

**Decision of the
Supervision Appeals Review Committee**

*In the matter of * * **

Case No. 2018-04

The Bank appealed the Management component rating arising out of its most recent examination to the Supervision Appeals Review Committee (“Committee”). After consideration of the written submissions of the parties, the record of this matter, and the oral presentations and deliberative meeting of the Committee on October 30, 2018, the Committee upheld the rating.

The Bank is a traditional community bank. In the early months of the 18-month period covered by the examination, Mr. A, a member of the Bank’s management team, became unexpectedly unable to fulfill his position duties. Mr. A played a significant role in the Bank’s affairs. The Bank’s Board of Directors (“Board”) made several changes to the management team after Mr. A became unavailable. Near the end of the period covered by the examination, the Bank’s new management team began taking a series of steps intended to address the Bank’s condition.

RMS assigned a “3” rating on the Management component citing a combination of factors. The Bank submitted a request for review of this determination to the Director of the Division of Risk Management Supervision (“RMS”) pursuant to the FDIC’s *Guidelines for Appeals of Material Supervisory Determinations* (“Guidelines”).¹ The Director of RMS reviewed the Management rating and concurred with the rating. The Bank then timely appealed to the Committee. The Committee met to hear oral presentations from the parties and consider the appeal on October 30, 2018.

¹ 82 Fed. Reg. 34,522 (July 25, 2017) (available at <https://www.fdic.gov/regulations/laws/sarc/sarcguidelines.html>).

The Bank and RMS disagreed on three principal issues with respect to the Management rating: (1) the adequacy of the Board's oversight and governance; (2) the Bank's financial performance; and (3) the adequacy of the Bank's internal controls.

The Committee found that RMS had a reasonable basis to conclude that the Bank's management during the examination period, while improving, was less than satisfactory and should be assigned a "3" rating. The Committee found that there was substantial evidence that the unanticipated unavailability of Mr. A had a considerable impact on the Bank and revealed weaknesses that were not evident in prior examinations. At the same time, the Committee acknowledged the efforts of the Bank's current management to improve the Bank's condition and address the concerns identified in the examination. Because the Bank's next examination was not scheduled to begin in 2019, the Committee recommended that RMS provide the Bank with an opportunity to request and receive a limited-scope examination to assess whether a different Management rating is warranted at this time. The Committee requested the appropriate Regional Director to contact the Bank within 30 calendar days to determine how the Bank wished to proceed.

By direction of the Supervision Appeals Review Committee of the FDIC, dated January 3, 2019.