

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF MICHIGAN

DEPARTMENT OF INSURANCE AND FINANCIAL SERVICES

LANSING, MICHIGAN

In the Matter of)	
)	
OXFORD BANK)	CONSENT ORDER
OXFORD, MICHIGAN)	
)	FDIC-17-0245b
(Michigan Chartered)	
Insured Nonmember Bank))	

Oxford Bank, Oxford, Michigan ("**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 related to the Bank Secrecy Act, 31 U.S.C. §§ 5311-5330, and regulations implementing the Bank Secrecy Act, 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 Section 2304 of the Banking Code of 1999, Mich. Comp. Laws § 487.12304, regarding hearings before the Michigan Department of Insurance and Financial Services, ("**DIFS**"), and having waived those rights,

entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("**STIPULATION**") with representatives of the Federal Deposit Insurance Corporation ("**FDIC**") and the DIFS, dated February 28, 2018, 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 or regulation relating to the Bank Secrecy Act, the Bank consented to the issuance of a CONSENT ORDER ("**ORDER**") by the FDIC and the DIFS.

The FDIC and the DIFS considered the matter and determined that they had reason to believe the Bank had engaged in unsafe or unsound banking practices related to the Bank Secrecy Act and therefore accepted the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Section 2304 of the Banking Code of 1999, Mich. Comp. Laws § 487.12304, have been satisfied, the FDIC and the DIFS **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:

QUALIFIED BSA MANAGEMENT

1. (a) While this ORDER remains in effect, the Bank shall have and thereafter 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.

(b) Within sixty (60) days from the effective date of this ORDER, the Bank's Board of Directors ("**Board**") 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.

(c) Each member of management with responsibilities relating to the BSA, section 326.8 of the FDIC Rules and Regulations, 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.

(d) The Board shall ensure that the Bank's BSA officer and all personnel with BSA responsibilities be provided the written authority and the necessary training, time, and resources to fully implement and comply with all requirements of this ORDER.

BSA TRAINING PROGRAM

2. Within sixty (60) days from the effective date of this ORDER, the Board shall ensure that the Bank provides for and documents an improved, comprehensive BSA training program for all appropriate personnel, and fully documents the completion of BSA training for all such personnel. Required training shall be conducted by qualified staff and/or independent contractors shall include training in all aspects of regulatory and internal policies and procedures related to the BSA, and shall provide specific enhanced training with regard Customer Due Diligence and Enhanced Due Diligence.

CORRECTION OF VIOLATIONS

3. (a) Within one hundred twenty (120) days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law or regulation and contraventions of policy related to BSA detailed in the Report of Examination dated September 5, 2017 ("**ROE**").

(b) To the extent the Bank believes a specific cited violation cannot be eliminated or corrected, the Bank shall provide a detailed written statement, acceptable to the FDIC Regional Director and to the DIFS Director of Banking, explaining precisely why it is believed the specific violation cannot be corrected or eliminated.

DUE DILIGENCE PROGRAM

4. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall adopt and implement a written Customer Due Diligence ("**CDD**") Program. The CDD Program and its implementation shall be prepared and implemented in a manner acceptable to the FDIC and to the DIFS as determined at subsequent examinations and/or visitations of the Bank.

(b) At a minimum, the CDD Program shall provide a risk focused assessment of the customer base of the Bank to determine the appropriate level of ongoing monitoring required to assure that the Bank can reasonably detect suspicious activity, and determine which customers require Enhanced Due Diligence ("**EDD**") necessary for those categories of higher risk customers including, but not limited to, high-risk money service business ("**MSB**") and privately-owned automated teller machine ("**ATM**") customers.

(c) At a minimum, the CDD Program shall provide for:

- i. Risk rating of the Bank's customers, specifically including MSBs and privately-owned ATM customers, based on the potential for money laundering risk or other unlawful activity (e.g. terrorist financing) 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;

ii. Obtaining, analyzing, 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;

iii. Guidance for documenting the analysis conducted under the CDD Program, including guidance for resolving issues when insufficient or inaccurate information is obtained;

iv. Monitoring procedures required for each customer category under the BSA risk ratings;

v. 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; and

vi. Periodic, risk-based monitoring of customer relationships to determine whether the original risk profile remains accurate.

ACCOUNT TRANSACTION MONITORING

5. (a) Within sixty (60) days of the effective date of this ORDER, the Bank shall establish an effective system for identifying, monitoring, and determining the appropriateness of accounts with frequent or large cash, check, or wire transfer deposits and withdrawals. Documentation supporting the review of accounts and determinations made shall be retained in the Bank's records.

(b) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop and implement internal control procedures requiring the regular periodic comparison of actual activity in each account identified under paragraph (a) above against expected or anticipated activity. Such internal control procedures shall include procedures for identifying and documenting significant variances between anticipated and actual activity along with procedures for reporting variances to the Board and the filing of Suspicious Activity Reports ("**SAR**") when necessary.

(c) Within sixty (60) 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:

- i. Procedures to validate that all applications from

the Bank's core processing software is appropriately interfaced into the automated account transaction monitoring system;

ii. Procedures to ensure timely reviews of system generated alerts/cases for potentially suspicious activity;

iii. Procedures, controls, and delegations of authority for determining when alerts/cases should be closed or further evaluated;

iv. Procedures detailing the minimum level of documentation supporting the basis for decisions to close alerts/cases with no further investigation; and

v. Procedures and controls for establishing or making changes to the various settings and parameters used by the system to generate transaction alerts/cases.

REMOTE DEPOSIT CAPTURE

6. (a) Within ninety (90) days from the effective date of this ORDER, the Bank shall develop internal controls to consistently follow its Remote Deposit Capture ("RDC") policy, including appropriate analysis of higher risk customers, such as MSBs, which utilize its RDC system to ensure consistent EDD under its CDD Program.

(b) At a minimum, these RDC internal controls should include:

- i. Periodic onsite visits of customers using the RDC equipment;
- ii. Maximum transaction limits for higher-risk RDC customers;
- iii. Restrictions that proscribe customers from depositing post-dated checks through RDC;
- iv. Periodic reviews of the RDC program under the Bank's audit plan that are reported to the Board; and
- v. An improved RDC customer agreement that clearly outlines the roles, responsibilities and liabilities of the parties, including sufficient control requirements to mitigate the increased risk of fraud and exposure to money laundering activities the RDC program presents to the Bank.

(c) Develop and provide periodic summary reports to the Board regarding the RDC activities which includes exceptions for RDC customers with limits that exceed RDC policy guidelines.

LOOK BACK REVIEW

7. (a) Within sixty (60) 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 third party consultant ("**Reviewer**"), a review of deposit account and

transaction activity for MSB and privately-owned ATM accounts for the time period beginning June 30, 2016 through the effective date of this ORDER, to ensure that all suspicious activity involving any accounts of, or transactions through, the Bank were properly identified and reported in accordance with all applicable BSA reporting requirements ("**Look Back Review**").

(b) The plan for the Look Back Review, and the subsequent contract or engagement letter entered into with the Reviewer performing the Look Back Review, shall include, at a minimum:

- i. The scope of the review to be conducted, which shall specify the types of accounts and transactions to be reviewed;
- 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 Reviewer work papers; and
- vi. A provision that the Reviewer will present its findings from the Look Back Review directly to both

the Bank 's Audit Committee and the Board.

(c) The plan for the Look Back Review, and any subsequent modifications thereof, shall be prepared and implemented in a manner acceptable to the FDIC and to the DIFS. For this purpose, the draft plan shall be submitted to the FDIC and to the DIFS for review and comment prior to implementation. After consideration of all such comments, and adoption of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting at which approved.

(d) Within thirty (30) days of receipt of written notice from the FDIC and the DIFS indicating acceptance of the plan, the Bank shall implement the plan and commence the Look Back Review.

(e) Within thirty (30) days of implementing the plan and commencing the Look Back Review and thereafter by the tenth (10th) day of each month while the Look Back Review is being conducted, the Bank shall provide to the FDIC and to the DIFS a written report detailing the actions taken under the Look Back Review and the results obtained since commencing the Look Back Review or since the prior monthly report, whichever is applicable.

(f) Within thirty (30) days of completion of the Look Back Review, the Bank shall provide a copy of the Look Back

Review report to the FDIC and to the DIFS, including a list, specifying all outstanding matters or transactions identified by the Look Back Review that have yet to be appropriately addressed, and detailing how and when these matters will be resolved in accordance with applicable law and regulation.

(g) Within sixty (60) days of the Bank's receipt of the Look Back Review, the Bank shall ensure that all matters or transactions identified as requiring further resolution are in fact resolved in accordance with applicable laws and regulations.

INDEPENDENT REVIEW

8. (a) Within one hundred twenty (120) days of the effective date of this ORDER, the Bank shall ensure that an effective and comprehensive independent test of compliance with the BSA and 31 C.F.R. Chapter X is completed. The independent testing should thereafter be conducted on an annual basis.

(b) The Bank shall provide the FDIC and the DIFS with a copy of the written reports documenting the scope of testing procedures performed, the findings and results made, and any recommendations for improvement based on these findings. At a minimum, the independent testing shall include, and the contract or engagement letter entered into with any third party performing the testing shall provide the following:

- i. Testing of the Bank's internal procedures for monitoring BSA compliance;
- ii. Testing to ensure the Bank has implemented effective CDD and EDD programs;
- iii. Testing to ensure Bank personnel are reviewing and monitoring reports for unusual activities and, if applicable, that appropriate SARs are filed in a timely manner with the appropriate law enforcement agencies; and
- iv. Allowing unrestricted examiner access to consultant and/or auditor work papers for testing conducted by outside third parties.

NOTIFICATION TO SHAREHOLDER

9. Immediately following the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER.

PROGRESS REPORTS

10. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER while it remains in effect, the Bank shall furnish to the FDIC Regional Director and to the DFIS Director of Banking written progress reports approved by the Board, detailing the actions taken to secure compliance with this ORDER and the results thereof. The Board's approval and any discussion thereof shall be noted in the Board's minutes for the meeting at which approval is given.

CLOSING PARAGRAPHS

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

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 the DIFS.

Pursuant to delegated authority.

Dated: March 13th, 2018.

/s/

John P. Conneely
Regional Director
Chicago Regional Office
Federal Deposit Insurance
Corporation

/s/

Karen K. Lawson
Director of Banking
Department of Insurance and
Financial Services
State of Michigan