FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of MAGNOLIA BANK MAGNOLIA, KENTUCKY (Kentucky Chartered Insured Nonmember Bank)	)	CONSENT ORDER FDIC-20-0125b

Magnolia Bank, Magnolia, Kentucky ("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 in the area of consumer protection and compliance, 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 having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated December 1, 2020, 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 weaknesses in the area of consumer protection and compliance, the Bank consented to the issuance of a CONSENT ORDER ("ORDER") by the FDIC.

The FDIC 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) have been satisfied, the FDIC HEREBY ORDERS 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:

BOARD OVERSIGHT

1. (a) From the effective date of this ORDER, the Bank's Board of Directors ("Board") shall increase its participation in the oversight of the Bank's compliance management system ("Compliance Management System") to include full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's compliance-related activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(b) Within thirty (30) days of the effective date of this ORDER, the Board shall have and maintain a compliance committee ("Compliance Committee") comprised of at least: two (2) directors who are not active officers of the Bank, at least one (1) member of senior management; compliance officers, specifically including the Bank Compliance Officer ("Bank Compliance Officer"), and the Mortgage Division Chief Compliance Officer ("Mortgage Compliance Officer"), both required pursuant to this ORDER as described below.

(i) The Compliance Committee shall meet no less frequently than monthly during which, at a minimum, the following areas shall be reviewed and approved: minutes of the Compliance Committee, along with all supporting documents; Mortgage Division Compliance Officer and Bank Compliance Officer written reports; compliance audit reports; Compliance Management System policies and procedures; compliance monitoring results; training records; consumer complaints; and compliance with this ORDER. The Compliance Committee shall summarize discussions and actions taken during each of its meetings in written minutes.

(ii) The Compliance Committee shall present its meeting minutes and report on the status of the Compliance Management System and compliance with this ORDER to the Board at each regularly scheduled Board meeting. The Board shall document the review of the Compliance Committee minutes, any corresponding Board discussions of the matters reviewed, and any actions taken in response, including the names of any dissenting directors.

(iii) The Board, in conjunction with the Compliance Committee, shall allocate additional resources to the compliance area that are:

(A) Commensurate with the level of complexity of the Bank's operations to ensure the adequate modification and implementation of the Compliance Management System, including procedures ensuring the Bank's compliance with all federal consumer protection and compliance laws, rules, and regulations ("Consumer Laws"); and

(B) Sufficient to ensure the Bank's timely compliance with the provisions of this ORDER.

(iv) The Board, in conjunction with the Compliance Committee, shall:

(A) Ensure that the duties and responsibilities of the Bank Compliance Officer and Mortgage Compliance Officer are clearly defined and communicated, providing for accessibility to both the Board and senior management;

(B) Require the Bank Compliance Officer and Mortgage Compliance Officer to provide to the Compliance Committee monthly written reports concerning their respective areas of responsibility for the Compliance Management System set forth in Paragraph 3(a) and compliance with this ORDER;

(C) Require the Mortgage Compliance Officer to review and respond promptly in writing to audit reports relating to the Mortgage Division Compliance Management System, and require the Bank Compliance Officer to review and respond promptly in writing to audit reports relating to all other areas of the Bank's Compliance Management System and review the Mortgage Compliance Officer's written response to audit reports relating to the Mortgage Division;

(D) Ensure that the Bank Compliance Officer and Mortgage Compliance Officer have and retain sufficient authority and independence to adopt, modify, and implement specific guidelines and policies related to Consumer Laws and to institute corrective action as needed. The authority of the Bank Compliance Officer shall include the ability to cross departmental lines, have access to all areas of the Bank's operations, and effectuate corrective action upon discovering deficiencies; and

(E) Ensure the Bank Compliance Officer receives immediate and ongoing training, sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Bank's Compliance Management System and the Mortgage Compliance Officer receives immediate and ongoing training sufficient time, and adequate resources to effectively oversee, coordinate, and implement the Compliance Management System of the Mortgage Division.

(c) The existence of the Compliance Committee in no way diminishes the responsibility of the entire Board for ensuring compliance with the provisions of this ORDER.

(d) The Board shall hold employees accountable for following adopted policies, procedures, and regulatory requirements related to the Bank's Compliance Management System.

MANAGEMENT

2. While this ORDER is in effect, the Bank shall have and retain qualified management. Each member of Management shall have full authority to implement the provisions of this ORDER. The qualifications of management shall be assessed on its ability to comply with the requirements of this ORDER.

COMPLIANCE OFFICER

3. (a) Within thirty (30) days of the effective date of this ORDER, the Board shall have and maintain a qualified, full-time Bank Compliance Officer and a full-time Mortgage Compliance Officer. The Board shall give the Bank Compliance Officer sufficient written authority to adopt, implement, modify, and supervise the Bank's Compliance Management System, including but not limited to, providing training, including appropriate cross-training, to the Board and employees for all Consumer Laws and establishing controls and procedures to

prevent violations of Consumer Laws. The Board shall give the Mortgage Compliance Officer sufficient written authority to adopt, implement, modify and supervise the Compliance Management System applicable to the Mortgage Division, including providing training to Mortgage Division employees for Consumer Laws, and establishing controls and procedures to prevent violations of Consumer Laws relating to Mortgage Division operations. The Bank Compliance Officer shall be different than the person holding the position of Mortgage Compliance Officer. The Bank Compliance Officer and the Mortgage Compliance Officer shall report directly to the Board and shall possess the requisite knowledge, capacity, and experience to administer and oversee an effective Compliance Management System.

(b) The Board shall ensure the Bank Compliance Officer and Mortgage Compliance Officer are sufficiently trained, on an ongoing basis, to perform their duties. All training received by the Compliance Officers shall be documented and maintained for review at subsequent FDIC compliance examinations or visitations.

(c) The assessment of whether the Bank has qualified and sufficiently trained Compliance Officers shall be based upon the Bank's record in complying with: (i) the requirements of this ORDER; and (ii) applicable Consumer Laws.

(d) The Board shall ensure that the Bank Compliance Officer maintains direct and ongoing communication with employees given responsibility for compliance oversight for each division or department at the Bank, including the Mortgage Division. The Board shall ensure that the Mortgage Compliance Officer maintains direct and ongoing communication with the Bank Compliance Officer concerning compliance oversight of the Mortgage Division. The Board shall ensure that the Bank Compliance Officer assesses the execution of responsibilities by compliance oversight personnel to ensure the implementation of an effective Compliance

Management System within their respective division or department, including the Mortgage Compliance Officer. The Bank Compliance Officer shall submit written assessments of these compliance employees to the Compliance Committee and the Board no less than quarterly.

(e) The Bank Compliance Officer and the Mortgage Compliance Officer shall submit written reports to the Compliance Committee and the Board setting out the results and corrective procedures taken to address deficiencies found through implementation of Paragraph 5 of this ORDER.

COMPLIANCE POLICY AND PROCEDURES

4. Within sixty (60) days from the effective date of this ORDER, the Bank shall develop, update, adopt, and implement its compliance policy and procedures ("Compliance Policy and Procedures"). At a minimum, the Compliance Policy and Procedures shall require the maintenance of a comprehensive Compliance Management System, which will be reviewed and approved annually by the Board. The Compliance Policy and Procedures shall include specific policies and procedures governing the Bank's Mortgage Division operations to ensure compliance with Consumer Laws. The Compliance Policy and Procedures shall be acceptable to the Regional Director as determined at subsequent FDIC compliance examinations or visitations.

COMPLIANCE MONITORING

5. Within ninety (90) days from the effective date of this ORDER, the Bank shall ensure that effective compliance monitoring procedures are developed and instituted throughout the Bank. The procedures required by this paragraph shall be acceptable to the Regional Director as determined at subsequent FDIC compliance examinations or visitations.

(a) At a minimum, monitoring procedures should include ongoing reviews of:

(i) banking transactions that constitute the routine daily activities of employees for all applicable departments;

(ii) mortgage transactions, including information relating to the interest rates, origination fees and discount points offered to consumers, and that such information is being maintained in an electronically accessible database;

(iii) disclosures and calculations for various loan and deposit products;

(iv) document filing and retention procedures;

(v) marketing literature and advertising, including marketing conducted through social media, websites, or other internet platforms for all departments and offices;

(vi) telemarketing or solicitation activities conducted by and for the Mortgage Division;

(vii) the Bank's HMDA-LAR databases and reports for accuracy;

(viii) all consumer complaints made to the Bank; and

(ix) the internal compliance communication system that provides updates resulting from revisions to Consumer Laws to appropriate Bank personnel.

(b) The monitoring procedures shall ensure that:

(i) the Bank's actual practices reflect the Compliance Policy and Procedures; and

(ii) all Consumer Laws are being followed.

(c) Reviews of the routine daily activities of employees in all operating units of the Bank shall be conducted at the transactional level on a regular basis, but not less often than monthly.

(d) The Bank Compliance Officer and the Mortgage Compliance Officer shall make regular reports to the Compliance Committee and the Board regarding monitoring results and corrective procedures taken to address deficiencies. Records of these reports shall be maintained by the Bank Compliance Officer and the Compliance Committee.

TRAINING PROGRAM

6. Within sixty (60) days from the effective date of this ORDER, the Bank shall review, revise and implement its training program relating to Consumer Laws for all Bank personnel commensurate with their individual job functions and duties.

(a) The training program, at a minimum, shall address the violations and Compliance Management System deficiencies contained in the FDIC's Compliance Report of Examination of the Bank as of September 23, 2019 ("Compliance Report") and any deficiencies found through internal monitoring or independent reviews, and shall address updates to Consumer Laws and the Bank's policies and procedures.

(b) The training program shall provide for training of all Bank personnel, including the immediate training of new employees, as well as senior management and the Board, commensurate with their individual job functions and duties. All training shall be documented and maintained for review at all subsequent FDIC compliance examinations or visitations.

(c) The training program shall include cross-training, where appropriate, to ensure an adequate number of knowledgeable employees in all areas relating to consumer compliance.

(d) All training efforts and activities shall be reported to the Board and documented in Board minutes.

(e) The training program required by this paragraph shall be acceptable to the Regional Director as determined at subsequent FDIC compliance examinations or visitations.

INDEPENDENT REVIEW

7. Within ninety (90) days from the effective date of this ORDER, the Bank shall cause an independent review to be commenced, and thereafter on a quarterly basis, with respect to the Bank's compliance with Consumer Laws and effectiveness of its Compliance Management System.

(a) The review shall assess the Bank's Compliance Management System, and at a minimum, shall:

i. be comprehensive in scope;

ii. identify the number of transactions sampled by category or product type;

iii. identify deficiencies;

iv. provide descriptions of or suggestions for corrective actions and time frames for correction; and

v. establish follow-up procedures to verify that corrective actions are implemented and effective.

(b) The scope of the review, review findings, deficiencies, and recommendations must be documented in a written report and provided to the Compliance Committee and the Board within thirty (30) days after completion of the independent review.

(c) Within thirty (30) days of the Board's receipt of the written report concerning this review, the Board shall meet and take action to address the findings, correct any deficiencies noted, and implement any recommendations or explain in a written report, signed by all Board members and included in the minutes of the applicable Board meeting, why a particular recommendation has not been implemented.

(d) A copy of any reports concerning independent reviews and the Bank's response thereto shall be submitted to the Regional Director within forty-five (45) days of receipt.

<u>THIRD PARTY OVERSIGHT</u>

8. Within sixty (60) days after the effective date of this ORDER, the Bank shall develop, adopt, and implement a Third Party Oversight Program sufficient to ensure proper management of third-party relationships for compliance with Consumer Laws. The Third Party Oversight Program required by this paragraph shall be acceptable to the Regional Director as determined at subsequent FDIC compliance examinations and/or visitations of the Bank.

(a) The Third Party Oversight Program shall, at a minimum, include specific procedural steps for the following:

(i) Ensuring the Bank conducts due diligence of proposed third party businesses prior to entering into a business relationship sufficient to examine potential conflicts or concerns regarding compliance with Consumer Laws.

(ii) Ensuring the Bank reviews all proposed business agreements with third parties providing services or products to any department or division of the Bank to ensure that they are formalized in writing, enforceable, and contain the specific expectations, obligations, and consequences for both the Bank and third parties, prior to approval and engagement of such business agreements;

(iii) Ensuring that the Bank reviews written agreements with third parties providing services or products to the Bank for compliance with Consumer Laws prior to approval and engagement of such business agreements by the Bank;

(iv) Ensuring the Bank has and implements procedures that provide for effective monitoring of contract fulfillment, and recordkeeping concerning products and services provided to the Bank by third parties;

(v) Maintaining records of all Third Party Agreements, and all approved marketing and solicitation materials (digital and otherwise); scripts; and any other materials provided or disseminated to customers or potential customers, including disclosures and privacy policies;

(vi) Ensuring that prompt notification is provided to the Bank by third parties of all regulatory agencies' inquiries, consumer complaint correspondence, and/or legal action received (other than routine requests such as requests to cease and desist collection contact); and

(vii) Ensuring that the Bank has and implements procedures for terminating third party relationships in the event that any such relationship fails to comply with the written agreements with the Bank.

(b) The Bank's Compliance Committee shall, on at least a quarterly basis, submit a written report to the Board and senior management addressing whether third parties are in compliance with Third Party Agreements. The written report shall include any new or substantive changes in third party relationships, the status of any ongoing reviews and audits, potential violations, deficiencies, trends, and analyses related to consumer complaints and inquiries or other concerns. The Board shall be responsible for ensuring that corrective actions are taken within thirty (30) days of receipt of the written report to address the findings. The Board minutes shall contain evidence of the Board's review and discussion of the foregoing and shall include an evaluation of the overall effectiveness of the Third Party Oversight Program.

CONSUMER COMPLAINTS

9. (a) Within 60 days after the effective date of this Order, the Bank shall develop, adopt, and implement an effective consumer complaint monitoring and processing procedure, including the maintenance of records of all written, oral, or electronic complaints or inquiries, formal or informal, received by any division or office of the Bank and all Third Parties from any source, and the resolution of the complaints and inquiries.

(b) The Bank Compliance Officer shall review the records and resolution of such consumer complaints quarterly to assess the effectiveness of the program and the underlying cause of such complaints. The Mortgage Compliance Officer shall review the records and resolution of consumer complaints related to the operations of the Mortgage Division quarterly to assess the underlying cause of such complaints. A summary of these quarterly reviews shall be submitted to the Compliance Committee and the Board.

CORRECTION OF VIOLATIONS

10. Within sixty (60) days from the effective date of this ORDER, the Bank shall eliminate or correct all violations of Consumer Laws identified in the Compliance Report. The sufficiency of the actions taken by the Bank to eliminate or correct these violations shall be determined by the Regional Director through assessing the reports submitted under this Order, and in subsequent FDIC compliance examinations and visitations.

DISCLOSURE TO SHAREHOLDERS

11. Following the effective date of this ORDER, the Bank shall send to its shareholders a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

12. Within thirty (30) days from the end of the first calendar quarter following the effective date of this ORDER, and within thirty (30) days after the end of each successive calendar quarter thereafter, the Bank shall furnish written progress reports to the Regional Director detailing the form and manner of any action taken to secure compliance with this ORDER and the results thereof.

CLOSING PARAGRAPHS

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

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, successors, and assigns.

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, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated this 2nd day of December, 2020.

TERESA SABANTY

Digitally signed by TERESA SABANTY
Date: 2020.12.02 13:19:09 -06'00'

Teresa M. Sabanty
Deputy Regional Director
Chicago Regional Office
Federal Deposit Insurance Corporation