

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.
and
MISSISSIPPI DEPARTMENT OF BANKING AND CONSUMER FINANCE
JACKSON, MISSISSIPPI

In the Matter of	)	
	)	
	)	
	)	
COVINGTON COUNTY BANK	)	ORDER TO CEASE AND DESIST
COLLINS, MISSISSIPPI	)	
	)	
	)	FDIC-07-079b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	

Covington County Bank, Collins, Mississippi ("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 laws or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and Title 81, Chapter 1 of the Mississippi Code, Miss. Code Ann. § 81-1-125, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and a representative of the Mississippi Department of Banking and Consumer Finance ("State") dated May 16, 2007, 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 laws or regulations, the Bank

consented to the issuance of an ORDER TO CEASE AND DESIST ("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 committed violations of laws or regulations. The FDIC and the State, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS ORDERED, that the Bank, institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), of the Bank and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of laws and/or regulations:

(a) Operating in violation of the Currency and Foreign Transactions Reporting Act (31 U.S.C. § 5311 *et seq.*) (the Bank Secrecy Act) ("BSA"), the rules and regulations implementing the BSA issued by the U.S. Department of the Treasury (31 C.F.R. Part 103) ("Financial Recordkeeping"), the FDIC's BSA Programs and Procedures Regulations, 12 C.F.R. Part 326 ("BSA Programs and Procedures"), and 12 C.F.R. Part 353 ("Suspicious Activity Reports"); and

(b) Operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank to prevent unsafe or unsound banking practices and violations of laws or regulations.

IT IS FURTHER ORDERED that the Bank, its institution-affiliated parties, and its successors and assigns take affirmative action as follows:

1. (a) During the life of this ORDER, the Bank shall have and retain a BSA Officer who is qualified and responsible for the implementation, coordination and monitoring of the Bank's day to day compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures. This individual shall have the authority to recommend and enforce policies to ensure compliance with the BSA, Financial Recordkeeping, BSA Programs and Procedures, and filing of Suspicious Activity Reports.

(b) During the life of this ORDER, the Bank shall notify the Regional Director of the FDIC ("Regional Director") and the Commissioner of the Mississippi Department of Banking and Consumer Finance ("Commissioner") in writing of any changes in the Bank's BSA Officer.

2. Within 60 days from the effective date of this ORDER, the Bank shall complete a review of senior Bank staff ("Senior Bank Staff") with responsibilities related to ensuring the Bank's compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures. Senior Bank Staff shall include, but is not limited to, the president, senior loan officers, compliance officers, BSA officers, assistant BSA officers, and all teller supervisors. The review shall be conducted by a qualified independent consultant with the requisite ability to perform such an analysis. The primary purpose of the review shall be to assist the Bank in achieving and maintaining a management and reporting

structure for BSA compliance that is appropriate for the Bank's size and BSA risk profile and that is adequately staffed by qualified and trained personnel. A copy of the review shall be submitted to the Regional Director and the Commissioner for review and comment.

3. Within 30 days from the date of this ORDER, the bank shall establish procedures to review the deposit customer base to identify customers who are Money Service Businesses (MSBs), and to ensure that the required information is gathered on MSB customers. Said procedures shall also be adequate to identify potential MSBs during the bank's daily monitoring procedures.

4. Within 90 days from the effective date of this ORDER, the Bank shall employ a qualified independent consultant to conduct a customer risk assessment ("Assessment"). A copy of the Assessment shall be submitted to the Regional Director and the Commissioner for review and comment. At a minimum, the Assessment should address and review the following:

(a) An analysis of the Bank's risk assessment for customers classified by the Bank as MSBs, including consideration of the guidance provided in the April 26, 2005 *Interagency Interpretive Guidance on Providing Banking Services to Money Services Business Operating in the United States* issued by the Financial Crimes Enforcement Network ("FinCEN") and all Federal Banking Agencies; and

(b) The money laundering and terrorist financing risks associated with the Bank's customer base, business lines,

departments, deposit products, safekeeping services, geographic location, and markets served.

5. (a) Within 60 days from the completion of the Assessment, but in no event longer than 150 days from the effective date of this ORDER, the Bank shall adopt a comprehensive, written BSA Program based upon the Assessment described in paragraph 4. The BSA Program shall be submitted to the Regional Director and the Commissioner for review and comment. Any changes requested to be made to the Program by the Regional Director and/or the Commissioner shall be made within 30 days from the receipt of all such comments from the Regional Director and the Commissioner. After receiving the Regional Director's and the Commissioner's comments and revising the Program (if necessary), the Bank shall adopt the Program. Such adoption shall be recorded in the minutes of the Bank's board of directors' meeting. The BSA Program shall be implemented immediately upon adoption by the Bank's board of directors.

(b) The BSA Program shall provide for an effective system of internal controls to ensure compliance with the BSA, Financial Recordkeeping, and BSA Programs and Procedures.

(c) The system of internal controls shall require the Bank to, at a minimum:

(i) Aggregate all cash transactions and identify reportable transactions at a point where all of the information necessary to properly complete the required reporting forms can be obtained.

(ii) Monitor, identify, and report possible money

laundering or unusual and suspicious activity. Procedures should provide that high-risk accounts, services, and transactions are regularly reviewed for suspicious activity.

(iii) Ensure that all required reports, including Suspicious Activity Reports ("SARs"), Currency Transaction Reports ("CTRs"), and Monetary Instrument Logs, are completed accurately and properly filed within required timeframes.

(iv) Ensure that customer exemptions to the CTR filing requirements are properly granted, recorded, and reviewed by the BSA Compliance Officer, including biennial renewals of "Phase II" exemptions. Exempt accounts must be reviewed at least annually to ensure that the exemptions are still valid and to determine if any suspicious or unusual activity is occurring in the account. The results of that review should be documented in the files.

(v) Ensure that all information sharing requests issued under Section 314(a) of the USA PATRIOT Act are checked against all areas in the bank subject to such review, including customer and non-customer transactions, in accordance with FinCEN guidelines and are fully completed within mandated time constraints.

(vi) Ensure that the financial institution's Customer Identification Procedures ("CIP") complies with regulatory requirements, and that there is a system in place to enable the BSA Officer to identify new accounts. Procedures should be risk-based and address required identification information and should set forth the documentary and non-

documentary methods that must be used to verify customer identity.

(vii) Ensure that procedures provide for an adequate Customer Due Diligence Program ("CDD") in relation to the risk levels of customers and account types. The information gathered pursuant to the CDD should assist management in predicting the types, dollar volume, and transaction volume the customer is likely to conduct, thereby providing a means to identify unusual or suspicious transactions for that customer.

(viii) Establish procedures for screening accounts and transactions for Office of Foreign Assets Control (OFAC) compliance that include guidelines for responding to identified matches and reporting those to OFAC.

(ix) Provide for adequate supervision of employees who process currency transactions, complete reports, grant exemptions, open new customer accounts, or engage in any other activity covered by the Financial Recordkeeping and Reporting of Currency and Foreign Transactions regulations at 31 CFR 103.

(x) Establish dual controls and provide for separation of duties. Employees who complete the reporting forms should not be responsible for filing them or for granting customer exemptions.

(d) The Bank shall implement a training program for all operational personnel whose duties may require knowledge of the BSA including, but not be limited to: the BSA officer, any assistant BSA officer, the CTR Coordinator, tellers, new account

personnel, lending personnel, bookkeeping personnel, wire transfer personnel, and information technology personnel. The initial training shall be conducted by an outside consultant and shall be completed within 90 days from the effective date of this ORDER. The Bank shall thereafter conduct additional training on a regular basis, but not less than annually. The scope of the training should include:

- (i) The financial institution's BSA policies and procedures;
- (ii) Identification of the three stages of money laundering (placement, layering, and integration);
- (iii) Identification and examples of suspicious transactions;
- (iv) The purpose and importance of a strong CDD program and CIP requirements;
- (v) Internal procedures for CTR and SAR filings;
- (vi) Procedures for reporting BSA matters, including SAR filings to senior management and the board of directors;
- (vii) Procedures for conveying any new BSA rules, regulations, or internal policy changes to all appropriate personnel in a timely manner;
- (viii) OFAC policies and procedures; and
- (ix) Copies of the training materials must be available in the financial institution for review by examiners.

(e) An overview of the BSA requirements shall be given to all new employees within 30 days of employment. The overview

shall also be given to all Bank executives and the Board that are not otherwise required to participate in the training set out in paragraph (d) above within 90 days of the effective date of this ORDER. Bank executives, including the Board, shall be informed of changes and new developments to the BSA and the bank's responsibility under 31 CFR Part 103, 12 CFR Section 326.8, and 12 CFR Part 353.

(f) Within 180 days of the effective date of this ORDER and, at least annually thereafter, the Bank shall employ an independent consultant to test the BSA Program to ensure proper controls are in place to comply with the BSA, Financial Recordkeeping and BSA Programs and Procedures. Prior to performing the test, the independent consultant shall review any deficiencies, violations or problems cited by either the FDIC or the state related to the Bank's BSA, Financial Recordkeeping, BSA Programs and Procedures, and OFAC compliance. The independent testing program shall provide, at a minimum:

(i) A test of internal procedures for monitoring compliance with the BSA, including interviews of employees who handle cash transactions and their supervisors. The scope should include all business lines, departments, branches, and a sufficient sampling of locations.

(ii) A sampling of large currency transactions, followed by a review of CTR filings.

(iii) A test of the validity and reasonableness of the customer exemptions granted.

(iv) A test of procedures for identifying

suspicious transactions and the filing of SARs. Such procedures should incorporate a review of reports used by management to identify unusual or suspicious activities.

(v) A review of documentation on transactions that management initially identified as unusual or suspicious, but, after research, determined that SAR filings were not warranted.

(vi) A test of procedures and information systems to review compliance with the OFAC regulations. Such a test should include a review of the frequency of receipt of OFAC updates and interviews to determine personnel knowledge of OFAC procedures.

(vii) A test of the adequacy of the CDD program and the CIP. Testing procedures should ensure that established CIP standards are appropriate for the various account types, business lines, and departments. New accounts from various areas should be sampled to ensure that CDD and CIP efforts meet policy requirements.

(viii) A review of management reporting of BSA-related activities and compliance efforts. Such a review should determine that reports provide necessary information for adequate BSA monitoring and that they capture the universe of transactions for that reporting area.

(ix) A test of the financial institution's recordkeeping system for compliance with the BSA.

(x) Document the scope of the testing procedures performed and the findings of the testing.

(xi) Establish an organizational chart listing all employees with BSA/AML, OFAC, and USA PATRIOT Act responsibilities. Develop job descriptions for each individual included in the organizational chart.

(xii) Develop a formalized process to determine suspicious activity and the accurate and timely completion of SARs.

(g) The results of each independent test as well as any apparent exceptions noted during the testing shall be presented to the Bank's board of directors. The board shall record the steps taken to correct any exceptions noted, address any recommendations made during each independent test, and record its actions in the minutes of the Bank's board of directors' meetings.

6. The Bank, within 30 days from the date of this ORDER, shall take all reasonable steps to eliminate all apparent violations of the Bank Secrecy Act and its implementing regulations found at U. S. Department of the Treasury (31 CFR Part 103), and (12 CFR Part 353) identified in the October 30, 2006, Examination of the Bank ("Report of Examination"). The Bank shall take all reasonable steps to prevent future occurrences and ensure compliance with applicable statutes, regulations, rules, bulletins, and policy statements.

7. Within 30 days from the effective date of this ORDER, the Bank's board of directors shall establish a committee of the board of directors with the responsibility to ensure that the Bank complies with the provisions of this ORDER. The committee

shall report monthly to the entire board of directors, and a copy of the monthly report and any discussion relating to the monthly report or this ORDER shall be included in the minutes of the Bank's board of directors' meetings. Nothing contained herein shall diminish the responsibility of the entire board of directors to ensure compliance with the provisions of this ORDER.

8. The Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports shall be received by the Regional Director no later than 30 calendar days from the beginning of each calendar quarter (i.e., January 30, April 30, July 30, and October 30 of each calendar year). Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and Commissioner have released the Bank in writing from making further reports.

9. The provisions of this ORDER shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of the Bank and the Bank's holding company.

10. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER (i) in conjunction with the Bank's next shareholder communication, provided, however, the mailing of a dividend check shall not be considered a communication within the terms of this section, and (ii) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The

description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Accounting & Securities Unit, 550 17th Street, N.W., Room F-6043, Washington, D.C. 20429 for review at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

11. This ORDER shall become effective immediately upon its issuance by the FDIC. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the State.

Pursuant to delegated authority.

Dated this 29 day of May, 2007.

John S. Allison,
Commissioner
Mississippi Department of Banking & Consumer Finance

M. Anthony Lowe
Acting Regional Director
Dallas Region
Division of Supervision and
Consumer Protection
Federal Deposit Insurance
Corporation