

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of	)	
	)	
	)	
MOUNTAIN COMMERCE BANK	)	ORDER TO CEASE AND DESIST
ERWIN, TENNESSEE	)	
	)	FDIC-08-213b
(INSURED STATE NONMEMBER BANK)	)	
	)	

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Mountain Commerce Bank, Erwin, Tennessee ("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 related to the Bank Secrecy Act 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"), 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"), 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.

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 committed violations of laws or regulations related to the Bank Secrecy Act. The FDIC,

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.*) (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 the FDIC's Suspicious Activity Reports ("SARs") regulations, 12 C.F.R. Part 353; 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 related to the BSA.

(c) Operating the Bank with an ineffective BSA/Anti-Money Laundering ("AML") Compliance Program;

(d) Operating the Bank with an ineffective system of internal controls to ensure compliance with the BSA Rules;

(e) Operating the Bank with an ineffective BSA/AML training program to ensure compliance with the BSA Rules;

(f) Operating the Bank with an ineffective BSA officer to properly direct, administer, and oversee the BSA program; and

(g) Operating the Bank with an ineffective Customer Due Diligence Program ("CDD") to ensure compliance with the BSA Rules.

**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 Tennessee Department of Financial Institutions ("Commissioner") in writing of any changes in the Bank's BSA Officer.

2. Within 90 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 Commissioner for review and comment.

3. Within 60 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 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.

4. (a) Within 90 days from the completion of the Assessment, but in no event longer than 120 days from the effective date of this ORDER, the Bank shall adopt a comprehensive, written BSA Program based upon the Assessment

described in paragraph 3. 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 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 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. 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 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.

(vii) 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.

(viii) 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 C.F.R. Part 103.

(ix) 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.

5. (a) 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.

(b) An overview of the BSA requirements shall be provided to all new employees within 30 days of employment. Within 90 days of the effective date of this ORDER, the overview shall also be provided to all Bank executives and Board members who are not otherwise required to participate in the training set out in paragraph (a) above. Bank executives, including Board members, shall be informed of changes and new developments to the BSA and the Bank's responsibilities under 31 C.F.R. Part 103, 12 CFR § 326.8, and 12 C.F.R. Part 353.

6. (a) 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, BSA Programs and Procedures, and OFAC compliance. Prior to performing the test, the independent consultant shall review any deficiencies, violations or criticisms cited by the

FDIC 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.

(b) 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.

7. Unless covered by a provision previously set forth in this ORDER, the Bank shall, within 60 days from the date of this ORDER, take all reasonable steps to eliminate all apparent violations of the Bank Secrecy Act and its implementing regulations found at 31 C.F.R. Part 103, and 12 C.F.R. Part 353 identified in the June 16, 2008, Report of Examination ("Report of Examination"). The Bank shall take all reasonable steps to prevent future occurrences and ensure future compliance with applicable statutes, regulations, rules, bulletins, and policy statements.

8. (a) Within 30 days from the effective date of this ORDER, the Bank shall engage a qualified independent firm ("Consultant"), acceptable to the Regional Director to conduct a review of account and transaction activity, for the time period beginning April 1, 2007, and ending on the effective date of this ORDER, to determine whether suspicious activity involving any accounts of, or transactions within or through, the Bank were properly identified and reported in accordance with the applicable suspicious activity reporting requirements ("Look Back Review").

(b) Within 10 days of the engagement of the Consultant, but prior to the commencement of the Look Back Review, the Bank shall submit to the Regional Director for approval an engagement letter that sets forth:

(i) The scope of the Look Back Review, including 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 expertise and resources to be dedicated to the Look Back Review; and

(iv) The anticipated date of the completion of the Look Back Review.

(c) Upon completion of the Look Back Review, the Consultant shall provide a copy of the report detailing its findings to the Regional Director and the Commissioner at the same time the report is provided to the Bank.

(d) Within 30 days of its receipt of the Look Back Review report, the Bank shall ensure that all matters or transactions required to be reported, for which appropriate action has not previously been taken, are addressed in accordance with applicable laws and regulations.

9. (a) 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. At least a majority of the members of such committee shall be independent, outside directors as defined in paragraph 9. 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.

(b) For purposes of this ORDER, an "outside director" shall be an individual:

(i) Who shall not be employed, in any capacity, by the Bank or its affiliates other than as a director of the Bank or an affiliate;

(ii) Who shall not own or control more than 5 percent of the voting stock of the Bank or its Holding Company;

(iii) Who shall not be indebted to the Bank or any of its affiliates in an amount greater than 5 percent of the Bank's equity capital and reserves; and

(iv) Who shall not be related to any directors, principal shareholders of the Bank or affiliates of the Bank.

10. The Bank shall furnish written progress reports to the Regional Director, with a copy to 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 and the Commissioner no later than 30 calendar days after the end of each calendar quarter. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has released the Bank in writing from making further reports.

11. 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.

12. Following the effective date of this ORDER, the Bank shall send to its parent holding company or otherwise furnish a description of this ORDER in conjunction with the Bank's next communication with such parent holding company. The description shall fully describe the ORDER in all material respects.

13. 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.

Pursuant to delegated authority.

Dated this 13<sup>th</sup> day of November, 2008.

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Thomas J. Dujenski  
Regional Director  
Dallas Region  
Division of Supervision  
and Consumer Protection  
Federal Deposit Insurance  
Corporation