

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

In the Matter of

SMALL BUSINESS BANK  
Lenexa, Kansas

Docket No. 24-031-B-SM

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

WHEREAS, Small Business Bank, Lenexa, Kansas (the “Bank”), is a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor of the Bank;

WHEREAS, on September 1, 2023, the Bank and its registered bank holding company, Gardner Bancshares, Inc., Lenexa, Kansas, consented to an Order to Cease and Desist (the “September 2023 Order”) based on deficiencies in various areas, including the Bank’s operations and risk management practices;

WHEREAS, the most recent examination of the Bank, dated May 13, 2024 (the “Report of Examination”) conducted by the Federal Reserve Bank of Kansas City (the “Reserve Bank”) and the Office of the State Bank Commissioner of Kansas identified new and continuing deficiencies in the Bank’s risk management and compliance with federal laws, rules, and regulations relating to anti-money laundering (“AML”) compliance, including the Bank Secrecy Act (“BSA”) (31 U.S.C. § 5311 *et seq.*) and the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X) (collectively, the “BSA/AML Requirements”);

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

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

WHEREAS, the board of directors of the Bank has authorized the undersigned to enter into this Order and consent to compliance with each and every provision of this Order by the Bank and to 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), including, but not limited to: (i) the issuance of a notice of charges on any 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 the 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) and (3) of the FDI Act (12 U.S.C. § 1818(b)(1) and 1818(b)(3)), the Bank shall cease and desist and take affirmative action as follows:

**BSA/AML Compliance Program**

1. Within 60 days of the effective date of this Order, the Bank shall submit a written plan acceptable to the Reserve Bank to improve the Bank’s BSA/AML compliance program in accordance with the BSA/AML Requirements. The plan shall include the following five items:

(a) measures to ensure that the Bank's board of directors provides adequate resources to ensure the Bank's BSA/AML compliance program is commensurate with the risk profile of the Bank;

(b) clearly defined roles, responsibilities, and measures to hold the Bank's management and BSA/AML compliance personnel accountable for compliance with the BSA/AML Requirements;

(c) management of the Bank's BSA/AML compliance program by a qualified BSA/AML compliance officer with the necessary experience, qualifications, and training who is provided with adequate resources, staff, training, and independence, with responsibility for implementing and maintaining an effective BSA/AML compliance program that is commensurate with the Bank's size and risk profile;

(d) a revised and comprehensive BSA/AML risk assessment methodology that identifies and considers all products and services of the Bank, customer types, and geographic locations, as appropriate, in determining risks which is supported by appropriate documentation; and

(e) improved independent testing, reviewed by an independent committee of the Bank's board of directors, to ensure that comprehensive and timely reviews of the Bank's BSA/AML compliance program are performed on a regular basis by a qualified independent party using appropriate testing methodologies, with maintenance of sufficient documentation and workpapers to support the testing determinations.

### **Customer Identification Program**

2. Within 60 days of the effective date of this Order, the Bank shall submit a written plan acceptable to the Reserve Bank to improve its customer identification program. The plan

shall include risk-based policies, procedures, and controls appropriate for the Bank's size and type of business designed to ensure compliance with the requirements of 31 C.F.R. § 1020.220, including the following three items to:

- (a) enable the Bank to form a reasonable belief that it knows the true identity of each customer;
- (b) ensure the verification of each customer's identity to the extent reasonable and practicable within a reasonable time after an account is opened; and
- (c) address the circumstances in which the Bank cannot form a reasonable belief that it knows the true identity of a customer.

### **Customer Due Diligence**

3. Within 60 days of the effective date of this Order, the Bank shall submit a written plan acceptable to the Reserve Bank to improve its customer due diligence program. The plan shall include the following five items:

- (a) risk-based policies, procedures, and controls to ensure that the Bank collects, analyzes, and retains complete and accurate customer information for all account holders;
- (b) a plan, with intermediate timelines and milestones, to remediate deficient due diligence for existing customer accounts;
- (c) an improved methodology for developing customer risk profiles that considers factors such as type of customer, type of products and services, geographic locations, and expected and actual transactions with or through the Bank;

(d) policies, procedures, and controls for performing additional due diligence necessary for those customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and

(e) risk-based procedures for performing ongoing and periodic monitoring of customer and account information, including maintaining and updating customer information, and if applicable, rationales for any revisions made to the customer risk rating.

### **Suspicious Activity Monitoring and Reporting**

4. Within 60 days of the effective date of this Order, the Bank shall submit a written program acceptable to the Reserve Bank 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 provide for the following four items:

(a) policies and procedures to ensure all necessary customer and transaction data is collected across all business lines and is aggregated into an appropriate transaction monitoring system to ensure comprehensive risk-based suspicious activity monitoring;

(b) a well-documented methodology for establishing monitoring rules and thresholds appropriate for the Bank's risk profile, products, services, customer base, and geographic locations;

(c) policies and procedures that provide for periodic review of the monitoring rules and thresholds; and

(d) effective monitoring of customer accounts and transactions, including cash transactions, to ensure the timely detection, investigation, and reporting of all known or suspected violations of law and suspicious transactions, including:

i. appropriate allocation of resources to manage the alert and case inventory;

ii. adequate escalation of information about potentially suspicious activity through appropriate levels of management; and

iii. maintenance of sufficient documentation with respect to the investigation and analysis of potentially suspicious activity, including the resolution and escalation of concerns.

### **Transaction Monitoring System**

5. Within 90 days of the effective date of this Order, the Bank shall engage an independent third party (the “Transaction Monitoring System Consultant”) acceptable to the Reserve Bank to: (i) conduct a comprehensive review of the Bank’s BSA/AML transaction monitoring system (“Transaction Monitoring System Review”) and (ii) prepare a written report of findings and recommendations (the “Transaction Monitoring System Report”). The Transaction Monitoring System Report shall include the following four items:

(a) an assessment of the technological resources necessary to operate and maintain a transaction monitoring system that is commensurate with the Bank’s risk profile;

(b) an evaluation of the appropriateness of filtering criteria, thresholds, and system configurations used in the Bank’s transaction monitoring system;

(c) testing of the Bank’s transaction monitoring system to ensure that all necessary information is accurately captured; and

(d) an assessment of controls to ensure that the Bank's transaction monitoring system and associated processes are subject to periodic reviews and timely updates.

6. Within 10 days of the Reserve Bank's approval of the Transaction Monitoring System Consultant, the Bank shall submit an engagement letter to the Reserve Bank for approval. The engagement letter shall include a commitment that the Transaction Monitoring System Report will be provided to the Reserve Bank at the same time that it is provided to the Bank's board of directors, and that all supporting materials associated with the final Transaction Monitoring System Report will be provided to the Reserve Bank upon request.

7. Within 60 days of the completion of the Transaction Monitoring System Report, the Bank shall submit to the Reserve Bank an acceptable written plan to address the findings and correct any deficiencies cited in the Transaction Monitoring System Report.

#### **Interim Transaction Monitoring Procedures**

8. Within 30 days of the effective date of this Order, the Bank shall submit to the Reserve Bank acceptable written interim transaction monitoring procedures for wire services and ACH transactions that shall remain in effect until the policies and procedures referred to in paragraph 4 have been determined to be acceptable by the Reserve Bank and fully implemented by the Bank. These interim procedures shall be designed to monitor the transactions of the Bank so that it can immediately comply with applicable BSA/AML Requirements.

#### **Transaction Review**

9. Within 60 days of the effective date of this Order, the Bank shall engage an independent third party acceptable to the Reserve Bank (the "Transaction Review Consultant") to conduct a review of the Bank's transaction activity from January 1, 2023 to June 30, 2023 to determine whether suspicious activity involving high risk customers or transactions at, by, or

through the Bank was properly identified and reported in accordance with applicable suspicious activity reporting regulations (the “Transaction Review”) and to prepare a written report detailing the findings (the “Transaction Review Report”).

10. Within 10 days of the Reserve Bank’s approval of the Transaction Review Consultant, the Bank shall submit an engagement letter to the Reserve Bank for approval. The engagement letter shall detail the methodology for conducting the Transaction Review, including any sampling procedures to be followed, the expertise and resources to be dedicated to the Transaction Review, and the anticipated date of completion of the Transaction Review and the Transaction Review Report. The engagement letter shall include a commitment that the Transaction Review Report will be provided to the Reserve Bank at the same time that it is provided to the Bank’s board of directors, and that all supporting materials associated with the final Transaction Review Report will be made available to the Reserve Bank upon request.

11. Based on the Reserve Bank’s evaluation of the results of the Transaction Review, the Reserve Bank may direct the Bank to conduct a review of the types of transactions described in paragraph 9 for additional time periods.

12. Throughout the Transaction Review, the Bank shall ensure that all matters or transactions required to be reported that have not previously been reported are reported in accordance with applicable rules and regulations.

### **Progress Reports**

13. Within 30 days after the end of each calendar quarter following the effective date of this Order, the board of directors of the Bank shall submit to the Reserve Bank written



progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof.

### **Approval and Implementation of Plans, Policies, Procedures, and Programs**

14. (a) The Bank shall submit written plans, policies, procedures, and programs, that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 1, 2, 3, 4, 7, and 8 of this Order. Each plan, policy, procedure, and program shall contain a timeline for full implementation of the plan, policy, procedure, or program with specific deadlines for the completion of each component of the plan, policy, procedure, or program.

(b) Within 10 days of approval by the Reserve Bank, the Bank shall adopt the approved plans, policies, procedures, and programs. Upon adoption, the Bank shall promptly implement the approved plans, policies, procedures, and programs, and thereafter fully comply with them.

(c) During the term of this Order, the approved plans, policies, procedures, programs, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

### **Communications**

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

- (a) Mr. Jason A. Gonzalez  
Deputy Associate General Counsel  
Federal Reserve Board  
20<sup>th</sup> & C St. NW  
Washington, DC 20551
  
- (b) Mr. Ryan L. Harwell  
Vice President  
Federal Reserve Bank of Kansas City  
1 Memorial Drive  
Kansas City, Missouri 64198

(c) Mr. Bill Vandivort  
Advanced Counsel  
Federal Reserve Bank of Kansas City  
1 Memorial Drive  
Kansas City, Missouri 64198

(d) Dr. Phillip B. Eastep  
Chairman of the Board  
Gardner Bancshares, Inc.  
Small Business Bank  
13423 West 92<sup>nd</sup> Street  
Lenexa, Kansas 66215

### **Miscellaneous**

16. The requirements of this Order supersede Paragraph 18 of the September 2023 Order. Accordingly, no further action shall be required by the Bank pursuant to Paragraph 18 of the September 2023 Order. All other provisions of the September 2023 Order remain in effect.

17. Notwithstanding any provision of this Order, the Reserve Bank may in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Order. The Bank must submit a written request to the Reserve Bank for any extension of time.

18. The provisions of this Order shall be binding upon the Bank and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(3)), in their capacities as such, and their successors and assigns.

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

20. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, 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 effective this 13<sup>th</sup> day  
of November, 2024.

SMALL BUSINESS BANK

BOARD OF GOVERNORS OF  
FEDERAL RESERVE SYSTEM

By: /s/ Dr. Phillip B. Eastep  
Dr. Phillip B. Eastep  
Chairman of the Board

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