

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

SACRAMENTO, CALIFORNIA

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	)	
In the Matter of:	)	
	)	
CALIFORNIA BUSINESS BANK	)	CONSENT ORDER
IRVINE, CALIFORNIA	)	
	)	
(INSURED STATE NONMEMBER BANK)	)	FDIC-24-0018b
	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for California Business Bank, Irvine, California (“Bank”) under Section 3(q) of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1813(q). The California Department of Financial Protection and Innovation (“CDFPI”) is the appropriate State banking agency for the Bank under Division 1 of the California Financial Code.

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a Stipulation to the Issuance of a Consent Order (“Stipulation”), dated May 15, 2024, that is accepted by the FDIC and the CDFPI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to weaknesses in capital, asset quality, management, earnings, and sensitivity to market risk to the issuance of this Consent Order (“Order”) by the FDIC and the CDFPI pursuant to Section 8(b)(1) of the FDI Act, and Section 580 of the California Financial Code (“CFC”).

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b), and CFC have been satisfied, the FDIC and the CDFPI hereby order that:

**MANAGEMENT**

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the following:

(i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile;

(ii) a chief financial officer with proven ability in all aspects of financial management; and

(iii) a senior lending officer with significant lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

(b) 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 and regulations; and

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

(c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the

California Department of Financial Protection and Innovation (“Commissioner”), in writing, of the resignation or termination of any of the Bank’s directors or senior executive officers. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104 and any requirement of the State of California for prior notification and approval.

### **BOARD PARTICIPATION**

2. Within 30 days from the effective date of this Order, 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. 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 and funds managements activities; operating policies; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

### **ANTI-MONEY LAUNDERING/COUNTERING THE FINANCING OF TERRORISM**

3. Within 90 days of the effective date of this Order, the Bank shall comply in all material respects with Anti-Money Laundering/Countering the Financing of Terrorism (“AML/CFT”) and its rules and regulations.

4. Within 90 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written compliance program, as required by the applicable provisions of section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8, designed to, among other things,

ensure and maintain compliance by AML/CFT rules and regulations issued pursuant thereto. The program shall ensure that clear and comprehensive AML/CFT compliance reports are provided to the Board on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. At a minimum, the program shall establish the following components or pillars: a system of internal controls to assure ongoing compliance with AML/CFT; independent testing for AML/CFT compliance; a designated individual or individuals responsible for coordinating and monitoring AML/CFT compliance; and training for appropriate personnel. As part of the internal controls, the Bank's AML/CFT compliance program must include appropriate risk-based procedures for conducting ongoing customer due diligence as set forth in 31 C.F.R. § 1020.210(b)(5) including, but not limited to: understanding the nature and purpose of customer relationships for the purpose of developing a customer risk profile; and conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information, including information regarding the beneficial owner(s) of legal entity customers. In addition, the AML/CFT compliance program must include procedures to address other AML/CFT reporting and recordkeeping requirements including, among other things, currency transaction reports ("CTR"), suspicious activity reports ("SARs"), and beneficial ownership.

5. During the life of this Order, the Bank shall have and retain a qualified AML/CFT and Office of Foreign Assets Control ("OFAC") Compliance Officer. The Bank shall notify the Regional Director and the Commissioner in writing prior to appointing any new AML/CFT and OFAC Compliance Officer, or materially changing the responsibilities of the AML/CFT and OFAC Compliance Officer. Such proposed appointment, employment, or change in responsibilities shall not become effective until the Bank complies with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and

Regulations, 12 C.F.R. §§ 303.100–303.104 and any requirement of the State of California for prior notification and approval unless a waiver is granted by the Regional Director and the Commissioner at their sole discretion. The Board shall ensure that the Bank’s AML/CFT compliance program is managed by a qualified BSA/AML and OFAC Compliance Officer who:

- (a) Has sufficient experience, authority, and independence to monitor and ensure compliance with AML/CFT, including the ability to develop and implement AML/CFT policies and procedures;
- (b) Has sufficient resources (monetary, physical, and personnel) to administer an effective BSA/AML compliance program based on the Bank’s risk profile; and
- (c) Shall be responsible for assuring the proper and timely filing and retention of SARs, CTRs, Reports of International Transportation of Currency or Monetary Instruments (“CMIRs”), Reports of Foreign Bank and Financial Accounts (“FBARs”) and any other reports required by AML/CFT or its implementing laws or regulations.

6. Within 60 days of the effective date of this Order, the Board shall ensure that the AML/CFT software used by the Bank, and any additional or subsequent BSA software used, is functioning accurately and is functioning properly with the Bank’s core operating system. Additionally, the Bank shall have at all times a minimum of two members of the Bank’s staff who have been fully trained on the correct functioning of the AML/CFT software and any additional or subsequent BSA software.

7. Within 30 days of the effective date of this Order, the Board shall ensure that all Bank personnel receive AML/CFT training from staff and/or independent contractors who have training and experience commensurate with the Bank’s products and services and the Bank’s AML/CFT risk profile. Bank personnel receiving such training shall include all Board members and all appropriate personnel, including but not limited to, senior management, tellers, customer service representatives, lending officers, all other customer contact personnel, and any

contractors not reflecting the requisite experience for their assignments, in all aspects of regulatory and internal policies and procedures related to AML/CFT. Training shall have a specific emphasis and concentration on accurate and timely CTR preparation, amendment, and recordkeeping; form completion, and the detection and reporting of suspicious activity. Training shall be conducted and updated on a regular basis to ensure that all personnel are provided with current and up-to-date information.

### **CONCENTRATION OF CREDIT**

8. Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written plan, approved by its Board and acceptable to the Regional Director and the Commissioner for addressing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, any borrowers in the “Commercial Real Estate” Concentration, with particular emphasis on those borrowers in the gas station industry. Such plan shall be in conformance with Appendix A of Part 365 of the FDIC’s Rules and Regulations, 12 C.F.R. Part 365, Appendix A; and Financial Institution Letter (FIL)-104-2006, Commercial Real Estate Lending Joint Guidance, dated December 12, 2006.

### **VIOLATIONS OF LAW**

9. Within 90 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the Report of Examination dated August 21, 2023. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

### **SUPPORT FOR HIGH CONCENTRATION LIMIT**

10. Within 120 days from the effective date of this Order, the Bank shall complete a comprehensive analysis of the Bank’s gas station portfolio that thoroughly analyzes the risks and issues inherent to it and makes recommendations going forward. This analysis shall be

satisfactory to the Regional Director and the Commissioner as determined by subsequent examinations and/or visitations.

#### **INDEPENDENT STAFFING STUDY**

11. Within 60 days from the effective date of this Order, the Board shall conduct an independent study of the Bank's current organization and staffing structure. The study should determine the necessary levels of staffing and experience levels required to adequately operate the Bank in a safe and sound manner. A copy of the study shall be submitted to the Regional Director and the Commissioner. The Board shall adopt a plan to implement the recommendations of the study. The study and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

#### **ANNUAL REVIEWS ON LOANS**

12. The Board shall provide all necessary resources to ensure that annual loan reviews are conducted within 120 days of the end of the cycle to ensure that management is aware of the credit quality of each loan so that proactive measures can be taken to manage these credits.

#### **LOAN COVENANT TRACKING AND EVALUATION**

13. Within 60 days of the effective date of this Order, the Bank shall improve the tracking of loan covenants and perform evaluations in a timely manner. The improvements and their implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

#### **COMMERCIAL REAL ESTATE STRESS TESTING**

14. Within 120 days of the effective date of this Order, the Board and management shall develop procedures for conducting effective and accurate portfolio stress testing to ensure consistency and continuity. The frequency and testing standards should be commensurate with the Bank's business activities, portfolio size, and concentration levels. Such procedures and their

implementation shall be satisfactory to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

### **SUCCESSION PLANNING**

15. Within 90 days of the effective date of this Order, the Board shall develop and approve a succession plan. Such plan shall be updated and approved on an annual basis. A copy of the plan shall be submitted to the Regional Director and the Commissioner. The plan shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

### **SENSITIVITY TESTING OF DECAY RATES AND PREPAYMENT ASSUMPTIONS**

16. Within 90 days from the effective date of this Order, the Bank shall conduct sensitivity testing of key assumptions, such as deposit decay rates and loan prepayment rates, to manage interest rate risk exposure and prepare a report of the results. Sensitivity testing will allow management to determine if their interest rate risk exposure is still manageable under a more stressed assumption scenario. Such report shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

### **INTERNAL AUDIT ENTERPRISE RISK ASSESSMENT AND AUDIT SCHEDULE**

17. Within 60 days from the effective date of this Order, the Bank shall ensure that the enterprise risk assessment includes all audits from the audit schedule. The Directors Audit and Compliance Committee should discuss all audits not performed according to schedule and approve exceptions.

18. The Bank shall not engage in any new lines of business or establish any new branches or other offices of the Bank without the prior written approval of the Regional Director and the Commissioner.

**PROGRESS REPORTS**

19. Within 30 days of the end of the first quarter following the effective date of this Order, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank's Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Regional Director and the Commissioner have released the Bank in writing from making further reports.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the CDFPI, 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, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the CDFPI.

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 and the CDFPI.

Issued pursuant to delegated authority.

Dated this 31<sup>st</sup> day of May, 2024.

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Michelle Ogren  
Deputy Regional Director  
Division of Risk Management Supervision  
San Francisco Region  
Federal Deposit Insurance Corporation

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Aaron Prospero  
Deputy Commissioner, Banking Division  
California Department of Financial  
Protection and Innovation