

FDIC Records—Additional Correspondence Related to Crypto-Related Activities

February 21, 2025

This release includes eight records consisting of additional FDIC correspondence and other records involving the crypto-related activities of regulated institutions.



CONTROLLED//FDIC BUSINESS

Federal Deposit Insurance Corporation

Division of Risk Management Supervision

January 15, [REDACTED]

Board of Directors
[REDACTED]

Members of the Board:

On December 10, [REDACTED] you submitted information supporting your [REDACTED]

[REDACTED] Please be advised that the FDIC has reviewed the submitted information regarding [REDACTED]

[REDACTED] Based upon your current risk profile, [REDACTED]

If you have any questions, you may contact Assistant Regional Director [REDACTED] or
Case Manager [REDACTED]

Sincerely,

[REDACTED]
Regional Director

cc:

[REDACTED]



Federal Deposit Insurance Corporation

January 15, [REDACTED]

MEMORANDUM TO:

[REDACTED]
Regional Director

THROUGH:

[REDACTED]
Deputy Regional Director[REDACTED]
Assistant Regional Director

FROM:

[REDACTED]
Case Manager

SUBJECT:

BACKGROUND

The subject bank [REDACTED]

on the findings of a [REDACTED]

The [REDACTED] based
which found the AML/CFT
and [REDACTED]

product lines.

After issuance of the [REDACTED] exited the existing [REDACTED] business lines, first pivoting to [REDACTED] while management built out the FinTech program by expanding existing and engaging new relationships. An [REDACTED] FDIC-led joint Safety and Soundness examination ([REDACTED] Examination) identified [REDACTED] and found the AML program to be [REDACTED] with most [REDACTED]. In response to the [REDACTED] Examination, the bank hired a new BSAO [REDACTED] who began the process of improving the institution's AML program. The [REDACTED] Safety and Soundness Examination ([REDACTED] Examination) noted some improvement in the program based on [REDACTED] initial efforts and plans, though continued to [REDACTED] and called the overall program [REDACTED] due to lack of completed implementation of those plans. [REDACTED] resigned in late [REDACTED] based on what he described as friction with President [REDACTED] over differences of opinion about the state of the program, [REDACTED] daily management of the [REDACTED] AML staff, and [REDACTED] providing incorrect guidance to AML staff, as well as the Board's failure to follow through on the promise to appoint him as President.

In December [REDACTED], the bank contracted with [REDACTED] who currently serves as the BSAO. When [REDACTED] was appointed, the bank was [REDACTED]. [REDACTED] As such, [REDACTED] his appointment under those circumstances and only for the term of his [REDACTED] contract. [REDACTED] did not possess sufficient experience and competence in relation to the bank's FinTech business lines; however, given the [REDACTED] seek another individual to lead the program [REDACTED] him on the basis of [REDACTED]. The bank backed out of [REDACTED] with the Board stating its intention [REDACTED]. Upon the [REDACTED] expiration, the bank renewed [REDACTED] contract for another [REDACTED]. As part of the ongoing [REDACTED] Safety and Soundness Examination ([REDACTED] Examination), examiners communicated that the [REDACTED] proposed for another contract extension.

CONDITION OF THE INSTITUTION

The [REDACTED] Examination, as noted above, continued to [REDACTED] of the Bank Secrecy Act (BSA) and found the AML program to be [REDACTED]. The [REDACTED] Examination has found that many of the efforts [REDACTED] had initiated were not finalized and certain procedures were not maintained, and the program continues to be [REDACTED]. Since the [REDACTED] Examination, the bank has significantly expanded its [REDACTED] activity through several FinTech relationships, both new and existing. In addition to AML-based criticisms, examiners have found a concerning level of operational issues related to the various FinTech business lines. Some of these operational issues impact examiners' assessment of the bank's level of responsibility for AML monitoring and reporting. This assessment is different than prior examinations based upon the bank's inaccurate representations of the processes and payment flows under which these programs function.

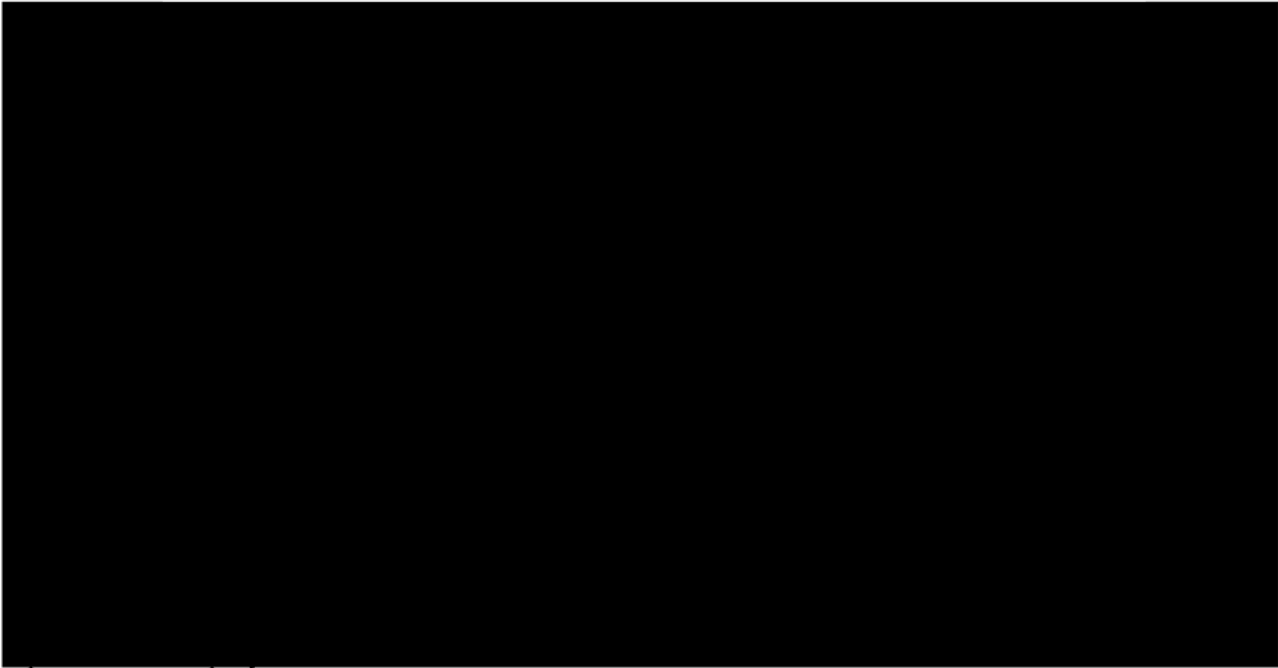
ANALYSIS OF [REDACTED]

[REDACTED]

[REDACTED]

The [REDACTED] Examination ROE concluded that bank was in [REDACTED] with [REDACTED]. It also stated that the AML program was satisfactory, though listed [REDACTED].

AML-specific [REDACTED]. The [REDACTED] Examination noted FinTech relationships, with IT-related [REDACTED] concerning due diligence over partners that had indirect crypto involvement. Despite referencing due diligence, the [REDACTED] did not include practices that appeared to reflect AML program deficiencies. The bank “paused” crypto-related relationships and only retained what appears to be a single FinTech relationship for a [REDACTED] platform.





FEDERAL DEPOSIT INSURANCE CORPORATION

DATE: September 18, 2023

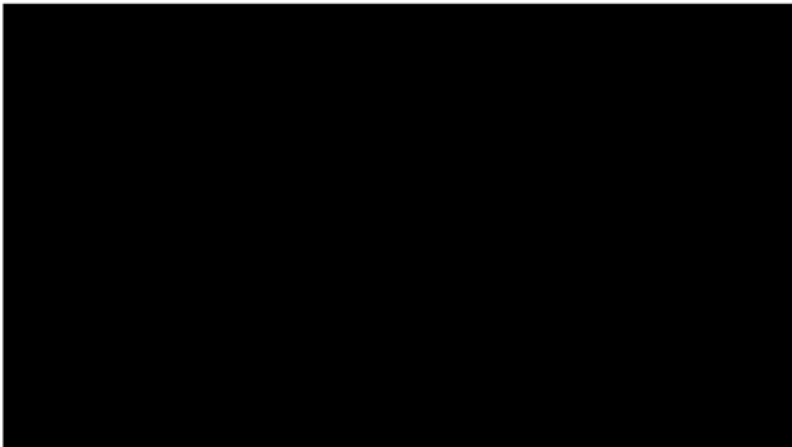
TO: Bank File

FROM: [REDACTED]
Senior Case Manager

SUBJECT: Interim Bank Contact – Monthly Conference Call

Representatives of [REDACTED], the Federal Deposit Insurance Corporation (FDIC), the [REDACTED] [REDACTED], and the Federal Reserve Bank [REDACTED] (FRB) meet monthly to discuss ongoing significant activities of the [REDACTED] the bank, and [REDACTED] [REDACTED]. This file memo summarizes attendance and discussion topics for today's meeting.

Meeting Attendees



FDIC: [REDACTED]
[REDACTED] Senior Case Manager (RMS)
[REDACTED] Senior Examination Specialist (RMS)
[REDACTED] Supervisory Examiner (RMS)
[REDACTED] Examiner-In-Charge (RMS)
[REDACTED] Special Activities Case Manager (RMS)
[REDACTED] Information Technology Supervisory Examiner (RMS)
[REDACTED] Information Technology Examination Analyst (RMS)
[REDACTED] Review Examiner (DCP)
[REDACTED] Examiner (DCP)

[REDACTED]
[REDACTED]

FRB: [REDACTED] Central Point of Contact

Discussion Topics

New Chief Audit Executive

[REDACTED]

AML/CFT Target Review Update

Chief FinTech Risk & AML Officer [REDACTED] and CRO [REDACTED] provided a brief update on the AML/CFT target review. They are developing detailed management responses to the findings discussed during the recent exit meeting. The responses will be shared with the Committee [REDACTED] and then forwarded to the regulators in the next few days.

[REDACTED] Termination & Deconversion

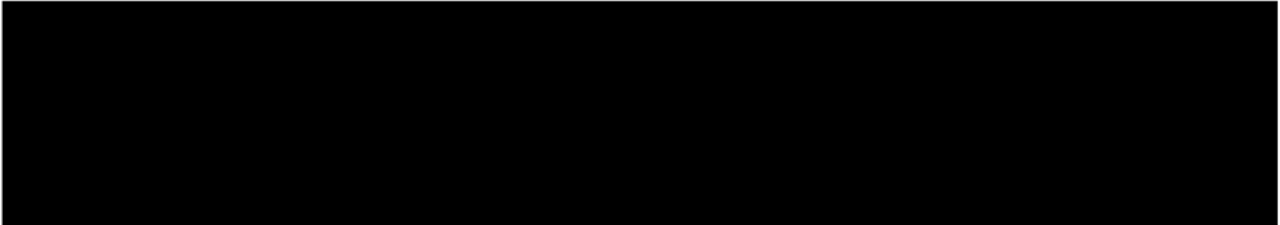
[REDACTED] stated that the [REDACTED] wind down process continues as expected. All [REDACTED] bitcoin accounts have been liquidated as of [REDACTED]. Funds are now in the [REDACTED] cash accounts. As of [REDACTED] cash accounts hold a balance greater than \$0, with aggregate balances totaling [REDACTED]. Of the [REDACTED] accounts, [REDACTED] of them do not have a linked account. Bank staff is reaching out to these customers. [REDACTED] noted the bank's goal is to have all cash accounts closed and funds returned to customers by [REDACTED].

Banking-as-a-Service

[REDACTED] briefly discussed the bank's [REDACTED] and [REDACTED] relationships. [REDACTED] activity remains steady and consistent, which is typical for [REDACTED]. The bank is continuing to see steady low levels of growth in the average balances of [REDACTED] accounts. Customer [REDACTED] activity on the debit cards will continue to slowly decrease [REDACTED]. [REDACTED] balances remain stable, with the bank continuing to nudge the company to move to another bank partner.

In response to further questioning by [REDACTED] regarding explanation for "inactive" and "unfunded" [REDACTED] account closings, CRO [REDACTED] stated that unfunded accounts are closed after one year. At one point, [REDACTED] had over [REDACTED] accounts, but the longer an account remains dormant the greater possibility of fraud. Therefore, the bank established procedures with [REDACTED]

██████ to close accounts that were never funded, which brought the number of accounts down to approximately ██████. The bank is working with ██████ to develop procedures to close inactive accounts.



Regulatory

September 2023

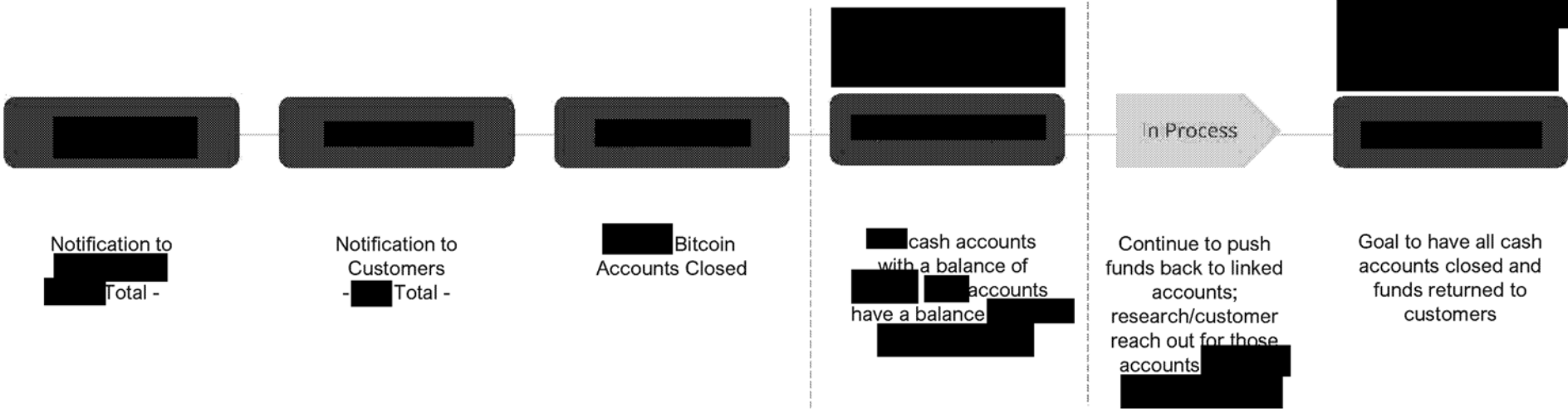
- 
- BSA Target Exam Update, 
 -  Termination & Deconversion, 
 - Banking as a Service Updates, 

AGENDA



Termination & Deconversion

████████ Wind Down Update



Cash Account Data as of 09.15.23	
# Open Accounts	████████
# Open Accounts with \$0 Balance	████████
# Open Accounts with > \$0 Balance	████████
# Accounts ██████████	████████
Total \$ in Accounts	████████████████











OFFICE MEMORANDUM

Federal Deposit Insurance Corporation
Division of Risk Management Supervision
[REDACTED]

9/27/2024

TO: Correspondence File

FROM: [REDACTED]
Case ManagerSUBJECT: Discussion with [REDACTED] VP
[REDACTED]

Case Manager [REDACTED] called VP/BSA Officer [REDACTED] on 9/26/24 to respond to questions she posed to Compliance examiner [REDACTED] via email on 9/13/24.

Her email posed the following questions:

“We have a **potential customer** who is a Bitcoin or virtual currency broker and they want to open an account with us for just their **commission fees**. They are not an issuer or an exchanger. There is some involvement in [REDACTED], which is an online casino. The way it has been explained to me is virtual currency is used as payment to [REDACTED] and the money from the transactions goes to three different attorneys’ IOLTA accounts. From there, funds are disbursed to the fee account (that our potential customer wants to open with us), and to other accounts at other banks that handle different aspects of the transactions. I am told we are expecting [REDACTED] transactions monthly, and they will be wires from the IOLTA accounts not held with our bank. Our bank president is the one who has been talking with the potential customer. I have talked to him about the potential for money laundering, etc. with virtual currencies. Other than those BSA implications, is there anything else we need to worry about? We are wanting to make sure we are not taking on more risk than what we want. Is there any guidance at all FDIC can [REDACTED]?”

Case Manager [REDACTED] discussed this issue with the regional [REDACTED] case manager, a regional IT specialist, and the DCP case manager for the bank. During his call with [REDACTED] he communicated various concerns and potential risks those contacts revealed. He highlighted the importance of performing thorough and ongoing customer due diligence, including questioning why the customer chose the bank to approach. He mentioned the relationship presents various aspects which may pose high risk for the bank. He noted the critical need for the bank to understand where funds were coming from and going to, and he mentioned the need for bank counsel to satisfy questions about the legality of the activity. He also referenced the potential need for policies and procedures to address Regulation GG, which may be applicable as the activity is related to gambling. He informed [REDACTED] about the 2023 Joint Statement concerning crypto currency activities as a possible reference source. CM [REDACTED] also shared potential IT concerns such as account access, wire transfer controls, reconciliation of activities, etc. [REDACTED] stated the bank has opened the account but no activity has occurred as yet. CM [REDACTED] closed the call with an offer to assist with any further questions [REDACTED] may give in the future.



FEDERAL DEPOSIT INSURANCE CORPORATION

DATE: January 14, 2025

TO: Bank File

FROM:

SUBJECT: Memo to File – Regional Office Meeting with

The purpose of this memo to file is to document the meeting of management with the FDIC at the on January 14, 2025. This file memo summarizes attendance and discussion topics for today's meeting.

Meeting Attendees

FDIC: , Regional Director (RMS)
Deputy Regional Director (RMS)
, Deputy Regional Director (DCP)
Assistant Regional Director (RMS)
Assistant Regional Director (DCP)
Case Manager (RMS)
Review Examiner (DCP)

Virtual: Field Supervisor, FDIC
Supervisory Examiner, FDIC
Examiner in Charge, FDIC
Special Assistant to Regional Director, FDIC

Discussion Topics

2022-2023 Report of Examination Response

New CRO [REDACTED] presented slides that mirror [REDACTED] written ROE response in RADD dated November 22, 2024. Bank management asserts that provisions within the [REDACTED] MOU have been remediated. CRO [REDACTED] also noted that management has remediated all supervisory recommendations listed in the 2022-2023 ROE and [REDACTED]

[REDACTED]

Management noted that they have implemented changes to their reporting structure to address CEO [REDACTED]. RD [REDACTED] reiterated during discussions that the [REDACTED]

[REDACTED]

FDIC Updates

DRD [REDACTED] committed to issuing outstanding Supervisory Letters from the 2023-2024 Supervisory Cycle within 30-45 days of this meeting. RD [REDACTED]

[REDACTED]

ARD [REDACTED] noted that this meeting would serve as the RO's 1st quarter touchpoint with bank management, and that a 2nd quarter meeting would be arranged by CM [REDACTED]

Attachments:

FDIC - [REDACTED] January 14 Meeting Deck.pdf













Greatly Reduced its Risk by Terminating Client Program Relationships with Digital Assets Clients

- As noted in the ROE, the deficiencies that resulted in the [REDACTED] were largely associated with [REDACTED] fintech program relationships with digital assets clients
- In [REDACTED] made the decision to exit its fintech program relationships with these clients
- Management actively chose to value prudent risk management over profit potential

Risk Mitigation Action	Status
1. Client off-boarding	• [REDACTED] client program closed in [REDACTED] • [REDACTED] client program closed in [REDACTED] • [REDACTED] client program closed in [REDACTED] • [REDACTED] client program closed in [REDACTED] • [REDACTED] operating account closed in [REDACTED] • Fintech client base has decreased from [REDACTED] to approximately [REDACTED] current clients
2. Discontinued onboarding of any new digital asset clients	• As of [REDACTED] [REDACTED] is no longer onboarding digital assets clients, including basic operating accounts.
3. Liquidity Risk Management	• <u>On Balance Sheet:</u> [REDACTED] has exited digital asset program accounts which included a reduction of the balance sheet of approximately [REDACTED]. The balance sheet has experienced both a decrease in asset size and a reduction in potentially volatile liabilities. As of [REDACTED], only [REDACTED] of digital assets related operating account liabilities remain on the balance sheet. • <u>Funding:</u> [REDACTED] treasury team continues to manage funding/liquidity following the termination of the [REDACTED] Client Program account relationship.
4. [REDACTED] risk reduction	• No new digital assets [REDACTED] have been onboarded since March 2023. No new digital [REDACTED] will be added without Board approval.









is in full compliance

- The FDIC Enforcement Manual states orders may be considered for termination where “[t]he IDI is in full compliance with all the provisions of the order and has fully corrected the violations of laws and regulations, unsafe and unsound practices, or conditions that led to the issuance of the order”
- [REDACTED] has fully corrected the violations of laws and regulations, unsafe and unsound practices, or conditions that were identified by the FDIC

has dramatically reduced its risk profile

- Chapter 4-6 states that orders should be terminated where “[a]ny provisions deemed “not in compliance” have become outdated or irrelevant to the IDI’s current circumstances....”
- As [REDACTED] has terminated its relationships with digital assets clients much of the issues associated with the [REDACTED] are outdated or irrelevant to the Bank’s current circumstances















[illegible]

Event	Deposit Outflows
Termination of [REDACTED] relationship	
Termination of [REDACTED] relationship	
[REDACTED] purchase of [REDACTED]	
[REDACTED]	
Pushed [REDACTED] funds off balance sheet due to brokered deposit discussion*	
Termination of digital asset program accounts	
Total	

With process and planning, cash and liquidity positions remain well within policy









FEDERAL DEPOSIT INSURANCE CORPORATION

DATE: November 20, 2023

TO: Bank File

FROM: [REDACTED]
Senior Case Manager

SUBJECT: Interim Bank Contact – Monthly Conference Call

Representatives of [REDACTED] the Federal Deposit Insurance Corporation (FDIC) [REDACTED] and the Federal Reserve Bank [REDACTED] (FRB) meet monthly to discuss ongoing significant activities of the [REDACTED] the bank, and [REDACTED]. This file memo summarizes attendance and discussion topics for today's meeting.

Meeting Attendees

FDIC: [REDACTED]
[REDACTED] Senior Case Manager (RMS)
[REDACTED], Supervisory Examiner (RMS)
[REDACTED] Examiner-In-Charge (RMS)
[REDACTED], Special Activities Case Manager (RMS)
[REDACTED] Information Technology Examination Analyst (RMS)
[REDACTED] Acting Supervisory Examiner (DCP)

Review Examiner (DCP)

Examiner (DCP)

FRB: Central Point of Contact

Discussion Topics

Implementation Plan Update

Chief FinTech Risk & AML Officer provided a brief update regarding the Implementation Plan. As of 11/16/2023, the bank had completed 51% of the tasks, with 23% in progress and 25% not yet started. The attached slide deck notes that data warehousing is in the release and tuning is in process of implementation. stated that, since the deck was prepared, the data warehouse moved to the release and tuning is complete. She noted that 80% of the tasks will be completed by 12/31/2023 and 98% will be completed by 3/31/2024. stated the team is "picking up its sea legs" with the bank now having positions in risk management filled, compared to in 3Q22.

AML/CFT Program Enhancements Currently Operational

The slide deck summarizes enhancements to the AML/CFT program. stated that a number of stopgap measures have been implemented to alleviate concern until the enhancements are completed. She also pointed out that a majority of AML leadership comes from companies or companies. She noted the bank had analysts devoted to in March and today they have. Most quality control staff members were in place on 8/31/2023, and she believes the bank now has a deep bench of talent. stressed that a lot of cross discussion among teams is helping with succession planning and they have also implemented a formal training program. She pointed out that the seats were filled within the projected time and all are quality hires. Many of the new hires had worked together at other institutions or knew each other. stated that one component of the recruiting strategy is to hire people that the bank knows. The team is now dedicated to both the lines, eliminating the previous silos. The bank still has contracted staff members, with dedicated to. The goal is to roll those off as soon as possible.

Digital Asset Risk Mitigation

briefly discussed the actions taken by management to reduce its risk in the digital assets vertical. has placed a cap on digital asset-related deposits to of total deposits, and the wind-down of the relationship is complete. He also noted that the bank plans to reduce the number of transactions with that supports. Lastly, he stated that the bank has added no new digital asset clients even though several have reached out to the bank. added that continues to work on the look-back review. They began researching alerts two weeks ago and expect to finish in January. meets weekly with and

[REDACTED] and every three weeks with the Audit Committee. To date, the firm has not reported any substantial concerns.

Banking-as-a-Service

[REDACTED] briefly discussed the bank's [REDACTED] and [REDACTED] relationships. He specifically noted that the bank is working with [REDACTED] to help them grow. The increase in [REDACTED]

[REDACTED] After one year, the bank closes accounts with a zero balance that were never funded. The bank is still working through the process of developing procedures with [REDACTED] regarding when to close dormant accounts. Regarding [REDACTED] informally notified the company in August that it did not want to renew the program and [REDACTED] should migrate to another sponsor bank. [REDACTED] is in process of getting its program reviewed by a number of other banks. [REDACTED] goal was to have the [REDACTED] program transferred by the end of the year, but [REDACTED] stated that the process will likely bleed into January. If it is not migrated by then, [REDACTED] intends to close the account. The bank has been focused on businesses that will drive profitability and exiting relationships that do not.







Implementation Plan Update

Executive Summary

Overall Summary: [REDACTED] is addressing key areas of [REDACTED] BSA/AML program across financial crimes prevention, detection and investigation. [REDACTED] (Implementation) is underway to implement Policies and Procedures, onboard and train staff, enhance monitoring systems, and complete independent testing and validation of issue remediation. Proactive improvements to the Fintech Risk program, policies, procedures and practices are also included in the scope of [REDACTED]

Key Accomplishments & Updates

On Track	People Completed Employee Hiring: [REDACTED] Completed Temporary Staffing: Engaged [REDACTED] for staff augmentation, system tuning, and [REDACTED] lookback. Training In Process: Completed policy and procedure training as of August 31, 2023. Job aid training to be completed late November.	On Track	Process Job Aids: Job aids complete and ready for validation and deployment early December 2023. Lookback: FDIC review of the plan is in process. [REDACTED] as begun the lookback with [REDACTED] reported completion. Risk Assessments: Updated AML risk assessments for Fintech and Core are underway for completion on 11/30/23
On Track		On Track	
Technology	Transaction Monitoring: Two rules live with [REDACTED] Live with all [REDACTED] on December 1, 2023. Business and functional requirements developed for issuing and payments New Case Management System: Selected [REDACTED] as Case Management Vendor Data warehouse and orchestration: Data orchestration in [REDACTED] release System tuning: [REDACTED] tuning recommendations approved and in process of implementation	Testing and Validation	[REDACTED] Performing validation of management's work to address the [REDACTED] [REDACTED] Audit Committee approved the annual audit for the BSA/AML program Internal Audit: Coordinate validation / testing work with [REDACTED]

Risks and Issues

- Dependencies on vendors for implementation of new technology solutions
- Changing regulatory expectations around Bank/Fintech partnerships
- Pressure on Fintech Industry verticals, including Crypto and [REDACTED] (industry consolidation with capital pressure)

Upcoming Activities

- People:** Job aid deployment
- Process:** [REDACTED] lookback; Fintech client risk assessments
- Tech:** Testing phase for [REDACTED] Issuing transaction monitoring for [REDACTED]
- Testing:** [REDACTED] Validation









AML/CFT Enhancements Currently Operational

We have summarized the enhancements to our AML/CFT program that have been put into place and are currently operational, which include a combination of target state controls and stop-gap measures designed to enhance our monitoring until all of the target state technology and processes are implemented.

INTERNAL CONTROLS: Management has improved the quality of alerts reviews, case investigations and [REDACTED] through enhancements to:

- **Staffing:**
 - Full-time AML/CFT Employees: The AML/CFT function is fully staffed with employees as of September 15, and added [REDACTED] additional Compliance testers in October. The leadership team is highly qualified with over 120 years of AML/CFT experience.
 - Staff Augmentation: Increased staff monitoring for [REDACTED] activity from [REDACTED] in March 2023, to [REDACTED] today as a stop-gap measure until the target state technology is fully implemented.
 - Fintech Risk Oversight: Hired a [REDACTED] with over 30 years of combined AML experience, who created new policies and procedures, and are performing reviews of clients. Completed AML reviews of [REDACTED] clients covering [REDACTED] % of total [REDACTED] transaction volume and [REDACTED] % of high-brand-risk volume.
 - Succession: With a deep bench of talent across all of our AML/CFT functions, we now have robust succession options.
- **Policies and Procedures:** New policies and procedures were developed, and employee training has been completed.
- **Quality Control:** The quality of QC reviews has also improved with a newly formed trained team with QC experience that is dedicated to and focused only on QC.
 - New staff are focused on QC reviews of [REDACTED] and CTR's.
 - [REDACTED] and CTR's are reviewed by more than one QC analyst.

AML/CFT Enhancements Currently Operational

CIP Collection & Verification: [REDACTED] target state CIP program has been fully implemented as of October 15.

- Completed the transition of certain CIP responsibilities to first-line deposit operations teams.
- Completed the transition of CIP oversight and escalation from the Fraud & Identity Team to the BSA/AML Customer Due Diligence team as of September 15.

Suspicious Activity Monitoring & Reporting: While much of the new technology for transaction monitoring has not yet been implemented, target state enhancements for certain areas are complete, and stop-gap measures have been implemented for others, including:

- Tuning of both the [REDACTED] and [REDACTED] instances of [REDACTED] was completed and changes were implemented as of November 1.
- Target-state AML/CFT transaction monitoring for [REDACTED] with [REDACTED] was live and in production as of November 1.
- A comprehensive review of [REDACTED] AML/CFT program was completed as of October 18 and was rated [REDACTED].
- Increased staff monitoring for [REDACTED] activity from [REDACTED] in March 2023 to [REDACTED] today as a stop-gap measure until the target state technology is fully implemented. This drove a [REDACTED]% increase in Requests for Information to [REDACTED] to facilitate investigations.
- Developed and documented [REDACTED] standards to ensure filing is completed within the required 30-day timeframe. Reporting and QC is in place to ensure compliance with the standards.

Through the combination of [REDACTED] transaction monitoring (rated [REDACTED]) and the [REDACTED] transaction monitoring that has been implemented, [REDACTED] is now at target state AML/CFT monitoring of [REDACTED] with [REDACTED].

Model Governance

- Developed and implemented a model governance framework as of August 11, 2023, including a change management process.
- Led by [REDACTED] [REDACTED] with 10 years of experience.









Digital Asset Risk Mitigation

Risk Mitigation Action	Status
1. Liquidity Risk Management	- Off Balance Sheet: [REDACTED] are held off balance sheet as of November 15 - On Balance Sheet - [REDACTED] are held on balance sheet as of November 15. [REDACTED] limits Digital Asset on balance sheet deposits to [REDACTED]% of total deposits
2. [REDACTED] Savings Terminated	[REDACTED] and [REDACTED] mutually agreed to terminate - Wind-down is complete and all funds were returned to customers
3. Exited smaller, non-strategic digital asset relationships	Exited [REDACTED] and [REDACTED] Accounts are all closed
4. [REDACTED] transaction monitoring	- We are evaluating options to reduce transactions processed with [REDACTED] by limiting the number of [REDACTED] that [REDACTED] supports - Implemented AML stop-gap measures with increased AML resources assigned to review [REDACTED] transaction activity, from [REDACTED] in March to [REDACTED] currently - Implemented additional controls to restrict international wires and wire activity with states where [REDACTED] does not have account relationships
5. Perform lookback of [REDACTED] transactional activity	[REDACTED] is in the process of performing the lookback review - The review of alerts and case investigations is expected to continue through January 2024
6. [REDACTED] risk reduction	- Terminated [REDACTED] of [REDACTED] through [REDACTED] - In November, we declined [REDACTED] new Crypto [REDACTED] through [REDACTED] and no new Crypto [REDACTED] have been onboarded since March 2023











**Federal Deposit Insurance Corporation**

Division of Risk Management Supervision
Chicago Regional Office
300 South Riverside Plaza, Suite 1700
Chicago, IL 60606
Telephone: (312) 382-7500

February 26, 2024

Board of Directors
[REDACTED]

Subject: Planned Banking as a Service Activity

Dear Directors:

The FDIC and the [REDACTED] recently completed the December 12, 2023 joint examination, at which examiners discussed the bank's strategic initiative to offer "Banking as a Service" (BaaS) to fintech businesses in an effort to provide another source of deposit funding. The service will provide deposit accounts used for business operations of, or processing ACH payments, via fintech organizations. Management conveyed that the bank will not be targeting any crypto-related or marijuana-related fintech businesses.

Management is in process of developing the operational and risk management framework, with implementation of the initial fintech partner targeted for second quarter 2024. Examiners identified considerable initial progress in that regard, but much still needs to be accomplished. Below are key recommendations that examiners discussed with management throughout the examination and at a post-examination meeting on January 18, 2024:

- Finalize thorough written policies and procedures commensurate with the risk and complexity of the activity. Areas identified in the draft policy that would benefit from expanded coverage include clearly defined responsibilities, duties, and authorities, including for the fintech approval processes; thorough description of processes and criteria for risk assessments, including partner-level risk assessments; and comprehensive expectations for due diligence, including required documentation. Furthermore, management should ensure that the written AML/CFT compliance program is commensurate with the risks in this overall strategy and those unique to any chosen fintech partners.
- Document comprehensive risk assessments for the program as a whole and for each underlying fintech relationship. The risk assessments should identify whether all necessary controls and practices are in place, and which enhancements are needed, to achieve the desired residual risk level. The current overall risk assessment lists several risk mitigants that have not yet been fully implemented.
- When contract negotiations with fintech partners begin, management, with appropriate

guidance from legal counsel, should ensure that agreements with all involved parties clearly outline relevant roles, responsibilities, and expectations; facilitate the mitigation of risks; and do not have an adverse impact on the bank.

- Ensure that the scope and degree of due diligence on critical service providers and potential fintech partners is well documented and commensurate with the level of risk and complexity.
- Ensure that ongoing monitoring practices for service providers and fintech partners are thorough and sufficiently documented. Management should specifically ensure that there are no gaps in oversight due to the unique risks of BaaS, coupled with the significant functions that service providers will be performing. Policies or procedures should also clearly identify responsibilities for performing oversight and for reporting the results.
- Expand the scope of audits to properly assess applicable risks at the bank, fintech partners, and service providers.
- Reevaluate the profitability analysis (and supporting assumptions) performed in January 2023 as the project progresses to ensure the analysis is realistic and comprehensive. Analysis should especially consider the staffing and other operational costs that will be involved with the BaaS activities.

This letter is confidential and may not be disclosed or made public in any manner under part 309 of the FDIC Rules and Regulations (12 CFR part 309) and [REDACTED]. If you have any questions, please feel free to contact FDIC Case Manager [REDACTED] at [REDACTED]@fdic.gov or [REDACTED] or [REDACTED] at [REDACTED].

Sincerely,

DocuSigned by:

Robert Masterson

Robert J. Masterson
Assistant Regional Director
Federal Deposit Insurance Corporation

Sincerely,

[REDACTED]

cc: Federal Reserve Bank of Chicago

**Federal Deposit Insurance Corporation**

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Division of Risk
Management Supervision

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January 14, 2025

MEMORANDUM TO: Correspondence File**FROM:** [REDACTED]
Case Manager**SUBJECT:** [REDACTED]
Interim Bank Contact

I discussed the bank's condition with President [REDACTED] and other members of senior management on January 13, 2025. The bank was most recently examined by the [REDACTED] on March 25, 2024, and was rated [REDACTED].

President [REDACTED] advised that 2024 was a pretty good year for the bank. From an earnings perspective, he noted that 2024 was better than 2023 when excluding a nonrecurring gain in 2023. He believes the 2024 ROAA ended slightly above [REDACTED]. At September 30, 2024, it equaled [REDACTED]. In 2023, it equaled [REDACTED]. We did not discuss the 2025 budget in detail, but he gave no indication that 2025 earnings will be significantly different than 2024. We briefly discussed the bank's STMR position. The bank has had offsites related to IRR, but the [REDACTED] rated it a [REDACTED] at its most recent examination, and the NIM has remained consistent for several quarters. It remains within the [REDACTED] percentile range among peer. The bank's CFO stated that the most recent quarterly IRR results indicated that the bank's net income remains fairly sheltered from both rising and falling rates.

Asset quality remains strong per President [REDACTED]. The ACI ratio was [REDACTED]% at the prior examination. The largest criticized credit, which accounted for more than [REDACTED]% of ACI, has improved and has been off the past due list for a few months now. It is a house loan. [REDACTED] are all doing well, and President [REDACTED] stated that most have the ability to withstand a few bad years. Overall, he has no concerns with asset quality.

There are no significant initiatives planned for 2025. Other than a few IT exceptions and two late CTR filings, the prior examination had no recommendations. We also discussed a [REDACTED] [REDACTED] within the last month or so. An individual opened a deposit account with a large amount of cash (not disclosed during our conversation but should be in the [REDACTED]). He subsequently used most of the cash that was deposited to purchase bitcoin through [REDACTED]. The [REDACTED], per CFO [REDACTED], [REDACTED] had some elements of structuring. Since that time, a few other individuals (friends of the aforementioned depositor), have established deposit accounts and deposited small amounts of cash or via check (usually around [REDACTED]), and then wired the deposit proceeds to [REDACTED] to also purchase bitcoin. Management is monitoring the activity.

The Leverage ratio was ■■■% at September 30, 2024, up from ■■■% at December 31, 2023. The September 30, 2024, FDIC Liquidity Tool reflected a Low assessment and a ■■■% ratio. Overall, there are no significant concerns noted during the review of the September 30, 2024, UBPR. The next examination will be conducted by the FDIC.



FEDERAL DEPOSIT INSURANCE CORPORATION

DATE: December 18, 2023

TO: Bank File

FROM: [REDACTED]
Senior Case Manager

SUBJECT: Interim Bank Contact – Monthly Conference Call

Representatives of [REDACTED], the Federal Deposit Insurance Corporation (FDIC), the [REDACTED] [REDACTED] and the Federal Reserve Bank [REDACTED] (FRB) meet monthly to discuss ongoing significant activities of the [REDACTED] the bank, and [REDACTED] [REDACTED] This file memo summarizes attendance and discussion topics for today's meeting.

Meeting Attendees

[REDACTED]

FDIC: [REDACTED] Senior Case Manager (RMS)
[REDACTED] Supervisory Examiner (RMS)
[REDACTED] Examiner-In-Charge (RMS)
[REDACTED] Senior Examiner (RMS)
[REDACTED] Senior Examination Specialist (RMS)
[REDACTED] Senior Examination Specialist (RMS)
[REDACTED] Examiner (DCP)

[REDACTED]

FRB: None

Discussion Topics

Implementation Plan Update

Chief FinTech Risk & AML Officer [REDACTED] provided a brief update regarding the [REDACTED] Implementation Plan. As of 11/28/2023, the bank had completed [REDACTED] tasks (53%) of the [REDACTED] tasks, with [REDACTED] (27%) in progress, [REDACTED] (18%) not yet started, and [REDACTED] (2%) overdue. The “not yet started” tasks will be initiated in January. Management expects 80% of the tasks to be completed by 12/31/2023 with the remainder (excluding independent testing) accomplished by March and April 2024.

[REDACTED] noted that the [REDACTED] which is focused on contracts and ongoing monitoring, is on track to meet the expected completion dates. However, management reopened some tasks for policies, procedures, and processes given that validation efforts revealed additional work was needed prior to closeout. While these are delayed, they are expected to be completed by 12/31/2023.

[REDACTED] stated that the BSA/AML Program workstream, which is focused on the continued development and enhancement of internal controls, remains on track. Management deployed all AML, Sanctions, and CIP first and second line job aids by 12/8/2023, and employees are using the new processes. She expects management will debut the [REDACTED] dashboard with the Board at its January meeting. Additionally, management completed its refinement of the risk assessment risk rating engine this week.

Digital Asset Risk Mitigation and [REDACTED] Update

CRO [REDACTED] briefly discussed ongoing digital asset risk mitigation actions, which are described in the attached slide deck. [REDACTED] highlighted that on balance sheet deposits from clients in the digital assets vertical are limited to no more than [REDACTED] % of on balance sheet deposits. Although the bank has completed the wind-down of the [REDACTED] [REDACTED] noted that [REDACTED] remains a corporate customer of [REDACTED].

[REDACTED] stated that the bank continues to plan to reduce the number of [REDACTED] transactions that [REDACTED] supports. [REDACTED] has also increased the number of analysts working [REDACTED] transactions to three in March to twelve currently. As a result of alerts generated by the Look-Back Review, the number of requests to [REDACTED] for additional information has substantially increased (approximately 10x) causing delayed response times. [REDACTED] stated that [REDACTED] has been working to add staff, which should reduce the time it takes to obtain the requested information. The delays will likely cause the timeline for the completion of the Look-Back Review to extend from 1/31/2024 to 2/29/2024. [REDACTED] has been made aware that it will need to restrain the volume of transactions flowing through the bank if it cannot get the additional resources to respond to information requests in a timely manner. [REDACTED] [REDACTED] briefly noted that the bank has completed an evaluation of which states would need to be limited and the status of their money transmission licenses. [REDACTED]

██████████ has not onboarded customers in ██████████ or ██████████ is prohibited from doing business, but examiners have identified some transaction activity out of those ██████████. As an abundance of caution, the bank has implemented controls to restrict ██████████-related wires in those ██████████.

██████████ touched on the ██████████ complaint against ██████████ and ██████████, stating that ██████████ engaged ██████████ to identify any potential ██████████ of ██████████ funds with ██████████. ██████████ identified approximately 3,000 outgoing transactions sent to business entities. ██████████ did not detect any evidence of ██████████. ██████████ management intends to review ██████████ 2022 audit (and 2023, when released) to determine if the company reported any ██████████ issues. From a liquidity perspective, ██████████ noted that the bank has sufficient cash to cover all ██████████ deposits. Management has been monitoring ██████████ inflows and outflows daily since the ██████████ filing and has not observed any material changes in ██████████ deposits.

Banking-as-a-Service

President ██████████ provided a brief update on the bank's BaaS relationships with ██████████ and ██████████. He stated that there has not been much change in activity with either company since last month, but he noted that ██████████ account positive trends continue and are aligned with expectations. ██████████ increase in ██████████ balances. ██████████ stated that ██████████ has been focused on growing the ██████████ product. The higher rate environment is very advantageous to ██████████ in marketing the program, and the increased balances benefits the bank by providing additional off balance sheet contingency funding. ██████████ management continues to work with the ██████████ executive team to negotiate the contract, which expires in ██████████. ██████████ prefers to wait until March and April for detailed discussions given the significant revenue earned ██████████. According to ██████████, ██████████ will increase the fees charged to improve the underlying margins. He expects active contract negotiations to begin in late February to early March and conclude in May. Regarding ██████████, the bank is still in the process of unwinding the contract while assisting ██████████ in finding a new banking partner. ██████████ does not want to shut down its program. The transition to another banking partner has taken additional time since there are limited banks that operate on the ██████████ core currently used by ██████████ for ██████████ transactions. Transitioning to a bank using another provider will require ██████████ to conduct a core conversion, which would likely be cost-prohibitive for the company. Nonetheless, ██████████ still expects a complete wind down of the ██████████ relationship by the end of the first quarter of 2024.













BSA/AML Program

Workstream Summary

Overall Summary: The BSA/AML Program workstream is currently [REDACTED]

This phase of the BSA/AML Program workstream is focused on the continued development and enhancement of internal controls to ensure full BSA compliance. This includes policy and procedure enhancements across suspicious activity monitoring, customer due diligence, and the bank’s customer identification program, among others.

Key Accomplishments

- Gathered needed CIP and beneficial ownership information from fintech clients identified in gap assessment
- Deployed AML, Sanctions and CIP first- and second-line job aids
- Continued progress on Board [REDACTED] Dashboard
- Continued processing of [REDACTED] validation recommendations

Upcoming Activities

- Review and process [REDACTED] validation recommendations
- Build out of [REDACTED] reporting dashboards
- Refine risk assessment risk rating engine
- Continued [REDACTED] lookback

Key Challenges / Risks / Issues

- Internal audit design assessment begins in December, which will potentially divert resources.

#	Milestone	Owner	Start Date	Target Finish	Status
1	Internal controls developed for Fintech customer oversight	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2	Suspicious Activity Monitoring and Reporting procedure development				
3	Customer Due Diligence procedure / desktop process revisions				
4	CIP procedure / desktop process update				
5	Complete [REDACTED] lookback				
6	Remediate [REDACTED] relationship				
7	Migrate [REDACTED]				
8	Validation of updates				
9	Refresh CDD/EDD on high-risk clients, under the new procedures				

Items Requiring Executive Action

- [REDACTED]



Digital Assets Risk Mitigation

Risk Mitigation Action	Status
1. Liquidity Risk Management	- Off Balance Sheet: \$ [REDACTED] in deposits are held off balance sheet as of November 30. - On Balance Sheet: \$ [REDACTED] is held on balance sheet. [REDACTED] % limit for on-balance sheet [REDACTED] - Lending Limits: Lending is restricted to [REDACTED] of on-balance sheet deposits (\$ [REDACTED] as of November 30)
2. [REDACTED] Savings Program Closure	[REDACTED] and [REDACTED] mutually agreed to terminate - Wind-down is complete and all funds were returned to customers
3. Exited smaller, non-strategic digital asset relationships	[REDACTED] and [REDACTED]. Accounts are closed.
4. [REDACTED] transaction monitoring	- We are evaluating options to reduce transactions processed with [REDACTED] by limiting the number of [REDACTED] that [REDACTED] supports - Implemented AML stop-gap measures with increased AML resources assigned to review [REDACTED] transaction activity, from [REDACTED] in March to [REDACTED] currently - Implemented additional controls to restrict international wires and wires activity with [REDACTED] [REDACTED] does not have account relationships
5. Perform lookback of [REDACTED] transactional activity	[REDACTED] is in the process of performing the lookback review - The surge in requests for addition information has put stress on [REDACTED] resources and response timeframes have extended beyond our [REDACTED] SLA (currently taking [REDACTED] days) [REDACTED] is working to add additional resources, but completion could be delayed by a few weeks
6. [REDACTED] risk reduction	- Terminated [REDACTED] of [REDACTED] through [REDACTED] - In [REDACTED] we declined two new Crypto [REDACTED] through [REDACTED] and no new Crypto [REDACTED] have been onboarded since March 2023

Complaint against

complaint against and , alleging

The complaint also alleges that business practices have deficient

In response to these allegations, has taken certain actions, including:

- **Evaluation of accounts for evidence** pulled all outgoing wire transactions during 2023 and reviewed those transactions sent to business entities. The beneficiaries were compared to customer information file and any that could not be confirmed as customers were investigated. No instances were identified.
- **requested Audited Financial Statements:** 2022 financials have not yet been issued, and expects them by year-end. will review the financials for any indications of and determine next steps based on the outcome of that review.

Liquidity Risk: In order to monitor liquidity risk associated with customer withdrawals in response to the negative news, Operations team has been providing daily reporting on inflows and outflows. To date, there have not been material changes in funds flows since this complaint was filed. limits its total Digital Asset business deposit exposure to % of total Deposits and only % of those are used to fund borrowing. Cash reserves are sufficient to cover all of the deposits (<\$ on balance sheet) leaving the Bank.









