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[¶12,340] **In the Matter of Security State Bank, Stockdale, Texas**, Docket No. 04-232b (12-21-04).

A cease and desist order was issued, based on findings by the FDIC that it had reason to believe that respondent was engaged in unsafe and unsound practices. *(This order was terminated by order of the FDIC dated 11-23-05; see ¶16,446.)*

[\[.1\]](#) **Violations of Law—Corrections of Violations Required**

[\[.2\]](#) **Bank Secrecy Act—Compliance Program**

[\[.3\]](#) **Bank Secrecy Act—Staffing Requirements**

[\[.4\]](#) **Cease and Desist Orders—Banking Practices Unsafe and Unsound—Compliance Committee Established by Board**

[\[.5\]](#) **Progress Report—Written Report Required**

[\[.6\]](#) **Shareholders—Disclosure of Cease and Desist Order Required**

**In the Matter of
SECURITY STATE BANK
STOCKDALE, TEXAS
(Insured State Nonmember Bank)
ORDER TO CEASE AND DESIST**

FDIC-04-232b

Security State Bank, Stockdale, Texas ("Bank"), through its board of directors, having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/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) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. §1818(b) 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") dated December 10, 2004, 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 an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC 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. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS ORDERED, that the Bank, its institution-affiliated parties, as that term is defined

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in section 3(u) of the Act, 12 U.S.C. §1813(u), 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 the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe or unsound banking practices and violations of laws or regulations.

(b) Operating the Bank in violation of applicable Federal and State laws and regulations.

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

[.1] 1. (a) Within 90 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the FDIC Report of Examination dated August 2, 2004.

(b) Within 90 days after the effective date of this ORDER, the Bank shall implement procedures designed to ensure future compliance with all applicable laws and regulations.

[.2] 2. (a) Within 60 days after the effective date of this ORDER, the Bank shall complete an internal assessment of the Bank's Bank Secrecy Act ("BSA") Compliance Program and evaluate procedures for identifying new customers as required by 31 C.F.R. §103.121. For purposes of this ORDER, the terms "Bank Secrecy Act" and "BSA" shall be defined as the statute set forth in 31 U.S.C. §5311, et seq., and its implementing regulations set forth at 31 C.F.R. §103, et seq., and 12 C.F.R. §326.8.

(b) The Bank's BSA Compliance Program shall be revised to reasonably assure ongoing compliance with 31 C.F.R. Part 103 (Financial Recordkeeping and Customer Identification Program), 12 C.F.R. §326.8 (Bank Secrecy Act Compliance), and 12 C.F.R. Part 353 (Suspicious Activity Reports).

(c) The Bank's revised BSA Compliance Program, at a minimum, shall provide for an effective system of internal controls to ensure ongoing compliance with the BSA. The system of internal controls should include, at a minimum, steps designed to:

- i. Identify reportable transactions at the point where all of the information necessary to properly complete the required reporting forms can be obtained;
- ii. Ensure that all required reports are completed accurately, properly, and timely filed;
- iii. Ensure that customer exemptions are properly granted and documented; and
- iv. Provide for separation of duties to ensure Bank personnel completing required reports are not responsible for filing them.

(d) The Bank's revised BSA Compliance Program shall also require that all account officers periodically review, not less than once each calendar year, all account documentation for all high risk accounts managed by or originated through the account officer and all other related accounts of those customers at the Bank to determine whether the account activity is consistent with the customer's business and the stated purpose of the account. This paragraph shall apply only to accounts, as determined by the Bank, posing a greater than normal risk for compliance with the BSA.

(e) The board of directors shall appoint and retain a senior Bank official who is qualified to coordinate and monitor the Bank's compliance with the BSA. This individual should have the authority to make and enforce policies to ensure compliance with the BSA.

(f) The Bank shall implement a training program covering 31 C.F.R. §103, for all appropriate Bank personnel. This training shall be completed within 90 days from the

effective date of this ORDER. Employees receiving the training shall include, but not be limited to: all new employees, tellers, new accounts personnel, lending personnel, bookkeeping personnel, and wire transfer personnel. This training should ensure that all appropriate Bank personnel have information and knowledge of, and can comply with, the requirements of the BSA. The Bank's training program should also ensure that senior Bank management and the board of directors are fully informed of any changes to or developments in the BSA and the Bank's responsibility for full compliance with the BSA.

(g) The Bank shall independently test its revised BSA Compliance Program to ensure proper controls are in place to comply with the requirements of 31 C.F.R. Part 103, 12
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C.F.R. §326.8, and 12 C.F.R. Part 353. The independent test should be completed on an annual basis by a qualified person or entity independent of the Bank's BSA Compliance Program and as required by the procedures described in the FDIC's Financial Institution Letter, FIL-79-2003, "New Examination Procedures for Assessing Anti-Money Laundering Programs and Bank Secrecy Act Compliance." The independent testing program should, at a minimum, address and review the following Bank functions and operations:

- i. BSA reporting requirements, such as Currency Transaction Reports (CTRs) and Suspicious Activity Reports (SARs).
- ii. Compliance with exemption rules and requirements.
- iii. Customer identification program.
- iv. Identifying and reporting suspicious activities.
- v. BSA recordkeeping requirements for deposits, loans, funds transfers, and sales of monetary instruments.
- vi. Funds transfer operations.
- vii. On-going training of appropriate personnel.
- viii. Office of Foreign Asset Control (OFAC) compliance.
- ix. High risk activities/customers/areas.
- x. Retention of required records.
- xi. Customer due diligence.
- xii. Compliance with information sharing requirements (Title III, §314 USA Patriot Act).
- xiii. Documentation of the scope of the testing procedures performed and the findings of the testing. Written reports should be prepared documenting the results and providing recommendations for improvement. The report should be presented to the board of directors, and the board shall record the steps taken to correct any exceptions noted and/or address any recommendations made during the independent test in the minutes of the board of directors' meeting.

[.3] 3. Within 90 days from the effective date of this ORDER, the Bank shall complete an independent review of the Bank staff responsible for ensuring the Bank's compliance with the BSA. The review shall be conducted by a qualified party with the requisite ability to perform such an analysis.

[.4] Within 30 days from the effective date of this ORDER, the board of directors shall establish a committee to monitor the Bank's compliance with this ORDER. At a

minimum, the committee shall meet and report to the board monthly with its findings recorded in the official minutes of the board of directors' 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.

[.5] 5. The board shall provide written reports to the Regional Director of the FDIC's Dallas Region ("Regional Director") and the Commissioner for the Texas Department of Banking outlining its progress toward complying with the terms of this ORDER. The board will provide these reports within 30 days after the end of each calendar quarter. This requirement for progress reports shall continue during the life of this ORDER unless modified or terminated in writing by the Regional Director.

[.6] 6. 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, and also (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.

The effective date of this ORDER shall be ten (10) calendar days after its issuance. This ORDER shall be binding upon the Bank, its successors and assigns, and all institution-affiliated parties of the Bank. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, superceded, or set aside by the FDIC.

Pursuant to delegated authority.

Dated this 21st day of December, 2004.

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