

#2016-036

Also Terminates #2013-076

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

<u>In the Matter of:</u>)	
The Somerville National Bank)	AA-CE-2016-18
Somerville, Ohio)	

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”), through his authorized representative, has supervisory authority over The Somerville National Bank, Somerville, Ohio (“Bank”);

WHEREAS, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation and Consent to the Issuance of a Consent Order” (“Stipulation”), dated March 29, 2016, that is accepted by the Comptroller, through his duly authorized representative; and

WHEREAS, by this Stipulation, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

NOW, THEREFORE, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

BOARD TO ENSURE COMPETENT MANAGEMENT AND STAFF

(1) The Board must ensure that the Bank has competent management and sufficient staff in place to carry out the Board’s policies; manage the operations of the Bank in a safe and sound manner; and ensure compliance with this Order, applicable laws, rules and regulations.

(2) Within sixty (60) days, the Board shall review the Bank's organizational structure, the capabilities of management to perform present and anticipated duties, and staffing levels. Based upon its review, the Board shall create a management and staffing plan. This plan shall:

- (a) contain written defined duties and lines of authority sufficient to cover the scope of duties traditionally assigned to a president, chief executive officer, senior lending officer (retail), senior lending officer (commercial), and chief financial officer;
- (b) assess the experience, qualifications, and performance of each of the Bank's current executive officers compared to the position's duties and lines of authority;
- (c) assess the salary and bonus structure for each officer, considering the officer's duties and responsibilities;
- (d) develop and implement a written training program with specific timeframes for any officer or staff whose skills need improvement but that the Board determines will continue in their position; and
- (e) ensure appropriate succession planning for key positions.

(3) Within thirty (30) days after completion of the management and staffing plan, the Board shall make changes where appropriate, including additions to or removals from current management and staff.

(4) The Board shall provide a copy of the plan required in paragraph (2) to the Assistant Deputy Comptroller within fifteen (15) days of completion.

(5) Beginning January 1, 2017, and annually thereafter, the Board shall review and update the Bank's management and staffing plan and training programs. This review and its results must be documented in the meeting minutes of the Board or a designated committee.

ARTICLE II

COMPLIANCE OFFICER

(1) Within thirty (30) days, the Board shall identify and propose to the OCC for appointment, a competent individual to fulfill the duties of a compliance officer, who shall carry out the Board's policies; ensure compliance with this Order, applicable laws, rules and regulations; and manage the day-to-day compliance operations of the Bank in a safe and sound manner.

(2) Prior to the appointment of any individual to the position required by paragraph (1) of this Article, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the notice required by 12 C.F.R. § 5.51, as described in the "Changes in Directors and Senior Executive Officers" booklet of the *Comptroller's Licensing Manual*, including a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(3) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed compliance officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(4) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(5) If the compliance officer position is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and the compliance officer position becomes vacant, the Board shall within thirty (30) days of such vacancy propose a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Order and the safe and sound operation of functions within the scope of the compliance officer's responsibility.

ARTICLE III

CONSUMER COMPLIANCE PROGRAM

(1) Within thirty (30) days of the appointment of the compliance officer required by Article II of this Order, the Board shall, with the assistance of that compliance officer, review and revise, as necessary, its written consumer compliance program, to ensure that the Bank is operating in compliance with all applicable consumer protection laws, rules and regulations.

This revised program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer;
- (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) an effective internal audit program to test for compliance with consumer protection laws, rules and regulations;

- (d) a process to identify the underlying causes of exceptions identified in audit reports, including a plan to take corrective action with respect to causes attributable to third party vendors;
- (e) procedures to ensure that exceptions noted in the audit reports are corrected in a timely manner by the appropriate Bank personnel;
- (f) provisions for the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations; and
- (g) periodic reporting of the results of the consumer compliance audit and the status of management's corrective action of exceptions to the Board or a committee thereof.

(2) Within thirty (30) days, the Board must ensure that management develops and implements: adequate internal controls to ensure compliance with escrow account requirements; reimbursement procedures for timely reimbursement to borrowers for errors identified in escrow accounts as appropriate; and training procedures for appropriate Bank personnel on escrow account requirements.

(3) Upon completion, the revised program shall be forwarded to the Assistant Deputy Comptroller for review, and the Board shall immediately implement and thereafter ensure adherence to the revised program.

ARTICLE IV

PRODUCTS AND SERVICES - EXISTING OR NEW

(1) Within thirty (30) days, the Board shall develop a policy and procedures to ensure that the Bank does not offer or introduce any new products or services without prior Board

approval after documented consideration of the analysis required in paragraph (2) of this Article. For purposes of this Article, a new product or service includes, but is not limited to, a new type or structure of investment, loan or lease, a newly targeted category of borrower, and an expansion or modification of existing bank products and services, as outlined in OCC Bulletin 2004-20, *Risk Management of New, Expanded, or Modified Bank Products and Services*.

(2) Prior to the Bank's involvement in any new products or services, the Board shall prepare a written analysis of that product or service. The analysis shall, at a minimum, conform to OCC Bulletin 2004-20, and include the following:

- (a) an assessment of the risks and benefits of the product or service to the Bank;
- (b) an explanation of how the product or service is consistent with the Bank's strategic plan;
- (c) an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls and written policies and procedures to identify, measure, monitor, and control the risks associated with the product or service; and
- (d) a profitability analysis, including growth projections and interest rate risk.

(3) Within sixty (60) days, the Board shall prepare a written analysis of the Small Business Administration (SBA) and Farm Service Administration (FSA) lending programs consistent with the requirements of paragraph (2) of this Article. A copy of the SBA and FSA program analyses shall be submitted to the Assistant Deputy Comptroller for review.

(4) Prior to the Bank's involvement in the new product or service, a copy of the analysis required by paragraph (2) of this Article shall be submitted to the Assistant Deputy Comptroller for review and determination of no supervisory objection.

ARTICLE V

INVESTMENT POLICY

(1) Within sixty (60) days, the Board shall review and revise, as necessary, the Bank's investment policy. The revised policy shall contain the basic elements of a sound investment policy consistent with regulatory guidance provided in 12 C.F.R. Part 1; OCC Bulletin 1998-20, *Investment Securities: Policy Statement*; OCC Bulletin 2002-19, *Unsafe and Unsound Portfolio Practices: Supplemental Guidance*; and OCC Bulletin 2009-15, *Investment Securities: Risk Management and Lessons Learned*, and shall include:

- (a) an investment portfolio strategy that is consistent with Board approved interest rate risk tolerances;
- (b) individual and committee investment portfolio purchase and sale authority;
- (c) approval procedures that include dollar size limits, quality limitations, maturity limitations, and concentration or diversification guidelines;
- (d) a requirement that investment securities be supported by adequate credit and interest rate risk measurement information as described in the "Interest Rate Risk" booklet of the *Comptroller's Handbook*; OCC Bulletin 1998-20; OCC Bulletin 2002-19; and OCC Bulletin 2010-1, *Interest Rate Risk: Interagency Advisory on Interest Rate Risk Management*; and

(e) monthly review by the Board of the Bank's investment activity to assess executive officers' adherence to the investment policy and to applicable laws and regulations. The Board must provide prior approval of any exceptions to the policy, and exceptions must be justified in Board meeting minutes.

(2) Within sixty (60) days, the revised investment policy shall be forwarded to the Assistant Deputy Comptroller for review and the Board shall immediately implement and thereafter ensure adherence to the revised policy.

ARTICLE VI

OTHER PROVISIONS

(1) Although the Board is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) In each instance in this Order in which the Board is required to take action, ensure adherence to and undertake to perform certain obligations of the Board or of the Bank, it is intended to mean that the Board shall:

- (a) authorize, direct, and adopt such actions on behalf of the Bank as may be necessary to perform its obligations and undertakings under the terms of this Order;
- (b) ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to the programs developed pursuant to this Order, and that Bank management and personnel have sufficient training and authority to execute their duties under this Order;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (d) follow up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner of any non-compliance with such actions.

(4) The provisions of this Order are effective upon issuance by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order. If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Order, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief. Any written

requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a timeframe within this Order. The Assistant Deputy Comptroller's decision regarding the request is final and not subject to further review.

(6) Each law, regulation, or guidance referenced in this Order includes any subsequent law, regulation, or guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(7) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(8) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

(9) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Order shall be forwarded, by overnight mail or via email, to the following:

Central Ohio Field Office
Comptroller of the Currency
Westlake Center
4555 Lake Forest Drive, Suite 520
Cincinnati, Ohio 45242

(10) The OCC and the Bank entered into the Formal Agreement dated June 12, 2013, OCC Enforcement Action # AA-CE-2013-76 ("2013 Formal Agreement"). This Order replaces the 2013 Formal Agreement in its entirety and, therefore, the 2013 Formal Agreement is hereby terminated. Provided, however, no provision in this Order shall bar or otherwise limit any

enforcement action the OCC may choose to initiate, in its discretion, against the Bank or its institution-affiliated parties for any failure to comply with the 2013 Formal Agreement while it was effective.

IT IS SO ORDERED, this 29th day of March, 2016.

/s/

Julie A. Blake
Assistant Deputy Comptroller
Central Ohio Field Office

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)	
The Somerville National Bank)	AA-CE-2016-18
Somerville, Ohio)	

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against The Somerville National Bank, Somerville, Ohio (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges for unsafe and unsound banking practices, including those related to violations of the 2013 Formal Agreement, Board and Management oversight, and violations of law; and

WHEREAS, the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated March 29, 2016 (“Order”), by executing this Stipulation and Consent to the Issuance of a Consent Order (“Stipulation”).

NOW THEREFORE, in consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

JURISDICTION

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. §§ 1813(c) and 1818(b)(1).

(3) The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

ARTICLE II

CONSENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the accompanying Consent Order by the Comptroller.

(2) The Bank consents and agrees that the Consent Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that the Consent Order shall become effective upon its execution by the Comptroller through his authorized representative, and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i).

(3) Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the consent Order and/or execute this Stipulation.

(5) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the United States Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any

officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

(6) The terms and provisions of the Stipulation and the Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy, or claim under this Stipulation or Order.

ARTICLE III

WAIVERS

(1) The Bank, by executing this Stipulation and consenting to the Consent Order, hereby waives:

- (a) Any and all rights to the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
- (b) Any and all procedural rights available in connection with the issuance of the Consent Order;
- (c) Any and all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(b) and (h), and 12 C.F.R. Part 19;
- (d) Any and all rights to seek any type of administrative or judicial review of the Consent Order;
- (e) Any and all claims for fees, costs, or expenses against the Comptroller, or any of his agents or employees, related in any way to this enforcement matter or the Consent Order, whether arising under common law or under

the terms of any statute, including, but not limited to, the Equal Access to Justice Act, 5 U.S.C. § 504 and 28 U.S.C. § 2412;

- (f) Any and all rights to assert this proceeding, this Stipulation, consent to the issuance of the Consent Order, and/or the issuance of the Consent Order, as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity; and
- (g) Any and all rights to challenge or contest the validity of the Consent Order.

ARTICLE IV

OTHER ACTION

(1) The Bank agrees that the provisions of this Stipulation and the Consent Order shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

(2) Nothing in this Stipulation or the Consent Order shall preclude any proceedings brought by the Comptroller to enforce the terms of the Consent Order, and nothing in this Stipulation or the Consent Order constitutes, nor shall the Bank contend that it constitutes, a release, discharge, compromise, settlement, dismissal, or resolution of any actions, or in any way affects any actions that may be or have been brought by any other representative of the United States or an agency thereof, including, without limitation, the United States Department of Justice.

(3) The terms of this Stipulation, including this paragraph, and of the Consent Order are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set her hand on behalf of the Comptroller.

/s/
Julie A. Blake
Assistant Deputy Comptroller
Central Ohio Field Office

3/29/16
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/
Lou Armstead

3/29/16
Date

/s/
Richard Davis

3/29/16
Date

/s/
Jerry Gerber

3/29/16
Date

/s/
Norman Hughes

3/29/16
Date

/s/
James R. T. Smith

3/29/16
Date

/s/
Gary Stahlheber

3/29/16
Date

/s/
Paul Taylor

3/29/16
Date

/s/
Douglas Ulrich

3/29/16
Date