FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

and

RHODE ISLAND DIVISION OF BANKING

CRANSTON, R.I.

In the Matter of INDEPENDENCE BANK EAST GREENWICH, RHODE ISLAND (INSURED STATE NONMEMBER BANK)	CORRECTED CONSENT ORDER FDIC-19-0091b DBR No. 19BK012

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Independence Bank, East Greenwich, Rhode Island, ("Bank"), under section 3(q) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1813(q), and the Rhode Island Division of Banking ("Division of Banking") is the appropriate State banking agency for the Bank under Rhode Island General Laws § 19-1-1(5).

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" ("CONSENT AGREEMENT"), dated July 25, 2019, that is accepted by the FDIC. With the CONSENT AGREEMENT, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to a lack of oversight and risk management practices commensurate with the Bank's business model and high risk profile, to the issuance of this Consent Order ("ORDER") by the FDIC.

Having determined that the requirements for issuance of an order under section 8(b) of the Act, 12 U.S.C. § 1818(b), and under Rhode Island General Laws § 19-4-12 have been satisfied, the FDIC and the Division of Banking hereby order that:

MANAGEMENT

1. (a) The Bank shall have and retain qualified management with appropriate expertise and authority to carry out their responsibilities. At a minimum, such management shall include:

(i) one or more executive officers with proven ability in managing a bank of comparable size and complexity and a track record of managing Small Business Administration ("SBA") Small Loan Advantage ("SLA") loans or loans issued under a comparable lending program;

(ii) one or more executive officers with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio, including demonstrated ability in oversight of comprehensive data analysis of loan portfolios; appropriate expertise to implement, and to ensure continuity of implementation of, the Bank's loan review program for its legacy loan portfolio; and experience in upgrading a low quality loan portfolio; and

(iii) a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk management.

(b) The Board shall provide the necessary written authority to management to implement the provisions of this ORDER.

(c) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws, rules, and regulations, including but not limited to those governing the SBA SLA loan program; and

(iii) restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality, management effectiveness, and liquidity.

BOARD PARTICIPATION

2. (a) The Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size and business model complexity.

(b) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged off, and recovered loans; investment activity; liquidity levels and funds management; adoption or modification of operating policies; individual committee reports; audit reports; internal control reviews including management's responses; reconciliation of general ledger accounts; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(c) Within thirty (30) days from the effective date of this ORDER, the Board shall improve Board and management oversight to mitigate effectively risks to the Bank. Improved oversight shall include, in part:

(i) conducting monthly meetings of all Board Committees;

(ii) documenting within Board and Committee minutes significant discussions and decisions; and

(iii) formalizing, adopting, and implementing the plan, with target timeframes, for Board succession.

(d) The Board shall conduct a comprehensive and documented analysis of any significant new initiatives, including loan securitizations, to ensure that the Bank has the appropriate expertise, appropriate control structure, and effective risk mitigation strategies prior to implementation. The Board's analysis shall include an identification of specific actions with assigned responsibilities to achieve the goals.

(e) The addition of any new director shall be accomplished in accordance with applicable state and federal law, and the Bank's by-laws and/or other governing corporate instrument(s).

STRATEGIC PLAN

3. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall develop and submit for review as required by subparagraph (c), revisions to its written three-year strategic plan ("Strategic Plan"), consistent with sound banking practices and taking into account the Bank's other written plans, policies, and other actions as required by this ORDER. The Strategic Plan shall include, at a minimum:

(i) a maximum concentration of unguaranteed SBA SLA loans as a percentage of total capital that can be managed satisfactorily given the bank's risk management framework and management team; this limit should also be supported by sufficient stress scenarios of SLA portfolio performance;

(ii) minimum capital ratios that are commensurate with the Bank's business model and risk profile and that are supported by sufficient stress scenarios in light of the loan growth, concentration risk, and credit risk within the Bank's loan portfolio;

(iii) identification of risks to the Bank flowing from its heavy reliance on the SBA SLA loan program, such as external disruptions to the SBA SLA program, the Bank's loss of its SBA preferred lending status, or the loss of any independent sales organization ("ISO"); and the development of contingency plans for mitigating those risks; and

(iv) pro forma balance sheet and income statements for each of the three years covered by the plan consistent with the Strategic Plan.

(b) The Strategic Plan shall be submitted to the Deputy Regional Director of the FDIC's New York Region ("Deputy Regional Director") and the Deputy Director and Superintendent of Banking of the Rhode Island Division of Banking ("Superintendent of Banking") for non-objection or comment. Within thirty (30) days from receipt of non-objection or any comments from the Deputy Regional Director and the Superintendent of Banking, and after incorporation and adoption of all comments, the Board shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Strategic Plan.

(c) The Strategic Plan required by this ORDER shall be reviewed and revised thirty (30) days prior to the end of each calendar year, and approved by the Board, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and adhere to the Strategic Plan.

UNDERWRITING PRACTICES

4. Upon the effective date of this ORDER, the Bank shall improve its underwriting practices. At a minimum, the Bank shall complete an appropriate and documented credit analysis to support each loan applicant's repayment ability and shall independently verify the accuracy and completeness of any applicant documents provided by an ISO.

OVERSIGHT OF ISO

5. Within thirty (30) days of the effective date of this ORDER, the Board shall improve the oversight and risk management program over any ISO with which the Bank has a relationship. The program shall provide for, in part:

(a) timely documented reviews of due diligence information obtained from an ISO by a person who is independent of the ISO and is qualified to assess effectively the risk the relationship poses to the Bank;

(b) the periodic, documented assessment of an ISO's compliance with the SBA's Standard Operating Procedures and with the ISO's written agreement with the Bank;

(c) an action plan, with assigned responsibilities and timeframes, to address any identified weaknesses;

(d) periodic reports to the Board with sufficient information for the Board to ensure risk is adequately managed and mitigated;

(e) a review by the Board of any transactions or relationships, direct or indirect, between the Bank and an ISO, with such review to include, but not be limited to, ensuring that the transaction or relationship is consistent with safe and sound banking practices, is in the best interests of the Bank, and is in compliance with all laws, regulations, and related acts, and with the Board's discussion and decisions regarding such a review to be documented within Board minutes and all related documentation to be maintained; and

(f) a review of each contract between the Bank and any ISO to identify any conflict with any provision of this ORDER; and an action plan with respect to any such conflict.

SBA SLA PROGRAM

6. (a) Within sixty (60) days from the effective date of this ORDER, the Board shall implement a formal loan classification or grading system for the SBA SLA loan portfolio ("SBA

SLA Risk Rating Methodology") that accurately identifies the risks of default presented by the credits within the portfolio and that:

(i) eliminates risk rating inconsistencies;

(ii) correlates to the allowance for loan and lease losses ("ALLL") methodology for credit risk; and

(iii) ascertains effectively the risks of nonpayment with respect to the unguaranteed portion of the SBA SLA loans retained by the Bank.

(b) Within sixty (60) days from the effective date of this ORDER, the Bank shall submit the SBA SLA Risk Rating Methodology to the Deputy Regional Director and the Superintendent of Banking for review and comment.

(c) Within sixty (60) days from the effective date of this ORDER, the Bank shall identify existing or retain new personnel (employees or consultants) with appropriate expertise to implement, and to ensure continuity of implementation of, the SBA SLA Risk Rating Methodology.

(d) Within thirty (30) days from the effective date of this ORDER, the Bank shall identify existing or retain new personnel (employees or consultants) with appropriate expertise to implement, and to ensure continuity of implementation of, appropriate collection practices for defaulted SBA SLA loans.

(e) One or more executive officers of the Bank shall report to the Board no less than quarterly about the following:

(i) the SBA SLA Risk Rating Methodology;

(ii) an identification of trends affecting the quality of the SBA SLA loan portfolio, such as origination source, delinquency periods, and geographic concentrations;

(iii) an analysis of quarterly stress scenarios of the SBA SLA loan portfolio to address potential risks such as higher than anticipated loan loss rates, less than anticipated originations, and delays in receipt of unsettled loan sale proceeds; and

(iv) the Bank's collection efforts with respect to defaulted SBA SLA loans.

ALLOWANCE FOR LOAN AND LEASE LOSSES

7. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall revise the methodology for determining the ALLL to be commensurate with the loan portfolio's complexities, size, and concentration risk and in accordance with Generally Accepted Accounting Principles. The revised ALLL methodology shall, at a minimum, include the following improvements:

(i) quarterly impairment analyses;

(ii) enhanced consideration of qualitative factor adjustments when calculating the default analysis by vintage for the SBA SLA portfolio, such that each vintage-specific default rate will reflect the risk evidenced within the specific vintage; and

(iii) prevention of layering, or the practice of recording in the ALLL more than one amount for the same estimated credit loss.

(b) Within seventy-five (75) days from the effective date of this ORDER, the Board shall approve the revised ALLL methodology.

(c) The analysis supporting the determination of the adequacy of the ALLL shall be submitted to the Deputy Regional Director and the Superintendent of Banking. These submissions shall be made at such times as the Bank files the progress reports required by this ORDER or sooner upon the written request of the Deputy Regional Director and the Superintendent of Banking. In the event that the Deputy Regional Director and the

Superintendent of Banking determines that the Bank's ALLL is inadequate, the Bank shall increase its ALLL and amend its Call Reports accordingly.

LIQUIDITY AND FUNDS MANAGEMENT

8. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall revise its liquidity and funds management policy to strengthen the Bank's funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs ("Liquidity and Funds Management Policy"). The policy shall be submitted for review as described in subparagraph (c).

(b) The Liquidity and Funds Management Policy shall include, at a minimum, provisions that:

(i) provide a statement of the Bank's long-term and short-term liquidity needs and plans for ensuring that such needs are met;

(ii) establish an aggregate funding concentration limit and require documented support that the limit is appropriate for the Bank's business model and risk profile;

(iii) establish and require documented support for a minimum liquidity ratio and define how the ratio is to be calculated;

(iv) require documented support for stress scenario assumptions;

(v) require application of stress scenarios to cash flow projections in order to identify potential funding gaps;

(vi) require the retention of highly liquid assets that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;

(vii) address the use of borrowings and provide for reasonable maturities commensurate with the use of the borrowed funds; address concentration of funding sources; and address pricing and collateral requirements with specific allowable funding channels (i.e., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and

(viii) establish contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs.

(c) The Liquidity and Funds Management Policy shall be submitted to the Deputy Regional Director and the Superintendent of Banking for non-objection or comment. Within thirty (30) days from receipt of non-objection or any comments from the Deputy Regional Director and the Superintendent of Banking, and after incorporation and adoption of all comments, the Board shall approve the Liquidity and Funds Management Policy, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the Liquidity and Funds Management Policy.

(d) The Bank shall review annually its Liquidity and Funds Management Policy for adequacy and, based upon such review, shall make necessary revisions to the policy.

DIVIDEND RESTRICTION

9. The Bank shall not declare or pay any dividend without the prior written consent of the Deputy Regional Director and the Superintendent of Banking.

GROWTH RESTRICTION

10. (a) During the effective term of this ORDER, the Board shall notify and obtain non-objection from the Deputy Regional Director and the Superintendent of Banking before engaging in any transactions that would materially change the Bank's risk profile or balance sheet composition. A material change includes, but is not limited to, annual growth in total

assets of five percent or more, to be measured monthly based on the prior year-end total assets; and significant changes in funding sources, such as by increasing volatile funding including brokered deposits and decreasing cash and interest bearing Bank balances. For purposes of this paragraph, "total assets" shall be defined as set forth in the FFIEC's Instructions for Consolidated Reports of Condition and Income.

(b) Upon the effective date of this ORDER, the ratio of the Bank's unguaranteed SBA SLA loans as a percentage of total capital shall not exceed the ratio of unguaranteed SBA SLA loans as a percentage of total capital as of June 30, 2019, until the Board has approved and the Bank has implemented the Strategic Plan required by paragraph 3 of this ORDER.

INSIDER TRANSACTIONS

11. (a) Within sixty (60) days from the effective date of this ORDER, the Bank shall formulate and submit for review as described in subparagraph (b), written procedures for the Board's review of any existing or future transactions or relationships, direct or indirect, between the Bank and an "insider," as that term is defined by Regulation O of the Board of Governors of the Federal Reserve System at 12 C.F.R. § 215.2(h). The review shall include, but not be limited to, ensuring that each insider transaction or relationship is consistent with safe and sound banking practices and is in compliance with all laws and regulations; and evaluating how the Bank's Code of Ethics/Conflict of Interest Policy applies to the transaction or relationship. The procedures shall include a provision requiring documentation within Board minutes of the Board's review and decisions and maintenance of all documents and information reviewed by the Board.

(b) The written procedures shall be submitted to the Deputy Regional Director and the Superintendent of Banking for non-objection or comment. Within thirty (30) days from receipt of non-objection or any comments from the Deputy Regional Director and the

Superintendent of Banking, and after incorporation and adoption of all comments, the Board shall approve the procedures, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement the procedures and conduct a review within thirty (30) days.

CORRECTION OF VIOLATIONS

12. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and safe and sound banking practices, to eliminate or correct and prevent unsafe or unsound banking practices and violations of law or regulation cited in the current Report of Examination.

PROGRESS REPORTS

13. Within thirty (30) days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Deputy Regional Director and the Superintendent of Banking written progress reports detailing the form, manner, and results of any actions taken to secure compliance with this ORDER. All progress reports and other written responses to this ORDER shall be reviewed by the Board and made a part of the Board minutes.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC, the Division of Banking, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC.

Issued Pursuant to Delegated Authority.

Dated: July 25, 2019

By:

John F. Vogel
Regional Director
Division of Risk Management Supervision
Federal Deposit Insurance Corporation

Elizabeth Kelleher Dwyer
Superintendent of Banking
Rhode Island Division of Banking