

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

In the Matter of)	
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)	
NANO BANC,)	ORDER
)	(Fin. Code, § 580)
Respondent)	
)	
)	

Pursuant to Financial Code section 580, the Commissioner of the Department of Financial Protection and Innovation (Commissioner or Department) orders:

WHEREAS, Nano Banc, Irvine, California (Bank or Respondent) is a California-chartered bank that is a member of the Federal Reserve System;

WHEREAS, in recognition of their common goal to maintain the financial soundness of Respondent, the Department and the Respondent have mutually agreed to enter into this Order (Order); and

WHEREAS, the Board of Directors of the Respondent (Board), at a duly constituted meeting, adopted a resolution authorizing and directing the undersigned to enter into this Order on behalf of Respondent, and consenting to compliance with each and every applicable provision of this Order by Respondent.

NOW, THEREFORE, Respondent and the Department agree as follows:

MANAGEMENT

- Respondent shall maintain executive management acceptable to the Commissioner. Such executive management shall have qualifications and experience commensurate with their duties and responsibilities and include a chief executive officer, a chief lending officer and a chief financial officer qualified to restore Respondent to a safe and sound condition, operate Respondent in a safe and sound manner, comply with applicable laws and regulations, and comply with the provisions of this Order. Each member of executive management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

1 and recommendations in the Independent Report and describes the specific actions that the Board
2 will take in order to strengthen Board and management committees and corporate governance
3 structure, and to hire, as necessary, additional or replacement directors, officers or staff to properly
4 oversee, manage and operate the Bank.

5 The Board’s written plan shall also address deficiencies noted in the Bank’s most recent
6 Report of Examination and include:

7 A. The actions that the Board will take to improve the Respondent’s condition
8 and maintain effective control over, and supervision of, Respondent’s major operations and
9 activities, including capital, earnings, liquidity, commercial real estate concentrations, internal
10 controls, and audit;

11 B. Steps to monitor management’s adherence to approved policies and
12 procedures and applicable laws and regulations, and to monitor exceptions to approved policies and
13 procedures;

14 C. The establishment of appropriate risk tolerance guidelines and risk limits
15 including, but not limited to, the commercial real estate lending strategy; and

16 D. Steps to improve the accuracy and sufficiency of the information and reports
17 that will be regularly reviewed by the Board in its oversight of the operations and management of the
18 Respondent, such that the Board may make informed decisions. Such information shall include but is
19 not limited to information on the Respondent’s internal controls, credit risk management, adversely
20 classified assets, allowance for loan and lease losses (ALLL), capital, liquidity, earnings, and audit.

21 INTERNAL CONTROLS

22 5. Within 60 days of this Order, the Bank shall submit written policies and procedures
23 acceptable to the Department to strengthen the Bank’s internal controls. The policies and procedures
24 shall address, consider, and include:

25 A. Segregation of duties and dual controls;

26 B. Measures to ensure the timely and accurate preparation of the Bank’s
27 Consolidated Reports of Condition and Income, including supporting schedules (Call Report);

28 C. Exception tracking reports for audit and examination findings;

- 1 D. Reporting of internal control reviews to the Board; and
- 2 E. Thorough due diligence processes for investment purchases, including but not
- 3 limited to consideration of credit ratings, market analysis, liquidity, concentrations, and how the
- 4 investment fits within the Bank’s investment strategy and policies.

5 INTERNAL AUDIT

6 6. Within 60 days of this Order, the Bank shall submit a written plan acceptable to the
7 Department to enhance the Bank's internal audit program that shall provide for:

- 8 A. Improved oversight of all aspects of the audit program by the Board’s audit
- 9 committee;
- 10 B. Timely resolution of audit findings and follow-up reviews to ensure
- 11 completion of corrective measures; and
- 12 C. Comprehensive tracking and reporting of the status and resolution of audit and
- 13 examination findings to the audit committee.

14 CREDIT RISK MANAGEMENT AND
15 REDUCTIONS OF CONCENTRATIONS OF CREDIT IN COMMERCIAL REAL ESTATE

16 7. Within 60 days of this Order, the Respondent shall submit a written plan acceptable
17 to the Department to strengthen credit risk management practices overall, including the
18 Respondent’s management of commercial real estate (CRE) concentrations.

19 The Board’s written plan shall address, consider and include:

- 20 A. The responsibility of the Board to establish appropriate credit risk tolerance
- 21 guidelines and credit risk limits;
- 22 B. Policies, procedures, and strategies to identify, limit, and manage
- 23 concentrations of credit;
- 24 C. Enhanced procedures to identify, manage and limit concentrations of CRE
- 25 credit;
- 26 D. A schedule that identifies specific steps the Respondent will take to reduce
- 27 Respondent’s current level of CRE concentrations, and timeframes for achieving the reduced levels;
- 28

1 E. Improvements to the Respondent’s management information systems to
2 ensure that the Board and senior management obtain timely and accurate information related to
3 credit; and

4 F. Improvements to the Respondent’s management information systems to
5 ensure that the Board and senior management obtain timely and accurate information related to CRE
6 concentrations.

7 ALLOWANCE FOR LOAN AND LEASE LOSSES

8 8. During the life of this Order, Respondent shall maintain an adequate ALLL. The
9 Board shall review the adequacy of Respondent’s ALLL at least quarterly. The minutes of the
10 Board meeting at which such review is undertaken shall indicate the results of the review, the
11 amount of any increase in the ALLL, and the basis for determination of the amount of the ALLL
12 provided. In determining the appropriateness of the ALLL, the Board shall consider, among other
13 things, the size and composition of the loan portfolio, the level of problem and past-due loans, an
14 estimate of loss potential in problem and past-due loans, and Respondent’s history of loan losses and
15 current economic conditions. Any deficiency in the ALLL shall be remedied in the calendar quarter
16 in which it is discovered, before Respondent’s submission of the Call Report, by way of charge to
17 current operating earnings. Respondent’s ALLL shall be satisfactory to the Department as
18 determined at subsequent examinations and/or visitations.

19 CAPITAL

20 9. Within 60 days of this Order, Respondent shall develop and adopt a capital plan to
21 continuously maintain a tangible shareholders’ equity to total tangible assets ratio equal to or greater
22 than eight and one-half (8.5) percent through June 30, 2021 and nine (9) percent beginning July 1,
23 2021. For purposes of this Order, the term “tangible shareholders’ equity” means shareholders’
24 equity minus intangible assets.

25 The level of tangible shareholders’ equity to be maintained during the life of this Order shall
26 be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be
27 satisfactory to the Department as determined at subsequent examinations and/or visitations.
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1 The capital plan shall also include a capital contingency plan that includes quantitative and
2 qualitative factors and scenario modeling to determine triggers that would require additional capital
3 to be raised and to determine the amounts that would need to be raised if various contingencies were
4 to occur.

5 The capital plan shall be in a form and implemented in a manner acceptable to the
6 Department as determined at subsequent examinations and/or visitations. Respondent’s maintenance
7 of the requisite 8.5% capital ratio through June 30, 2021 and 9% beginning July 1, 2021 is subject to
8 verification by the Department at subsequent examinations and/or visitations.

9 LIQUIDITY

10 10. Within 30 days of this Order, Respondent shall submit to the Commissioner a written
11 plan to improve management of Respondent’s liquidity position and funds management practices.

12 The plan shall include:

13 A. Measures to enhance the monitoring, measurement, and reporting of
14 Respondent’s liquidity to its Board; and

15 B. Specific liquidity targets and parameters, and the maintenance of sufficient
16 liquidity to meet contractual obligations and unanticipated demands.

17 The acceptability of such plan will be determined at subsequent examinations and/or
18 visitations.

19 11. Within 60 days of this Order, Respondent shall revise and submit to the
20 Commissioner a written contingency funding plan that includes adverse scenario planning and
21 identifies and quantifies available sources of liquidity for each scenario. The acceptability of such
22 plan will be determined at subsequent examinations and/or visitations.

23 EARNINGS PLAN AND BUDGET

24 12. Within 30 days of this Order, Respondent shall formulate a written business plan for
25 2021 to improve the Respondent’s earnings and overall condition. The plan shall provide for or
26 describe:

27 A. A realistic and comprehensive budget for calendar year 2021, including
28 income statement and balance sheet projections; and

1 B. A description of the operating assumptions that form the basis for, and
2 adequately support, major projected income, expense, and balance sheet components.

3 13. Respondent shall submit to the Commissioner a draft business plan and budget for
4 each calendar year subsequent to 2021 at least 30 days before the beginning of that calendar year.

5 DISTRIBUTIONS TO SHAREHOLDERS

6 14. Respondent shall not make any distribution to its shareholders except with the prior
7 written approval of the Commissioner. All requests for prior approval shall be received by the
8 Department at least 30 days prior to the proposed distribution.

9 BRANCHING, NEW LINES OF BUSINESS

10 15. The Bank shall not engage in any new lines of business or establish any new branches
11 or other offices of the Bank without the prior written approval of the Department.

12 WRITTEN REPORTING

13 16. Within 30 days after the end of the first quarter following the effective date of this
14 Order and within 30 days after the end of each quarter thereafter, Respondent shall furnish written
15 progress reports to the Commissioner detailing the form and manner of any actions taken to secure
16 compliance with this Order and the results thereof. Such reports shall include a copy of progress
17 reports submitted to the Federal Reserve Bank of San Francisco in connection with the Written
18 Agreement among Respondent, Nano Financial Holdings, Inc., Allegiant United Holdings, LLC and
19 the Federal Reserve Bank of San Francisco.

20 APPROVAL AND IMPLEMENTATION OF PLANS AND PROGRAMS

21 17. Respondent shall submit the written plans, policies, procedures, and programs to the
22 Commissioner within the applicable time periods set forth in this Order.

23 Within 10 days of approval by the Commissioner, Respondent shall adopt the
24 approved plans, policies, procedures, and programs. Upon adoption, Respondent shall promptly
25 implement the approved plans, policies, procedures, and programs, and thereafter fully comply with
26 them.

27 The approved plans, policies, procedures, and programs required by this Order shall
28 not be amended or rescinded without the prior written approval of the Commissioner.

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MISCELLANEOUS

18. Respondent shall immediately take all necessary steps to correct all violations of law and regulation cited in the Respondent’s most recent Report of Examination. In addition, the Board shall take the necessary steps to ensure Respondent’s future compliance with all applicable laws and regulations.

19. Respondent shall notify the Commissioner no less than three business days before making any public announcement or notification regarding changes in the Respondent’s financial condition, executive management or Board.

20. The provisions of this Order shall not bar, estop, or otherwise prevent the Commissioner, or any other federal or state agency or department from taking any other action against Respondent or any of Respondent’s current or former institution-affiliated parties. This Order is effective immediately upon its issuance by the Commissioner and shall remain effective and enforceable except to the extent that and until such time as the Commissioner shall have amended, suspended or terminated this Order. The provisions of this Order shall be binding upon Respondent, its institution-affiliated parties, and any successors and assigns thereof. Violation of any provision of this Order will be deemed to be conducting business in an unsafe or unsound manner and will subject Respondent to further regulatory enforcement action.

Dated: February 24, 2021

AARON PROSPERI
DEPUTY COMMISSIONER
DEPARTMENT OF FINANCIAL PROTECTION
AND INNOVATION