

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

In the Matter of

UNITED TEXAS BANK
Dallas, Texas

Docket No. 24-021-B-SM

Department Order No. 2024-025

Cease and Desist Order Issued
Upon Consent Pursuant to the
Federal Deposit Insurance Act,
as amended

WHEREAS, United Texas Bank, Dallas, Texas (the “Bank”) is a Texas state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Texas Department of Banking (the “TDB”) is the appropriate state supervisor for the Bank;

WHEREAS, the examination of the Bank as of May 22, 2023 (the “Examination”) conducted by the Federal Reserve Bank of Dallas (the “Reserve Bank” and collectively with the TDB, the “Supervisors”) and the TDB identified significant deficiencies in the Bank’s corporate governance and oversight by the Bank’s board of directors and senior management;

WHEREAS, the Examination identified significant deficiencies related to foreign correspondent banking and virtual currency customers, specifically risk management and compliance with applicable laws, rules, and regulations relating to anti-money laundering (“AML”), including the Bank Secrecy Act (the “BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and

regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X); and the AML requirements of Regulation H of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 208.62 and 208.63) (collectively, the “BSA/AML Requirements”) resulting in a compliance program violation;

WHEREAS, the Bank, the Board of Governors, the Reserve Bank, and the TDB have the common goal that the Bank operates in compliance with all applicable federal and state laws, rules, and regulations and in a safe and sound manner;

WHEREAS, since the Examination, the Bank has begun to take measures to strengthen its BSA/AML compliance program and lower its BSA/AML risk profile;

WHEREAS, the Bank, the Board of Governors, and the TDB have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, the board of directors of the Bank have authorized the undersigned to enter into this Order on behalf of the Bank, consent to compliance with each and every provision of this Order by the Bank, and waive any and all rights that the Bank may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended, (the “FDI Act”) (12 U.S.C. § 1818), and the Texas Banking Act, as amended, (the “Banking Act”) (Tex. Finc. Code § 31 et seq.) including, but not limited to: (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the

necessity for protracted or extended hearings or testimony, pursuant to section 8(b)(1) of the FDI Act (12 U.S.C. § 1818(b)(1)) and section 35.002(c) of the Banking Act (Tex. Finc. Code § 35.002(c)), the Bank shall cease and desist and take affirmative action as follows:

Board Oversight

1. Within 90 days of the effective date of this Order, the board of directors of the Bank shall submit a written plan acceptable to the Supervisors to strengthen board oversight of the Bank's compliance with the BSA/AML Requirements and the regulations issued by the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") (31 C.F.R. Chapter V) (the "OFAC Regulations"). The plan shall include the following five items:

(a) actions that the board of directors will take to maintain effective control over and oversight of Bank management's compliance with the BSA/AML Requirements and the OFAC Regulations and approved policies, procedures, and standards related to the same;

(b) measures to ensure noncompliance with the BSA/AML Requirements and OFAC Regulations are appropriately tracked, escalated, and reviewed by the Bank's senior management;

(c) measures to ensure that those at the Bank charged with overseeing the Bank's compliance with the BSA/AML Requirements and the OFAC Regulations possess appropriate subject matter expertise, stature, and direct reporting access to the board of directors, or the relevant committee, to carry out such responsibilities;

(d) measures to ensure the Bank has adequate resources for the BSA/AML Requirements and OFAC Regulations, including sufficient staffing levels, and periodic re-evaluation of resource and staffing needs; and

(e) measures to improve the quality, comprehensiveness, and granularity of information reported to the board of directors regarding compliance with the BSA/AML Requirements and OFAC Regulations.

Corporate Governance

2. Within 60 days of the effective date of this Order, the Bank's board of directors shall submit a written corporate governance plan acceptable to the Supervisors that fully addresses the findings and recommendations in the independent third-party report dated January 31, 2024. The plan shall include the following three items:

(a) measures to ensure that the structure, qualifications, and composition of the board of directors and its committees are adequate to supervise the affairs of the Bank;

(b) steps to ensure the Bank's present and future management and staffing needs are identified and accounted for, including through the development of a management succession plan for senior executive officers; and

(c) measures to ensure the effectiveness of identification and escalation of issues and exceptions to the board of directors.

BSA/AML Compliance Program

3. Within 60 days of the effective date of this Order, the Bank shall submit a written revised BSA/AML compliance program acceptable to the Supervisors. The enhanced program shall include the following six items:

(a) measures to fully address the findings and recommendations in the independent third-party report dated July 3, 2024;

(b) a system of internal controls reasonably designed to ensure ongoing compliance with the BSA/AML Requirements;

(c) a comprehensive risk assessment that appropriately identifies and considers all products and services of the Bank, customer types, geographic locations, and transaction volumes, as appropriate, in determining inherent and residual risks;

(d) enhanced independent testing procedures to ensure that comprehensive reviews of the Bank's BSA/AML compliance program are performed on a regular basis by qualified parties who are independent of the Bank's business lines and compliance function, provided, however, that the first independent test of the Bank's BSA/AML compliance program shall be conducted by an independent third party acceptable to the Supervisors;

(e) management of the Bank's BSA/AML compliance program by a qualified compliance officer, who is given full autonomy, independence, and responsibility for implementing and maintaining an effective BSA/AML compliance program that is commensurate with the Bank's size and risk profile, has meaningful decision-making authority, and is supported by adequate staffing levels and resources; and

(f) enhanced policies and procedures to ensure effective training for all personnel, including targeted training for personnel with compliance-related responsibilities, in all aspects of the BSA/AML Requirements.

Customer Due Diligence

4. Within 60 days of the effective date of this Order, the Bank shall submit a written revised customer due diligence program acceptable to the Supervisors. The program shall include the following five items:

(a) policies, procedures, and controls to ensure that the Bank collects, analyzes, and retains complete and accurate customer information for all account holders, including, but not limited to:

- (i) documentation necessary to verify the identity, source of wealth, and business activities of the customer; and
- (ii) documentation necessary to understand the normal and expected transactions of the customer;
- (b) a plan, with intermediate timelines and milestones, to remediate deficient due diligence for existing customer accounts;
- (c) a methodology for assigning risk ratings to customers that considers factors such as type of customer, type of products and services, geographic location, and transaction type and volume;
- (d) a risk-focused assessment of the Bank's customer base to:
 - (i) identify the categories of customers whose transactions and banking activities are routine and usual;
 - (ii) identify the categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and
 - (iii) determine the appropriate level of additional due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and
- (e) procedures to ensure that periodic reviews and evaluations of customer and account information are conducted and documented for all account holders.

Suspicious Activity Monitoring and Reporting

5. Within 60 days of the effective date of this Order, the Bank shall submit a written revised program acceptable to the Supervisors to reasonably ensure the identification and timely, accurate, and complete reporting by the Bank of all known or suspected violations of law or

suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. The program shall include the following six items:

- (a) a well-documented methodology for establishing monitoring rules and processes that take into consideration the Bank's risk profile, type of customer, type of product or service, geographic location, and banking activities;
- (b) policies and procedures that provide for periodic review of the monitoring rules and thresholds;
- (c) enhanced monitoring and investigation criteria and procedures to ensure the timely detection, investigation, and reporting of all known or suspected violations of law and suspicious transactions, including:
 - (i) effective monitoring of customer accounts and transactions;
 - (ii) appropriate allocation of resources to manage alert and case inventory;
 - (iii) adequate escalation of information about potentially suspicious activity through appropriate levels of management; and
 - (iv) maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the resolution and escalation of concerns;
- (d) policies, procedures, and processes for identifying subjects of law enforcement requests, monitoring the transaction activity of those subjects when appropriate, identifying unusual or potentially suspicious activity related to those subjects, and filing, as appropriate, suspicious activity reports related to those subjects;

(e) measures to ensure that alert dispositions are supported with adequate rationale and documentation to evidence the research performed and the due diligence that was relied upon to arrive at the analyst's conclusion; and

(f) controls to ensure that transaction monitoring systems and associated processes are subject to periodic reviews and timely updates.

Office of Foreign Assets Control Compliance

6. Within 60 days of the effective date of this Order, the Bank shall submit a written plan acceptable to the Supervisors to enhance the Bank's compliance with the OFAC Regulations, including, but not limited to, enhanced OFAC screening procedures, an improved methodology for assessing OFAC risks, training related to compliance with the OFAC Regulations appropriate to the employee's job responsibilities that is provided on an ongoing, periodic basis, and enhanced policies and procedures to ensure compliance with the OFAC Regulations.

Progress Reports

7. Within 30 days after the end of each calendar quarter following the effective date of this Order, the Bank shall submit to the Supervisors written progress reports, each approved by the board of directors, detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof. The Supervisors may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Approval and Implementation

8. (a) The Bank shall submit the written plans and programs that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 1, 2, 3, 4, 5, and 6 of

this Order. Each plan or program shall contain a timeline for full implementation with specific deadlines for the completion of each component..

(b) Within 10 days of written approval by the Supervisors, the board of directors shall direct the Bank to adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved plans and programs, and thereafter fully comply with them.

(c) During the term of this Order, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Supervisors.

Communications

9. All communications regarding this Order shall be sent to:

(a) Mr. Jason Gonzalez
Deputy Associate General Counsel
Federal Reserve Board
20th & C Street, NW
Washington, DC 20551

(b) Mr. Paul Wheeler
Vice President
Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201

(c) Mr. Charles G. Cooper
Commissioner
Texas Department of Banking
2601 North Lamar Boulevard
Austin, Texas 78705

(d) Mr. Greg Quarles
Chief Executive Officer
United Texas Bank
13101 Preston Road, Suite 200
Dallas, Texas 75240

Miscellaneous

10 Notwithstanding any provision of this Order, the Supervisors may, in their sole discretion, jointly grant written extensions of time to the Bank to comply with any provision of this Order.

11. The TDB having determined that the requirements for issuance of an order under Texas Finance Code § 35.002 have been met, this Order is deemed to be a consent order issued by the TDB under Texas Finance Code § 35.002. Without admitting or denying any charges of unsafe and unsound banking practices, or violation of applicable Texas law, the Bank consents to deeming this Order to be a consent order for the purposes of Texas law. The Bank hereby waives all rights regarding an order under Texas Finance Code §§ 35.002, 35.004, and 35.009, including requirements for issuance and service of an order under Texas Finance Code § 35.002, the right to a hearing under Texas Finance Code § 35.004, all defenses, and review of such order by a state agency, commission, or state or federal court.

12. The provisions of this Order shall be binding upon the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

13. Each provision of this Order shall remain effective and enforceable until stayed, modified, suspended or terminated in writing by the Supervisors.

14. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the TDB, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors of the Federal Reserve System and the Texas
Banking Commissioner for the Texas Department of Banking, effective this 29th day of
August, 2024.

UNITED TEXAS BANK

By: /s/ Greg Quarles
Greg Quarles
Chief Executive Officer

**BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM**

By: /s/ Ann Misback
Ann Misback
Secretary of the Board

**TEXAS DEPARTMENT OF
BANKING**

By: /s/ Charles G. Cooper
Charles G. Cooper
Texas Banking Commissioner