

BEFORE THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION
OF THE STATE OF CALIFORNIA

In the Matter of

HATCH BANK

ORDER
(Fin. Code, § 580)

WHEREAS, Hatch Bank (“**Bank**”) is a state-chartered bank authorized by the Commissioner of the Department of Financial Protection and Innovation (“**Department**”) to engage in banking;

WHEREAS, the Bank, by and through its duly elected and acting board of directors (“**Board**”), has executed a Waiver and Consent to the issuance of this Order dated April 3, 2025, that is accepted by the Department. With this Waiver and Consent, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this Order;

Pursuant to Financial Code section 580, the Commissioner hereby orders:

I. Board Requirements

A. Supervision, Direction, and Oversight. The Board must increase, commensurate with the size of the Bank and the nature, scope, complexity, and risk of Bank products and services, whether conducted or provided by the Bank, or on behalf of the Bank through one or more Third-Party Relationships, as defined below, (“**Bank Activities**”) and business arrangements between the Bank and another person or entity, by contract or otherwise, and any business arrangements with an entity conducting one or more Bank Activities, or a component of a Bank Activity (collectively, “**Third-Party Relationships**”), its supervision and direction of Bank management, and its oversight and monitoring of the AML/CFT Program, including ensuring sufficient resources, the implementation of and adherence to appropriate written policies, procedures, processes, and/or practices (collectively, “**Procedures**”), and at a minimum:

1 1. *Information and Procedures.* Ensure that Procedures regarding Board oversight
2 and monitoring of the AML/CFT Program (a) appropriately consider the nature, scope, complexity,
3 and risk of Bank Activities and Third-Party Relationships; (b) include provisions which (i) require
4 the Board be provided with the information and documentation necessary to fulfill its duties and
5 responsibilities under this Order; and (ii) enable the Board to monitor and regularly evaluate the
6 adherence to and the effectiveness of the Procedures; and (c) are appropriately revised in a timely
7 manner to assure on-going and proactive compliance with applicable laws and regulations; and

8 2. *Meetings.* Ensure that the minutes of meetings of the Board and Board
9 committees are sufficiently detailed and reflect the discussion of and rationale for material decisions
10 and any specific actions taken or to be taken by the Board and/or any requirements of or directions to
11 Bank management as a result of the discussions.

12 B. Corrective Action. The Board must also ensure that the Board and the Bank continue
13 to take all steps necessary, consistent with other provisions of this Order, and safe and sound
14 banking practices to:

15 1. *Banking Practices and Violations.* Eliminate or correct the unsafe or unsound
16 banking practices and the violations of law or regulation identified in the March 4, 2024 Report of
17 Examination issued jointly by the Federal Deposit Insurance Corporation and the California
18 Department of Financial Protection and Innovation (“**2024 ROE**”) and establish and maintain
19 Procedures to track, eliminate or correct, and thereafter prevent any unsafe or unsound banking
20 practices or violations of law or regulation identified in future reports of examination or visitation
21 reports;

22 2. *Deficiencies and Weaknesses.* Appropriately address the AML/CFT-related
23 deficiencies and weaknesses identified in the 2024 ROE and establish and maintain Procedures to
24 track and appropriately address these and any other deficiencies or weaknesses identified in the 2024
25 ROE and future reports of examination or visitation reports; and

26 3. *Order Compliance.* Fully comply with the provisions of this Order in a timely
27 manner.
28

II. AML/CFT Program

Within 90 days from the effective date of this Order, the Board must ensure that the Bank’s written AML/CFT Program is reasonably designed to assure and monitor the Bank’s compliance with the Bank Secrecy Act (“BSA”). At a minimum, the AML/CFT Program must (i) be commensurate with the Bank’s size, organizational structure and complexity, the nature, scope, complexity, number, volume, and risk of Bank Activities and Third-Party Relationships and the Bank’s money laundering (“ML”), terrorist financing (“TF”), identity theft, and other illicit financial activity risk profile (collectively, “ML/TF Risk Profile”); (ii) address the BSA-related deficiencies and weaknesses identified in the 2024 ROE; (iii) comply with the requirements of this Order; (iv) include Procedures for monitoring the performance of and the Bank’s adherence to the AML/CFT Program and documenting, tracking, and reporting such performance and adherence; and (v) include Procedures for the performance of an initial and then periodic risk-based reviews and appropriate revisions of the AML/CFT Program to ensure that it is and continues to be reasonably designed to assure and monitor the Bank’s compliance with the BSA.

A. Risk Assessment. The Board must ensure that, within 60 days from the effective date of this Order, the Bank’s written assessment of ML, TF, identity theft, and other illicit financial activity risks (collectively, “ML/TF Risk Assessment”) accurately reflects the Bank’s ML/TF Risk Profile. The ML/TF Risk Assessment must, at a minimum:

1. appropriately consider all pertinent information, including information regarding Bank Activities, Third-Party Relationships, Customers, as defined below, transactions, and geographic locations;
2. include a detailed qualitative and quantitative written analysis of the risks of ML, TF, identity theft and other illicit financial activity (collectively, “ML/TF Risks”) within each identified category;
3. include the appropriate risk-mitigating strategies for the ML/TF Risks identified in the ML/TF Risk Assessment that will be implemented.

B. System of AML/CFT Internal Controls. The Board must ensure that, within 90 days from the effective date of this Order, the Bank has a system of internal controls in place that assures

1 and monitors compliance with the BSA (“**AML/CFT Internal Controls**”). The AML/CFT Internal
2 Controls must appropriately consider the ML/TF Risk Profile; ML/TF Risk Assessment; and the
3 anticipated number of new Bank Activities and their respective complexity, scope, and volumes, and
4 the anticipated number of new Third-Party Relationships and their complexity and scope (“**Growth
5 Plans**”). The AML/CFT Internal Controls must also, at a minimum, include Procedures requiring:

6 1. *AML/CFT Resources Reviews.* The performance of an initial and then
7 periodic risk-based reviews and assessments of the adequacy and appropriateness of the Bank’s
8 current AML/CFT related resources (“**AML/CFT Resources Review**”). An AML/CFT Resources
9 Review must, at a minimum: (a) appropriately consider the ML/TF Risk Profile; the ML/TF Risk
10 Assessment; and Growth Plans; and (b) assess whether the Bank has the appropriate level and type
11 of AML/CFT related resources, including the appropriate number of Bank staff with the requisite
12 expertise, skillsets, and sufficient authority and independence, to effectively mitigate ML/TF Risks,
13 ensure appropriate oversight and supervision of the AML/CFT-related Procedures, Bank Activities,
14 and Third-Party Relationships, and ensure compliance with this Order and the BSA. An AML/CFT
15 Resources Review must be satisfactorily documented and supported in a written report which
16 identifies any deficiencies, including those due to employee turnover, and/or additional AML/CFT
17 resource needs, with recommendations on how they should be addressed;

18 2. *Third-Party Relationships Review.* The performance of an initial and then
19 periodic risk-based comprehensive reviews of any Third-Party Relationship performing a BSA
20 compliance activity or function on behalf of the Bank (“**AML/CFT Third-Party Relationship
21 Reviews**”) to (a) assess whether the systems used by the Third-Party Relationship to risk rate
22 Customers, monitor, detect, and report suspicious activity and/or identify and file BSA-related
23 reports (“**BSA Reports**”) based on the Bank’s current ML/TF Risk Assessment and ML/TF Risk
24 Profile have been appropriately validated, including a validation of the accuracy, completeness, and
25 consistency of the system’s information; (b) assess whether the Third-Party Relationship’s system
26 documentation and related Procedures accurately reflect the rules, thresholds and scenarios in use by
27 the Bank and are appropriately supported; and (c) assess whether decisions to adjust or not adjust
28 system parameters resulting from an AML/CFT Third-Party Relationship Review are appropriately

1 documented and supported. All AML/CFT Third-Party Relationship Reviews must be satisfactorily
2 documented and supported in a written report which identifies any deficiencies, with
3 recommendations on how they should be addressed.

4 3. *AML/CFT Reporting Reviews.* The performance of an initial and then
5 periodic risk-based comprehensive reviews (“**AML/CFT Reporting Reviews**”) to (a) assess and
6 validate each of the systems, including the accuracy, completeness, and consistency of the system’s
7 information, used by the Bank to risk rate Customers, monitor, detect, and report suspicious activity
8 and/or identify and file BSA Reports based on the current ML/TF Risk Assessment and ML/TF Risk
9 Profile; (b) assess whether the Bank’s system documentation and related Procedures accurately
10 reflect the rules, thresholds and scenarios in use and are appropriately supported; and (c) assess
11 whether decisions to adjust or not adjust system parameters resulting from an AML/CFT Reporting
12 Review are appropriately documented and supported. An AML/CFT Reporting Review must be
13 satisfactorily documented and supported in a written report which identifies any deficiencies, with
14 recommendations on how they should be addressed;

15 4. *Monitoring and Reporting.* The review and appropriate revision of the Bank’s
16 Procedures and systems for identification, monitoring, detecting, and reporting of activity conducted
17 within or through the Bank to, at a minimum:

18 (a) ensure the timely detection, investigation, and reporting of suspicious
19 activity with the filing of accurate and complete SARs;

20 (b) address all stages of suspicious activity monitoring, including alert
21 reviews, investigations, requests for information, case reviews, escalations, case closings, the filing
22 of SARs, and SAR follow-ups, and be comprehensive, clear, and consistent;

23 (c) require appropriate levels of documentation, analysis, and support for
24 each stage of the suspicious activity monitoring and reporting process; and

25 (d) ensure the timely, accurate, and complete filing of all reports regarding
26 searches requested by the Financial Crimes Enforcement Network under 12 C.F.R. § 1010.520(b)(3)
27 (**FinCEN Searches**), with an appropriate level of documentation, analysis, and support for
28 monitoring and reporting process decisions; and

1 5. *Customer Due Diligence.* The review and appropriate revision of the Bank’s
2 due diligence Procedures, including its Customer Identification Program, for all new and existing
3 customers (“**Customers**”) to, at a minimum:

4 (a) ensure consistency with the ML/TF Risk Profile and ML/TF Risk
5 Assessment and require an increased focus on Customers identified by the Bank as posing a
6 heightened risk of ML, TF, identity theft, or other illicit financial activities;

7 (b) establish a standardized methodology designed to ensure the risk level
8 of the Bank’s Customers is appropriately identified and assessed based on the potential for ML, TF,
9 identity theft, or other illicit financial activity posed by the Customer’s activities, with appropriate
10 consideration given to the nature and purpose of the account, including the anticipated type and
11 volume of account activity, types of products and services offered, and locations and markets served
12 by the Customer;

13 (c) ensure the Bank has sufficient information to understand the nature
14 and purpose of Customer relationships for purposes of developing a Customer risk profile and
15 address the means by which information will be requested and collected from Customers;

16 (d) ensure the Bank collects and verifies, as appropriate, ownership
17 information of legal entity Customers;

18 (e) ensure an appropriate level of ongoing monitoring commensurate with
19 Customer risk profiles to ensure that the Bank can accurately identify those Customers the Bank has
20 reason to believe pose a heightened risk of ML, TF, identity theft, or other illicit financial activities
21 and require additional due diligence;

22 (f) establish when, what, and how additional information will be collected
23 for Customers the Bank has identified as posing a heightened risk of ML, TF, identity theft, or other
24 illicit financial activities, taking into account the Customer risk profile and the specific risks posed
25 by the Customer;

26 (g) establish whether and when Customer information, including
27 information regarding the beneficial owner(s) of legal entity Customers, should be updated to ensure
28 it is current and accurate;

1 (h) establish standards for conducting and documenting analysis
2 associated with the due diligence process, including guidance for resolving issues when insufficient
3 or inaccurate information is obtained; and

4 (i) establish specific staff responsibilities, including who is responsible
5 for requesting and collecting Customer information, overseeing the collection of Customer
6 information through Third-Party Relationships, determining whether collected Customer information
7 is sufficient, and reviewing and/or authorizing changes to Customer risk profiles and/or Customer
8 information.

9 C. AML/CFT Independent Testing. The Board must ensure that, within 90 days from
10 the effective date of this Order, the Bank has implemented Procedures for the independent testing of
11 the AML/CFT Program and the Bank’s compliance with the BSA (“**AML/CFT Independent**
12 **Testing Procedures**”) that consider all pertinent information, including the current ML/TF Risk
13 Assessment, and are appropriate for the Bank’s ML/TF Risk Profile. The AML/CFT Independent
14 Testing Procedures must, at a minimum, require:

15 1. *AML/CFT Program Evaluation*. The evaluation of the overall adequacy and
16 effectiveness of the AML/CFT Program, including the Bank’s Procedures, and whether the Board,
17 Bank management, staff, consultants, and agents, including any Third-Party Relationships serving as
18 agents of the Bank, satisfactorily adhere to the Bank’s AML/CFT Program;

19 2. *AML/CFT Risk Assessment and Profile Review*. A review of the ML/TF Risk
20 Assessment and ML/TF Profile;

21 3. *Transaction Testing*. Appropriate risk-based transaction testing to verify the
22 Bank’s compliance with the BSA;

23 4. *BSA Officer Evaluation*. An evaluation of the BSA Officer’s skills and ability
24 to effectively coordinate and monitor day-to-day compliance, administer all aspects of the
25 AML/CFT Program, including the Bank’s compliance with the BSA, and report directly to the Board
26 or the Compliance Committee with regard to all matters related to the BSA;

27 5. *Management Evaluation*. An evaluation of Bank management’s efforts to
28 resolve violations cited and deficiencies noted in previous audits and regulatory examinations;

1 6. *AML/CFT Training Program Review.* A review of the AML/CFT Training
2 Program, defined below, for completeness and effectiveness;

3 7. *Systems and Information Assessment.* An assessment of the quality,
4 completeness, reliability, and accuracy of AML/CFT Program systems and information;

5 8. *BSA Reporting Assessment.* An assessment of the effectiveness of the Bank’s
6 identification of suspicious activity, and filing of BSA Reports, including reviews of SAR- and
7 FinCEN Searches-related documentation to determine their accuracy, timeliness, and completeness;

8 9. *Testing Documentation Assessment.* An assessment of the documentation
9 prepared in connection with the scope of the testing procedures performed, each step of the testing
10 process, including the escalation and exclusion process for issues or concerns, and whether they
11 include appropriately detailed descriptions and are satisfactory supported by workpapers that have
12 undergone an appropriate quality assurance review; and

13 10. *AML/CFT Audit Report Preparation.* Preparation of a report reflecting the
14 results of the testing (“**AML/CFT Audit Report**”) that, at a minimum:

15 (a) includes a root cause analysis for each identified issue or concern;

16 (b) indicates whether the identified issue or concern is new or was
17 previously identified;

18 (c) reflects the employee(s) or business line responsible for the identified
19 issue or concern;

20 (d) summarizes management’s response to the identified issue or concern
21 noting concurrence or disagreement with the finding, an explanation for the existence of the issue or
22 concern, and management’s plans for and timing of remediation of the issue or concern; and

23 (e) is submitted to the Audit Committee and the Compliance Committee
24 immediately upon completion.

25 D. AML/CFT Training. The Board must ensure all appropriate personnel are aware of,
26 and can comply with, the requirements of the BSA applicable to the individual’s specific duties and
27 responsibilities to assure the Bank’s compliance with the BSA and ensure that the Bank implements
28 effective training for the Board, Bank management, staff with assigned duties under the AML/CFT

1 Program, and other Bank staff (collectively, “**Bank Personnel**”) regarding the BSA generally and
2 with respect to the compliance of Bank Activities and the Bank’s Procedures with the BSA
3 (“**AML/CFT Training Program**”) within 60 days from the effective date of this Order. The
4 AML/CFT Training Program must, at a minimum:

5 1. *Tailored Training.* Ensure training is tailored to address the specific duties
6 and responsibilities of the Bank Personnel for which the training is being provided;

7 2. *Initial and Periodic Training.* Require initial and periodic tailored training,
8 updated as appropriate; and

9 3. *Documentation.* Require full documentation of the AML/CFT Training
10 Program and its implementation including type of training, training materials, dates of the training
11 sessions, and attendance records.

12 **III. OFAC Compliance Program**

13 The Board must ensure that the Bank complies with the requirements of the laws and
14 regulations administered by the Office of Foreign Assets Control (collectively, “**OFAC**
15 **Requirements**”) and that the program established by the Bank (“**OFAC Compliance Program**”) is
16 appropriately assesses the risk associated with compliance with OFAC Requirements and
17 satisfactorily enables the Bank to comply with the OFAC Requirements. Within 90 days from the
18 effective date of this Order, the Board should evaluate whether the OFAC Compliance Program (i) is
19 commensurate with the Bank’s compliance risk and appropriately considers the Bank’s products,
20 services, Customers, entities, transactions, geographic locations, and reliance on Third-Party
21 Relationships to fulfill any of the Bank’s OFAC Requirements; (ii) is reviewed and appropriately
22 updated as new products, services, business lines, geographic locations and Third-Party
23 Relationships are added; and (iii) the OFAC Compliance Program-related deficiencies and
24 weaknesses identified in the 2024 ROE have been appropriately addressed.

25 **IV. Directors’ Compliance Committee**

26 Within 7 days from the effective date of this Order, the Board must submit the proposed
27 composition of a Compliance Committee of the Board of Directors to the Department for review,
28 and comment or non-objection in accordance with Paragraph V of this Order. Within 15 days of

1 receipt of the Department’s non-objection to the composition of the Compliance Committee, the
2 Board must establish and maintain its Compliance Committee. If, after receiving the non-objection
3 of the Department, there is a proposed change to the composition of the Compliance Committee,
4 such proposed change must be submitted to the Department for review, and comment or non-
5 objection in accordance with Paragraph V of this Order. The Compliance Committee will have the
6 responsibility of overseeing the Bank’s compliance with this Order. The Compliance Committee
7 must ensure it receives detailed monthly reports from Bank management regarding corrective action
8 required in connection with this Order and must present a detailed written report to the Board at each
9 regularly scheduled Board meeting regarding the Bank’s compliance with this Order. This report
10 and any discussions related to it must be included in the minutes of the corresponding Board
11 meeting. Nothing herein, including the existence of the Compliance Committee, diminishes the
12 responsibility of the entire Board to ensure full compliance with this Order in a timely manner.

13 **V. Non-objection, Implementation and Adherence**

14 A. Review, and Comment or Non-objection. When a provision of this Order requires the
15 submission of a matter to the Department for review, and comment or non-objection
16 (“**Submission**”), the Bank will make the Submission to Assistant Deputy Commissioner Laura
17 Carlson as a PDF document via e-mail to laura.carlson@dfpi.ca.gov. Within 30 days from receipt of
18 comments from the Department, the Board or Bank will make such modifications as may be
19 necessary to respond to the Department’s comments and resubmit the Submission for review, and
20 additional comments or non-objection.

21 B. Adoption, Implementation, and Adherence. The Board will adopt any Submission at
22 its next regularly scheduled meeting following receipt of the Department’s written non-objection to
23 such Submission. For any matter required by this Order but not requiring the written non-objection
24 of the Department, the Board must act on such matter within the timeframe required for such action
25 in this Order. All actions must be appropriately reflected in the Board minutes. Thereafter, the
26 Board must ensure that the Bank fully implements and adheres to the Procedure or other matter as
27 adopted. In the event a Submission required by this Order and adopted by the Board, or any portion
28 thereof, is not fully implemented or adhered to, the Board must promptly, in no instance more than

1 30 days from the event, advise the Department in writing of the specific reasons for the deviation or
2 delay and the steps it will take to address the deviation or delay. The Department may either provide
3 a written non-objection to any such deviation or delay or require compliance with the Submission as
4 adopted by the Board.

5 **VI. Branching, New Lines of Business**

6 The Bank shall not engage in any new lines of business or establish any new branches or
7 other offices of the Bank without the prior written approval of the Commissioner.

8 **VII. Progress Reports**

9 Within 45 days after the end of each calendar quarter following the effective date of this
10 Order, the Board must furnish, to Assistant Deputy Commissioner Laura Carlson via e-mail to
11 laura.carlson@dfpi.ca.gov, written progress reports detailing the form, manner, and results of any
12 actions taken to secure compliance with this Order. All progress reports and other written responses
13 to this Order must be reviewed and approved by the Board and be made a part of the Board minutes.

14 **VIII. Notice to Shareholder**

15 The Bank must provide either a copy of this Order or an accurate and complete description of
16 all material aspects of the Order to its parent banking institution within 10 days of the effective date
17 of this Order.

18 **IX. Miscellaneous**

19 The provisions of this Order do not bar, estop, or otherwise prevent the Commissioner or any
20 other federal or state agency or department from taking any other action against the Bank or any of
21 the Bank’s current or former institution-affiliated parties. This Order is effective immediately. The
22 provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any
23 successors and assigns thereof. Violation of any provision of this Order will be deemed to be
24 conducting business in an unsafe or unsound manner and will subject the Bank to further regulatory
25 enforcement action.

26 Dated: April 3, 2025

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AARON PROSPERI
Deputy Commissioner, Banking Division
Department of Financial Protection and Innovation