

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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	)	
In the Matter of	)	
	)	CONSENT ORDER
REGAL FINANCIAL BANK	)	
SEATTLE, WASHINGTON	)	FDIC-09-558b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”), is the appropriate Federal banking agency for Regal Financial Bank, Seattle, Washington (“Bank”), under 12 U.S.C. § 1813(q).

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 November 30, 2009, and accepted by the FDIC. With the Stipulation, the Bank has consented, without admitting or denying any allegations of unsafe or unsound banking practices relating to the enhancement and improvement of the Bank’s Compliance Management System (“CMS”), its Bank Secrecy Act (“BSA”) and anti-money laundering (“AML”) compliance program and the Bank’s oversight of third party relationships, or any charges of violations of law or regulations, to the issuance of this Consent Order (“Order”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

**GENERAL**

1. As of the effective date of this Order, the Board shall provide adequate and effective oversight over the Bank's compliance program, especially focusing on monitoring the activities of third parties.

2. Within 60 days from the effective date of this Order, the Board shall designate a qualified Compliance Officer with delegated authority and resources to implement and enforce policies and procedures to ensure compliance in all material respects with consumer protection laws and regulations. In furtherance of this requirement, the Board shall:

(a) Approve a detailed job description for the Compliance Officer and submit a copy of said job description to the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director");

(b) Ensure that the Compliance Officer is actively involved in any and all consumer protection related matters, including third party contracts, new products, advertising, and any other policies, programs or procedures affecting consumer protection, before they occur;

(c) Ensure that the staff and resources dedicated to compliance management are commensurate with the institution's size and structure, geographies served, products and services offered, and customers and entities served; and

(d) Ensure that the Compliance Officer, together with all parties with compliance oversight responsibility, receive the training, resources, and authority necessary to effectively oversee the Bank's compliance with all relevant consumer protection laws and regulations.

3. Within 90 days from the effective date of this Order, the Board shall ensure that management completes a full review of all compliance monitoring practices and procedures and

adopts or revises compliance monitoring procedures where needed to ensure effective compliance with all consumer protection laws and regulations. Day-to-day monitoring shall be structured to interface with periodic consumer compliance audits to provide the most effective use of resources. The Bank's compliance monitoring procedures shall be acceptable to the FDIC.

4. Within 90 days from the effective date of this Order, the Board shall review the Bank's compliance training program and make enhancements to ensure that all appropriate personnel are provided with sufficient detailed guidance to process loan, deposit, and other banking transactions in compliance with consumer protection laws and regulations. The enhanced training program shall include methods to test staff knowledge, a mechanism for follow-up training when weaknesses are identified and consumer compliance training for Directors and senior management. All training shall be conducted by individuals with sufficient knowledge and expertise to impart critical awareness of consumer compliance laws and regulations. The compliance training program shall be acceptable to the FDIC.

5. Within 90 days from the effective date of this Order, the Board shall review and revise audit practices and procedures to ensure comprehensive audit coverage. The Board shall establish formal processes and procedures for timely management follow-up and correction of audit findings. The Bank's audit procedures shall be acceptable to the FDIC. The Board shall ensure that the individuals conducting the audits have sufficient knowledge of consumer compliance laws and regulations.

**ACH ACTIVITY**

6. As of the effective date of this Order, the Bank shall immediately cease providing automated clearing house (“ACH”) processing for Teledraft, Inc. (“Teledraft”), Teledraft’s client entities, and any other third party payment processor, unless the FDIC has approved otherwise.

7. As of the effective date of this Order, the Bank shall maintain adequate reserves for the potential charge backs from ACH processing conducted for Teledraft, Teledraft’s client entities, and any other third party payment processor.

8. Within 30 days from the effective date of this Order, management shall provide monthly reports to the Board on the volume of charge back activity and the adequacy of the reserve balance for the potential charge back from ACH processing conducted for Teledraft, Teledraft’s client entities, and any other third party payment processor. Copies of monthly reports shall be provided to the Regional Director.

9. Within 30 days from the effective date of this Order, the Board shall ensure that the Bank has a system for accessing the adequacy of the reserve balance for the potential charge backs from ACH processing conducted for Teledraft, Teledraft’s client entities, and any other third party payment processor.

10. Within 60 days from the effective date of this Order, the Bank shall increase oversight of any residual ACH activities through third party payment processor relationships. At a minimum, the Bank shall:

- (a) Ensure that all employees have sufficient training on the risks of such activities;
- (b) Provide BSA/AML training on the specialized risks of ACH third-party payment processing activity, fraud red flags, and appropriate customer due diligence

maintenance and documentation to all employees working with, processing, reviewing, or approving ACH activity;

(c) Review all existing ACH client files for data and documentation sufficiency. A thorough written analysis of each client file shall be prepared by a trained and qualified employee and shall include a review of the types of business activity conducted by the client, including the legality of such activity, and a full risk assessment covering BSA/AML, compliance and reputational risk, and the likelihood of fraud, identity theft, or misrepresentation. The Board shall be informed of all high-risk ACH clientele;

(d) Revise the BSA/AML risk assessment to include risks related to ACH activities, particularly those stemming from third party payment processor relationships and the processor client base;

(e) Establish appropriate, risk-based monthly reporting criteria for ACH activity. Such monthly reporting should include volume, return items, and other statistical data on individual and aggregate ACH clientele, as well as a methodology to convey the risk of the ACH client base;

(f) Establish an appropriate oversight role for the BSA Officer and department to review, analyze, assess and monitor ACH activities for suspicious activity;

(g) Develop a formalized process for BSA/AML monitoring and review of ACH activity for unusual or suspicious activity to ensure proper identification and reporting of activity warranting the filing of a Suspicious Activity Report; and

(h) Develop a methodology for accurately identifying ACH profits and expenses and provide regular Board updates on ACH net profits.

11. Within 30 days from the effective date of this Order, the Board shall actively participate in ensuring that ACH risk is appropriately monitored and that all internal and external audit recommendations related to ACH activity and monitoring are addressed. At a minimum:

(a) The BSA Officer and IT Officer shall provide ACH-related BSA/AML progress reports to the Board at least quarterly. The report shall include progress on correcting BSA deficiencies relating to the ACH activities; and

(b) Within 60 days, the Board shall receive enhanced BSA training relating to ACH. Such training must be designed to allow the Board to fully understand and appropriately accommodate the specialized risks of the ACH activity. Thereafter, annual training refresher courses shall be provided to the Board.

12. Within 120 days from the effective date of this Order, the Bank shall conduct an assessment of the effectiveness of the Bank's BSA compliance program for ACH activities. The assessment should include transaction testing where appropriate. The results of the review shall be presented to the Board.

13. Within 90 days from the effective date of this Order, the Bank shall obtain an independent external audit of ACH activity which focuses on the specific risks related to the third party processing relationships and client base of the Bank. Such an independent external audit shall include: transaction testing; a review of the sufficiency of Board-approved policies, procedures, and processes; an analysis of the reserve account; and a determination of customer due diligence documentation, analysis, and risk assessment adequacy. The findings of such report shall be reported in writing directly to the Board of Directors with a copy of such report to be sent to the Regional Director within 30 days of receipt by the Bank.

**MORTGAGE LENDING ACTIVITY**

14. As of the effective date of this Order, the Bank shall immediately conduct all residential mortgage loan transactions and/or referral activity in compliance with the Real Estate Settlement Procedures Act (“RESPA”), 12 U.S.C. 2601 et seq., and Regulation X, 24 C.F.R. Part 3500.. No transactions related to Loantek Incorporated and Craig Goebbel may resume unless the arrangement can be restructured to operate in full compliance with Regulation X and RESPA. Should the Bank decide to resume mortgage loan operations involving referral activities, the Bank shall provide comprehensive disclosure of all planned agreements and activities to the Regional Director for review, comment, and approval prior to conducting any referral activity.

**MISCELLANEOUS**

15. Within 30 days from the effective date of this Order, the Bank shall correct all apparent violations noted in the April 13, 2009 Compliance Report of Examination (“Compliance ROE”) and the August 2009 BSA Report of Visitation. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

16. Beginning 30 days from the effective date of this Order, the Compliance Officer shall provide the Board with monthly reports detailing actions taken to comply with this Order. Reports to the Board shall also include descriptions of actions taken by management with respect to the violations as well as CMS deficiencies presented in the Compliance ROE.

17. Within 30 days from the effective date of this Order, the Board shall monitor and confirm the completion of actions taken by management to comply with the terms of this Order. The Board shall certify in writing to the Regional Director when all of the above actions have

been accomplished. All actions taken by the Board pursuant to this Order shall be duly noted in the minutes of its meetings.

18. 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 detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Regional Director has released the Bank in writing from making further reports.

19. Following the effective date of this ORDER, the Bank shall either send to its shareholder Regal Financial Bancorp a copy of this ORDER or otherwise furnish a description of this ORDER in conjunction with the next board meeting of Regal Financial Bancorp, in which case such description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Accounting and Securities Section, Washington, D.C. 20429, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC 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 will become effective upon its issuance by the FDIC.

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 at San Francisco, California, this 30<sup>th</sup> day of November, 2009.

/s/

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Frank A. Hartigan  
Deputy Regional Director  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation