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

In the Matter of)	
)	
)	
BANK OF THE ORIENT,)	FINAL ORDER
)	(Fin. Code, § 580)
Respondent)	
)	
)	

THE COMMISSIONER OF THE DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION (“COMMISSIONER”) FINDS THAT:

1. Bank of the Orient, San Francisco, California (“Bank” or “Respondent”) is a California-chartered bank that is a member of the Federal Reserve System;
2. 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
3. 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.

BASED UPON THE FOREGOING, it is hereby ORDERED, that pursuant to Financial Code section 580:

BOARD AND SENIOR MANAGEMENT OVERSIGHT

4. Within sixty (60) days of this Order, the Board shall submit a written plan to the Commissioner to strengthen board oversight of the management and operations of Respondent. The plan shall contain a timeline for full implementation as well as specific deadlines and identification of the responsible party for each respective component of the plan. The plan shall address, consider, and include:

1 A. The actions the Board will take to improve Respondent’s condition and
2 maintain effective supervision and control over Respondent’s major operation and activities,
3 including but not limited to credit risk management, asset quality, capital, and earnings; and

4 B. The actions the Board will take to oversee the operations of the Respondent’s
5 branch in Xiamen, China (the “Xiamen Branch”) to ensure that Xiamen Branch management
6 operates in accordance with safe and sound banking principles and in compliance with applicable
7 laws and regulation, including but not limited to:

8 (i) Conducting a portfolio-wide review of each loan in the Xiamen
9 Branch to identify any credit weaknesses and potential losses;

10 (ii) Reviewing and assessing the Board and management loan committees
11 for independence, and ensuring the head office management has ultimate authority over Xiamen
12 Branch loan approvals;

13 (iii) Maintaining comprehensive Xiamen Branch reporting and
14 communication with the head office that is sufficient to appropriately manage credit risk; and

15 (iv) Implementing internal controls that ensure comprehensive, accurate,
16 and timely information is received from the Xiamen Branch.

17 5. Respondent shall have and retain qualified management. Each member of
18 management shall have qualifications and experience commensurate with his or her duties and
19 responsibilities. Management shall include the following:

20 A. A chief executive officer with proven ability in managing a bank of
21 comparable size and risk profile;

22 B. A chief financial officer with proven ability in all aspects of financial
23 management; and

24 C. A chief lending officer with significant lending, collection, and loan
25 supervision experience and experience in problem loan workouts.

26 6. Within sixty (60) days of this Order, the Board shall develop a succession plan to
27 address executive management turnover and identify successors. The succession plan should include
28 an analysis of, and support for, each identified successor.

1 an effective risk grading system, and compliance with Respondent’s policies and banking laws and
2 regulations.

3 B. An independent and effective credit administration function that identifies
4 misstatements and factual inaccuracies during the underwriting and credit monitoring process, and
5 holds credit analysts and credit administrators accountable for the quality of their work;

6 C. Loan disbursement and repayment processes that are independent from the
7 account officer; and

8 D. Implementation of internal controls that promote compliance with the
9 enhanced appraisal program standards, including the use of the “abundance of caution” exception.

10 MANAGEMENT INFORMATION SYSTEMS (“MIS”) – XIAMEN BRANCH

11 12. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an
12 acceptable written plan to strengthen MIS to provide the Board and senior management with timely
13 and accurate information, and a clear understanding of Respondent’s business activities and risk
14 exposures to the Xiamen Branch. The plan shall contain a timeline for full implementation, as well
15 as specific deadlines and identification of the responsible party for each respective component of the
16 plan. The plan shall, at a minimum, address, consider, and include:

17 A. Well-defined expectations for reporting to the head office, including
18 timeframes;

19 B. Payment histories that are legible to a third-party reviewer and clearly
20 demonstrate principal and interest payments, and the remaining balance;

21 C. Documented reporting that includes more granular information on the Xiamen
22 loan portfolio, including, but not limited to:

23 (i) Loans not in compliance with financial covenants, and aggregated
24 covenant compliance metrics;

25 (ii) Loans approved or renewed with policy exceptions, and aggregated
26 policy compliance metrics;

27 (iii) New extensions of credit, renewals, and restructured loans;

28 (iv) Information on loans adversely graded or specially mentioned;

- 1 (v) A listing of delinquent or non-accrual loans; and
- 2 (vi) Measurement of the portfolio stratified by loan type, exposure to
- 3 particular geographic areas or industry, and by collateral type.

4 APPRAISALS – XIAMEN BRANCH

5 13. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an

6 acceptable written Xiamen Branch Appraisal Policy. The policy shall, at a minimum, address,

7 consider, and include:

- 8 A. The independence of the persons ordering, performing, and reviewing
- 9 appraisals or evaluations;
- 10 B. Selection criteria and procedures to evaluate and monitor the ongoing
- 11 performance of appraisers;
- 12 C. The receipt and review of the appraisal or evaluation report by senior
- 13 management and the Board in a timely manner to facilitate the credit decision;
- 14 D. Measures to ensure appraisals contain sufficient information to support credit
- 15 decisions; and
- 16 E. Criteria for monitoring collateral values.

17 ALLOWANCE FOR LOAN AND LEASE LOSSES

18 14. During the term of this Order, Respondent shall maintain an adequate ALLL.

19 A. The Board shall review the adequacy of the Bank’s ALLL at least quarterly.

20 The minutes of the Board meeting at which such review is undertaken shall indicate the results of the

21 review, the amount of any increase in the ALLL, and the basis for determination of the amount of

22 the ALLL provided.

23 B. In determining the appropriateness of the ALLL, the Board shall consider,

24 among other things, the size and composition of the loan portfolio, the level of problem and past-due

25 loans, an estimate of loss potential in problem and past-due loans, and Respondent’s history of loan

26 losses and current economic conditions.

27 C. Any deficiency in the ALLL shall be remedied in the calendar quarter in

28 which it is discovered, before Respondent’s submission of the Report of Condition and Income (the

1 “Call Report”), by way of charge to current operating earnings. Respondent’s ALLL shall be
2 satisfactory to the Commissioner as determined at subsequent examinations and/or visitations.

3 15. Within sixty (60) days of this Order, Respondent’s management shall perform a
4 review of the ALLL methodology for Xiamen Branch loans and:

5 A. Review the ASC 450 decision factors for Xiamen Branch loans to ensure
6 Respondent is adequately identifying, measuring, and supporting historical loss rates and
7 environmental factors; and

8 B. Review the ASC 310 analysis on Xiamen loans to ensure documentation of
9 final collateral values is well-supported including, but not limited to, support for discount rates,
10 selling costs, and legal fees.

11 CAPITAL

12 16. Within sixty (60) days of this Order, the Board shall submit to the Commissioner an
13 acceptable written plan to maintain sufficient capital (“Capital Plan”). The Capital Plan shall, at a
14 minimum, address, consider, and include:

15 A. Assessment of key risk exposures and measurement of their potential impact
16 on capital through quantifiable methods, including stress testing;

17 B. Capital buffers and internal capital adequacy limits that are reasonable and
18 well supported by the risk assessment;

19 C. An analysis of the risk impact to capital from the Xiamen Branch operations;

20 D. Expansion of the capital contingency plan contained within the Capital Plan to
21 include specific, viable sources of capital that management and the Board would pursue if additional
22 capital is needed; and

23 E. Measures to ensure that the capital risk assessment and Capital Plan are
24 updated at least annually to reflect any changes in regulations, market conditions, and strategic
25 direction that impact the institution’s risk profile.

26 17. Respondent shall maintain tangible shareholders’ equity to total tangible assets equal
27 to or greater than nine (9) percent.

28 STRATEGIC PLAN AND BUDGET

1 E. Confirmation that the proposed dividend payment, or distribution with respect
2 to the entity making the proposed dividend or distribution:

- 3 (i) Is covered by Respondent’s operating earnings;
- 4 (ii) Conforms to Respondent’s dividend policy; and
- 5 (iii) Complies with all applicable state and federal law.

6 DEBT AND STOCK REDEMPTIONS

7 21. Respondent shall not, directly or indirectly, incur, renew, increase, or guarantee any
8 debt without the prior written approval of the Commissioner. All requests for prior written approval
9 shall be received at least thirty (30) days prior to the proposed transaction date and contain, but not
10 be limited to, a statement regarding the purpose of the debt, the terms of the debt, the planned source
11 (s) of debt repayment, and an analysis of the cash flow resources available to meet such debt
12 repayment.

13 22. Respondent shall not purchase, redeem, or otherwise acquire, directly or indirectly,
14 any of its stock without the prior written approval of the Commissioner. All requests for prior
15 written approval shall be received at least thirty (30) days prior to the proposed transaction date.

16 APPROVAL, IMPLEMENTATION, AND PROGRESS REPORTS

17 23. Within the applicable time periods set forth in this Order, the Board shall submit to
18 the Commissioner the required items for approval in paragraphs 6, 8, 9, 11, 12, 13, and 16.

19 A. Within 10 days of approval by the Commissioner, the Board shall adopt the
20 approved item(s). Respondent shall promptly implement the approved item(s), and thereafter fully
21 comply with each item.

22 B. Any approved matter shall not be amended or rescinded without the prior
23 written approval of the Commissioner.

24 24. Within thirty (30) days after the end of each calendar quarter (March 31, June 30,
25 September 30, December 31) following the effective date of this Order, the Board shall submit to the
26 Commissioner a written progress report, which shall set forth in detail:

27 A. Actions taken to comply with each provision of this Order, results of those
28 actions, and a description of the actions needed to achieve full compliance with each provision.

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B. Year-to-date income statement and balance sheet compared to budget, including an analysis of variances in performance.

C. Such quarterly progress reports shall be continued until the Commissioner has released Respondent in writing from making further progress reports.

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: March __, 2021



AARON PROSPERI
DEPUTY COMMISSIONER
DEPARTMENT OF FINANCIAL PROTECTION
AND INNOVATION