date of this ORDER and while this ORDER is in effect, the Bank, after establishing an Allowance for Credit Losses (ACL), shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 10 percent of the Bank's Average Total Assets.

(b) If the Bank's Tier 1 Leverage Capital ratio is less than required by the ORDER, as determined at an examination by the FDIC or State, the Bank shall, within thirty (30) days after receipt of a written notice of the capital deficiency from the Regional Director of the FDIC ("Regional Director") or the Commissioner of the Oklahoma State Banking Department ("Commissioner"), present to the Regional Director and the Commissioner a plan to increase the Tier 1 Leverage Capital ratio or to take such other measures to bring the Tier 1 Leverage Capital ratio to the percentage required by this ORDER. After the Regional Director and the Commissioner respond to the plan, the Board shall adopt the plan, including any modifications or amendments requested by the Regional Director and Commissioner.

(c) Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the plan, to increase its Tier 1 Capital by an amount sufficient to bring the ratio to the percent required by this ORDER within sixty (60) days after the Regional Director and the Commissioner respond to the plan. Any increase in Tier 1 Capital necessary to meet the capital ratio required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or

- (2) The direct contribution of cash subsequent to November 13, 2023 by the directors and/or shareholders of the Bank or by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to November 13, 2023 of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.
- (5) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 324 of the FDIC Rules and Regulations, 12 C.F.R. § 324.

#### **DIVIDEND RESTRICTION**

2. 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 Commissioner.

#### **CLASSIFIED ASSETS - CHARGE-OFF AND REDUCTION**

3. Within ninety (90) days from the effective date of this ORDER, the Board shall develop a written plan to reduce the volume of all adversely classified assets (Classified Asset Reduction Plan). The Classified Asset Reduction Plan shall target specific dollar volumes of classified assets to be reduced each quarter and provide a projected total dollar volume of classified assets at each quarter end and as a percentage of Tier 1 Capital + ACL. The Classified Asset Reduction Plan will also include the rationale used in formulating the reduction schedule. A copy of the Classified Asset Reduction Plan shall be forwarded to the Commissioner and Regional Director for approval. The Board shall also update the Classified Asset Reduction Plan as needed

to reflect any assets later adversely classified internally or by regulatory authorities.

4. The reduction in the level of classifications provided for herein is not to be construed as a standard for future operations, and the Bank shall eventually reduce all other adversely classified assets. As used in this ORDER, the word “reduce” means:

- (1) Collect;
- (2) Charge-off;
- (3) Sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC or the Commissioner; or
- (4) Increase in the Bank’s Tier 1 Capital.

5. While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future examination conducted by the FDIC or the State.

6. During the term of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged-off or classified “Loss” and remains uncollected.

7. During the term of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose extension of credit is classified “Doubtful” or “Substandard”, unless the Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Board meeting.

8. The requirements of paragraphs 6 and 7 shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of all interest due from the borrower.

### **LIQUIDITY AND FUNDS MANAGEMENT**

9. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall revise its liquidity and funds management policy to strengthen the Bank's funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs ("Liquidity and Funds Management Policy"). The Liquidity and Funds Management Policy shall include, at a minimum, provisions that:

- (1) provide a statement of the Bank's long-term and short-term liquidity needs and plans for ensuring that such needs are met;
- (2) provide for a periodic review of the Bank's deposit structure, including the volume and trend of total deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on large time deposits, public funds, out-of-area deposits, and any other information needed;
- (3) establish a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report and shall address the means by which the Bank will seek to reduce its reliance on non-core funding and high cost rate-sensitive deposits;
- (4) identify the source and use of borrowed and/or volatile funds;

- (5) establish sufficient back-up lines of credit that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (6) require the retention of securities and/or other identified categories of investments that can be liquidated 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;
- (7) establish a minimum liquidity ratio and defining how the ratio is to be calculated; and
- (8) establish contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs.

(b) The Liquidity and Funds Management Policy shall be submitted to the Regional Director and Commissioner for non-objection or comment. Within thirty (30) days from receipt of non-objection or any comments from the Regional Director and the Commissioner, and after incorporation and adoption of all comments, the Board shall approve the Liquidity and Funds Management Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Liquidity and Funds Management Policy.

(c) The Bank shall review annually its Liquidity and Funds Management Policy for adequacy and, based upon such review, shall make necessary revisions to the policy.

## **IMPROVE CREDIT UNDERWRITING AND ADMINISTRATION**

10. Within ninety (90) days from the effective date of this ORDER, the Board shall revise its written loan policy to provide effective guidance and control over the Bank's lending and credit administration functions, which implementation shall include the resolution of those exceptions enumerated in the Report. The written policy shall include specific guidelines for concentrations of credit, placing loans on nonaccrual status, limitations on deferred payment plans. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. The Board shall submit the revised loan policy to the Regional Director and Commissioner for review, comment, and approval. After the Regional Director and Commissioner approve the revised loan policy, the Board shall adopt and implement the revised loan policy as amended or modified.

## **STRATEGIC PLAN**

11. (a) Within sixty (60) days after the effective date of this ORDER, the Bank shall prepare and adopt a comprehensive strategic plan. The strategic plan shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

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

- (1) Strategies for pricing policies and asset/liability management;
- (2) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (3) Goals for reducing problem loans;
- (4) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings.

(c) The Bank shall submit the strategic plan to the Regional Director and the Commissioner for review and comment. After consideration all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and follow the strategic plan.

(d) Within thirty (30) days after the end of each calendar quarter following the effective date of this ORDER, the Board shall evaluate the Bank's performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

#### **BUSINESS LINES**

12. While this ORDER is in effect, the Bank shall not enter into any new line of business or expand a current business line that would result in annual 10 percent growth in total assets or total liabilities without the prior written consent of the Regional Director and the Commissioner.

#### **CORRECTION OF VIOLATIONS**

13. Within ninety (90) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the Report of Examination.

14. Within thirty (30) days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.

#### **IMPROVE CONCENTRATION RISK MANAGEMENT/OVERSIGHT**

15. Within sixty (60) days from the effective date of this ORDER, the Bank must prepare an effective written plan to reduce the risk associated with the concentrations of credit listed in the Report of Examination dated November 13, 2023 (“Report of Examination”), and to

strengthen the Bank's management of concentrations of credit (Concentration Plan). The Concentration Plan must include:

- (a) Policies and procedures to identify, limit, and manage all concentrations of credit, including but not limited to the development of concentration risk limits for individual borrowing relationships; types of loan products; geographic locations; and other common risk characteristics, including loan participations purchased.
- (b) A schedule with specific timeframes for achieving targeted exposure levels; and
- (c) Procedures for monitoring the Bank's compliance with the Concentration Plan.

16. The Concentration Plan shall be submitted to the Regional Director and Commissioner for review and comment.

17. Within thirty (30) days of receipt and after consideration of any comments from the Regional Director and Commissioner, the Board must approve the Concentration Plan and record the approval in its minutes. Thereafter, the Bank must implement and fully comply with the Concentration Plan.

18. The Bank must not make any new credit commitments to (or for the benefit of) any borrower, such borrower's related interests, or their affiliates if the commitment would result in the Bank exceeding any limit in the Concentration Plan.

**ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM**  
**(AML/CFT) PROGRAM**

19. Within ninety (90) days of the effective date of this ORDER, the Bank shall revise, develop, adopt, and implement a written AML/CFT Program that is designed to ensure and maintain the Bank's compliance with the Bank Secrecy Act (BSA). At a minimum, the AML/CFT Program shall (i) be commensurate with the Bank's money laundering ("ML"), terrorist financing ("TF"), and other illicit financial activities risk ("ML/TF risk") that includes risks in the Bank's business activities; (ii) address the deficiencies and weaknesses identified in the ROE; (iii) comply with the requirements of this ORDER; (iv) include procedures for monitoring the performance of and the Bank's adherence to the AML/CFT Program; and (v) include procedures for periodically reviewing and revising the AML/CFT Program. The AML/CFT Program must ensure that clear and comprehensive compliance reports are provided to the Board on a monthly basis. Such AML/CFT Program and its implementation shall be in a manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the AML/CFT Program shall establish the following components or pillars:

- (a) A system of internal controls to assure ongoing compliance with the BSA, including risk-based policies and procedures to detect and report all suspicious activity and fully comply with the requirements of Part 353 of the FDIC Rules and Regulations;
- (b) Independent testing for the AML/CFT program, which shall be conducted on an annual basis;
- (c) A designated individual or individuals responsible for coordinating and monitoring the AML/CFT program; and

- (d) Training for appropriate personnel, including bank specific policies and processes.

20. Within thirty (30) days of the effective date of this ORDER, the Bank shall update its policies and procedures to ensure timely, complete, and accurate reporting for all other BSA reporting requirements, including Currency Transaction Reports (CTRs).

### **INTERNAL CONTROLS**

21. Within thirty (30) days after the effective date of this ORDER, the Board shall revise its internal control program to address the internal control deficiencies detailed on page 7 of the Report of Examination.

### **BOARD SUPERVISION**

22. Within thirty (30) days from the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities.

23. The Board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the board:

- (a) reports of income and expenses;
- (b) new, overdue, renewed, insider, charged-off, delinquent, nonaccrued, and recovered loans; and
- (c) investment activities; operating policies; and individual committee actions.

24. The Board's minutes shall document its reviews and approvals, including the names of any dissenting directors.

## MANAGEMENT

25. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) Comply with the requirements of the ORDER;
- (2) Operate the Bank in a safe and sound manner;
- (3) Comply with applicable laws and regulations; and
- (4) Restore all aspects of the Bank to a safe and sound condition, including improve the Bank's asset quality, capital adequacy, earnings, management effectiveness, liquidity, and its sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner in writing of any changes in management. The notification must include the name(s) and background(s) of any replacement personnel and must be provided 30 days prior to the individual(s) assuming the new position(s).

## STAFFING AND RESOURCES

26. (a) Within ninety (90) days from the effective date of this ORDER, the Board, or a committee appointed by the Board, shall analyze and assess the Bank's management, staffing performance, and needs to ensure that adequate personnel and resources are in place relative to the Bank's activities.

(b) The analysis and assessment shall be summarized in a written report ("Staffing Report"). At a minimum, the Staffing Report shall:

- (1) identify the type and number of officer positions needed to manage and supervise the affairs of the Bank, detail any vacancies or additional needs and giving appropriate consideration to the size and complexity of the Bank, and address all workload and staffing imbalances identified in the Report of Examination;
- (2) identify the type and number of staff positions needed to carry out the Bank's strategic plan, detailing any vacancies or additional needs;
- (3) present a clear and concise description of the relevant knowledge, skills, abilities, and experience necessary for each position, including delegations of authority and performance objectives;
- (4) identify training and development needs;
- (5) identify and establish Bank committees needed to provide guidance and oversight to management; and
- (6) evaluate the current and past performance of all existing Bank officers, including executive officers and staff members, indicating whether the individuals are competent and qualified to perform present and anticipated duties, adhere to the Bank's established policies and practices, and operate the Bank in a safe and sound manner.

#### **COMPLIANCE COMMITTEE**

27. Within thirty (30) days from the effective date of this ORDER, the Board shall establish a subcommittee of the board of directors charged with the responsibility of ensuring that

the Bank complies with the provisions of this ORDER. The subcommittee shall report monthly to the entire board of directors of the Bank, and a copy of the report and any discussion related to the report or the ORDER shall be included in the minutes of the Board meeting. Nothing contained herein shall diminish the responsibility of the entire board of directors of the Bank to ensure compliance with the provisions of this ORDER.

### **THIRD-PARTY RISK MANAGEMENT**

28. Within ninety (90) days from the effective date of this ORDER, the Bank shall:
- (a) Develop appropriate policies and procedures relating to third-party risk management. Policies and procedures must be commensurate with the Bank's risk tolerance and the level of risk and complexity of its third-party relationships.
  - (b) Provide for sufficient due diligence and ongoing monitoring of third-parties who complete AML/CFT responsibilities on behalf of the Bank. Ongoing monitoring should be performed to ensure the Bank maintains compliance with the AML/CFT laws.
  - (c) Ensure timely corrective action is taken by third-parties when deficiencies with AML/CFT responsibilities are identified.

### **PROGRESS REPORTS**

29. Within thirty (30) days after 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 the ORDER and the results thereof. Such reports may be discontinued when the

corrections required by this ORDER have been accomplished and the Regional Director and the Commissioner have released, in writing, the Bank from making further reports.

**DISCLOSURE TO SHAREHOLDERS**

30. Within thirty (30) days from the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its parent holding company. The description shall fully describe this ORDER in all material respects.

**BINDING EFFECT**

31. The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, State, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank’s current or former institution-affiliated parties, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This ORDER shall be effective on the date of issuance.

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 Regional Director and Commissioner.

Issued Pursuant to Delegated Authority.

Dated this 8th day of July, 2024.

/s/  
\_\_\_\_\_  
J. Mark Love  
Deputy Regional Director  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation

/s/  
\_\_\_\_\_  
Mick Thompson  
Commissioner  
Oklahoma State Banking Department