

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

ILLINOIS DEPARTMENT OF FINANCIAL AND PROFESSIONAL REGULATION
DIVISION OF BANKING

SPRINGFIELD, ILLINOIS

_____	)	
In the Matter of	)	
	)	
SAUK VALLEY BANK & TRUST	)	CONSENT ORDER
STERLING, ILLINOIS,	)	
	)	FDIC-16-0090b
	)	2016-DB-08
(Insured State Nonmember Bank)	)	
_____	)	

Sauk Valley Bank & Trust, Sterling, Illinois ("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, rule, 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 section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and under 38 Ill. Adm. Code Part 392, regarding hearings before the Illinois Department of Financial

and Professional Regulation, Division of Banking, ("Division"), 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 Division, dated July 14, 2016, 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 relating to the Bank Secrecy Act, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the Division.

The FDIC and the Division considered the matter and determined to accept the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Section 48(6), 205 ILCS 5/48(6), have been satisfied, the FDIC and the Division 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:

MANAGEMENT

1. As of the effective date of this ORDER, the Bank shall have and retain management qualified to oversee all aspects of the Bank's BSA Compliance Program and to assure compliance with all applicable laws and regulations related thereto. Each

member of management with responsibilities relating to section 326.8 of the FDIC Rules and Regulations ("FDIC Rules"), 12 C.F.R. § 326.8, or the Treasury Department's Financial Recordkeeping Regulations, 31 C.F.R. Chapter X, shall have the qualifications and experience commensurate with his or her duties and responsibilities under those regulations.

2. Within forty-five (45) days from the effective date of this ORDER, the Bank shall analyze and assess the Bank's staffing needs in order to provide for an adequate number of qualified staff for the Bank's BSA department, including provision for succession of BSA responsibilities. The BSA department staff shall be evaluated to determine whether these individuals possess the ability, experience, training and other necessary qualifications required to perform present and anticipated duties, including adherence to the Bank's BSA Compliance Program, the requirements of the BSA regulations, and the provisions of this ORDER.

WRITTEN BSA COMPLIANCE PROGRAM

3. Within ninety (90) days of the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised written BSA compliance program, which fully meets all applicable requirements of section 326.8 of the FDIC Rules, 12 C.F.R. § 326.8, as well as the applicable provisions of Chapter X of FinCEN's regulations, 31 C.F.R. Chapter X, and is designed to,

among other things, assure and maintain full compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto.

- a. The Bank shall provide the Regional Director of the FDIC's Chicago Regional Office ("Regional Director") and the Division with a copy of the revised written BSA compliance program for review. Thereafter, the revised program and its implementation shall be conducted in a manner acceptable to the Division and the Regional Director, as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:

- i. Require the Bank to develop, adopt and implement a revised, effective written policy designed to assure full compliance with all provisions of the BSA. Specifically, the policy should provide for written, detailed guidelines regarding the administration of high risk customer relationships, including the solicitation, opening, and ongoing monitoring of all such accounts for suspicious activity and the filing of all required reports resulting there from.
- ii. Require the Bank to develop a system of internal controls to assure full compliance with the BSA

and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to assure the identification and proper reporting of all known or suspicious criminal activity, money laundering activity, or violations of the BSA.

- iii. Require improved exception tracking which includes completion dates and delineates specific actions taken to resolve deficiencies identified in audit and examination findings. Written findings of exception tracking reports shall be presented to the Board and noted in the minutes of the Board's meeting at which received.
- iv. Provide for accurate and comprehensive risk assessments for BSA and Office of Foreign Assets Control ("OFAC") compliance procedures which fully take into account the nature of the Bank's operations including, but not limited to, suspicious activity reports filed and the geographic location of Loan Production Offices ("LPO").

BSA OVERSIGHT

4. Within one hundred twenty (120) days from the date of this ORDER, the Bank shall ensure that the Bank's BSA officer ("BSA Officer") attends, or shall document that the BSA Officer has previously obtained, specialized training as appropriate to obtain adequate BSA knowledge and keep up to date on emerging risks. At a minimum, training should cover Suspicious Activity Report ("SAR") filing and suspicious activity monitoring.

ACCOUNT MONITORING

5. Within ninety (90) days from the effective date of this ORDER, the Bank shall ensure that the BSA Officer obtains, or shall document that the BSA Officer has previously obtained, specialized training specific to the Bank's automated account transaction monitoring system.

6. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall develop, adopt, and implement detailed written procedures and controls, which are focused on the Bank's automated account transaction monitoring system. Such detailed written procedures and controls shall include, at a minimum:

- a. Procedures to validate that all applications from the Bank's core processing software are appropriately interfaced into the automated account transaction monitoring system;

- b. Procedures to ensure timely reviews of system generated alerts/cases for potentially suspicious activity;
- c. Procedures, controls, and delegations of authority for determining when alerts/cases should be closed or further evaluated;
- d. Procedures detailing the minimum level of documentation supporting the basis for decisions to close alerts/cases with no further investigation; and
- e. Procedures and controls for establishing or making changes to the various settings and parameters used by the system to generate transaction alerts/cases.

7. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a revised written program for monitoring and reporting suspicious activity, which fully meets all applicable requirements of section 353 of the FDIC Rules, 12 C.F.R. § 353, and is designed to, among other things, assure and maintain full compliance by the Bank with the BSA regarding monitoring and reporting suspicious activity.

- a. The written procedures shall address, at a minimum, the following: reports, logs, and other

records used to monitor suspicious account activity, such as automated reports (cash aggregation, large fluctuations of account balances, insufficient and overdrawn accounts, kiting suspect), funds transfers (domestic and international), monetary instrument sales, subpoenas, FinCEN 314(a) requests, and all SARs and CTRs that have been filed.

- b. The revised procedures shall require that responsible BSA personnel review all current and expanded reports on an established, fixed time frame. Secondary reviews should be conducted and determinations made within a fixed, reasonable time period, and the dates on which the review and determination were made shall be documented, including decisions not to file a SAR. All SARs shall be filed within thirty (30) days of the determination being made and shall be completed with sufficient detail in the narrative and completion of all required line items.

8. Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall develop, adopt, and implement customer due diligence ("CDD") procedures necessary to fully address all BSA deficiencies noted in the Report. A risk

focused assessment of the Bank's customer base and records shall also be conducted to determine the appropriate level of ongoing monitoring required. The CDD procedures shall ensure that personnel can reasonably detect suspicious activity and determine which customers pose a heightened risk of illicit activity, including, but not limited to, high-risk business accounts. The program should provide enhanced due diligence ("EDD") procedures for high risk accounts. At a minimum, the CDD procedures shall require:

- a. Assigning a risk rating of the Bank's customers based on the potential for money laundering risk or other unlawful activity posed by the customer's activities, with consideration given to the purpose of the account, the anticipated type and volume of account activity, types of products and services utilized, and locations and markets served by the customer;
- b. Obtaining, analyzing, documenting, and maintaining sufficient customer information necessary to allow effective suspicious activity monitoring, including, but not limited to documentation of: normal and expected transactions of the customer; nature of business activities; customer's

occupation/employment; ACH activity; and wire transfer activity;

- c. Documenting the analysis conducted under the CDD and EDD processes, including guidance for resolving issues when insufficient or inaccurate information is obtained;
- d. Monitoring procedures required for each customer category under the BSA risk ratings and periodic risk-based monitoring of customer relationships to determine whether the original risk profile remains accurate;
- e. Providing guidelines to reasonably ensure the identification and timely, accurate reporting of known or suspected criminal activity, as required by the suspicious activity reporting provisions of Part 353 of the FDIC Rules, 12 C.F.R. § 353;

LOOK BACK REVIEW

9. Within ninety (90) days of the effective date of this ORDER, the Bank shall develop a written plan detailing how it will conduct, through an independent and qualified auditor, a review of deposit account and transaction activity for the time period beginning June 1, 2014, through the effective date of this ORDER to determine whether suspicious activity involving any accounts of, or transactions through, the Bank were properly

identified and reported in accordance with the applicable suspicious activity reporting requirements ("Look Back Review").

- a. The plan for the Look Back Review, and the subsequent contract or engagement letter entered into with the auditor performing the Review, shall include, at a minimum:
 - i. The scope of the review, which shall specify the types of accounts and transactions to be reviewed and include customers meriting an elevated risk rating.
 - ii. The methodology for conducting the Look Back Review, including any sampling procedures to be followed;
 - iii. The resources and expertise to be dedicated to the Look Back Review;
 - iv. The anticipated date of completion of the Look Back Review;
 - v. A provision for unrestricted examiner access to auditor workpapers; and
 - vi. A provision that the audit firm will present its findings from the Look Back Review directly to the Bank's Board.

- b. The plan for the Look Back Review, and any subsequent modifications thereof, shall be prepared and implemented in a manner acceptable to the Regional Director and Division. For this purpose, the draft plan shall be submitted to the Regional Director and the Division for review and comment prior to implementation. After consideration of all such comments, and after adoption of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board's meeting the plan was approved.
- c. Within ten (10) days of receipt of written notice from the Regional Director and the Division indicating acceptability of the plan, the Bank shall implement the plan and commence the Look Back Review.
- d. During the period in which the Look Back Review is being conducted, the Bank shall, within ten (10) days from the end of each calendar quarter, provide to the Regional Director and the Division a written report detailing the actions taken under the Look Back Review and the results obtained since the prior quarterly report.

- e. Within 30 days of completion of the Look Back Review, the Bank shall provide a list to the Regional Director and the Division, specifying all outstanding matters or transactions identified by the Look Back Review which have yet to be reported, and detailing how and when these matters will be reported in accordance with applicable law and regulation.

10. Within forty-five (45) days of the effective date of this ORDER, the Bank shall develop a written plan detailing how it will conduct a review of Currency Transaction Reports ("CTR") filed for the time period beginning April 1, 2014, through the effective date of this ORDER, to determine which CTR's contained filing errors. FinCEN must be notified of all errors. Subsequently FinCEN will determine which CTR's require re-filing.

APPARENT VIOLATIONS

11. Within sixty (60) days from the date of this ORDER, the Bank shall take all steps necessary to correct the violations of law and regulations scheduled in the Report.

OTHER BSA WEAKNESSES

12. Within ninety (90) days from the effective date of this ORDER, the Bank shall correct all other BSA weaknesses identified in the Report.

NOTIFICATION OF SHAREHOLDER

13. Following the effective date of this ORDER, the Bank shall send to its 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.

PROGRESS REPORTS

14. Within forty-five (45) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Division and Regional Director written progress reports signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof.

CLOSING PARAGRAPHS

The effective date of this ORDER shall be the date of its issuance by the Division and the FDIC. 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 Division and the FDIC. Pursuant to delegated authority.

Dated: July 19, 2016

/s/

M. Anthony Lowe
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

/s/

Kerri A. Doll
Acting Director
Illinois Department of
Financial and Professional
Regulation
Division of Banking