

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of)
)
FIRST VIETNAMESE AMERICAN BANK)
WESTMINSTER, CALIFORNIA)
)
(INSURED STATE NONMEMBER BANK))
)
_____)

ORDER TO
CEASE AND DESIST

Docket No. FDIC-06-195b

First Vietnamese American Bank, Westminster, California ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated December 20, 2006, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed violations of law

and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns cease and desist from the following unsafe and unsound banking practices and violations of law and/or regulation.

- (a) operating with management whose policies and practices are detrimental to the Bank;
- (b) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;
- (c) operating with an inadequate loan valuation reserve;
- (d) engaging in unsatisfactory lending and collection practices;
- (e) operating in such a manner as to produce operating losses in excess of the projections in the Bank's deposit insurance application approved by the FDIC on October 20, 2004;
- (f) operating with an inadequate strategic plan;
- (g) operating with inadequate internal routine and controls policies;
- (h) operating in violation of section 215.4 of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4, made applicable to state nonmember institution by section 18(j)(2) of the Federal Deposit Insurance Act, 12 U.S.C. § 1828(j)(2), as

more fully described on page 28 in the FDIC and the California Department of Financial Institution's ("DFI") joint Report of Examination dated May 8, 2006;

(i) operating in violation of sections 326.8 and 353.3 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8 and 12 C.F.R. § 353.3 as more fully described on pages 18-25 in the FDIC and DFI's joint Report of Examination dated May 8, 2006;

(j) operating in violation of section 353.3 of the FDIC Rules and Regulations, 12 C.F.R. § 353.3, as more fully described on pages 18-25 in the FDIC and DFI's joint Report of Examination dated May 8, 2006;

(k) operating in violation of sections 103.22, 103.100 and 103.121 of the Rules and Regulations of the Department of the Treasury, 31 C.F.R. § 103.22; 31 C.F.R. § 103.100; and 31 C.F.R. § 103.121 , as more fully described on pages 18-25 in the FDIC and DFI's joint Report of Examination dated May 8, 2006;

(l) operating in contravention of Appendix B of Part 364 - Interagency Guidelines Establishing Information Security Standards, as more fully described on pages 26 and 27 in the FDIC and DFI's joint Report of Examination dated May 8, 2006;

(m) operating in contravention of the Interagency Policy Statement on the Internal Audit Function and its Outsourcing, as more fully described on page 30 in the FDIC and DFI's joint Report of Examination dated May 8, 2006; and

(n) operating in contravention of the Joint Policy Statement on Interest Rate Risk, as more fully described on page 29 in the FDIC and DFI's joint Report of Examination dated May 8, 2006.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

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 a chief executive officer with proven ability in managing a Bank of comparable size, and experience in developing sound credit administration and credit underwriting practices and procedures, improving earnings, and other matters needing particular attention. Management shall also include a senior lending officer with significant appropriate lending, collection, and loan supervision experience. In addition, management shall include a chief financial officer with appropriate accounting and bank operations skills. Each member of management shall be provided appropriate written authority from the Bank's board of directors 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) Pursuant to the requirements of section 32 of the Federal Deposit

Insurance Act, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional

Office ("Regional Director") and the Commissioner ("Commissioner"), DFI in writing when it proposes to add any individual to the Bank's board of directors or employ any individual as a senior executive officer. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed.

2. Within 45 days from the effective date of this ORDER, the board of directors shall document its full participation in the affairs of the Bank. 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; operating policies (on an annual basis); Bank Secrecy Act compliance; audit reports (as applicable); and individual committee actions (as applicable). Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. Within 45 days from the effective date of this ORDER, the Bank shall increase and thereafter maintain its allowance for loan and lease losses by an amount sufficient to adequately address the risk in the Bank's loan portfolio as determined by the Regional Director and the Commissioner at subsequent examinations and/or visitations.

Additionally, within 45 days from the effective date of this ORDER, the board of directors shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the allowance for loan and lease losses. For the purpose of this determination, the adequacy of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each

calendar quarter in order that the findings of the board of directors with respect to the loan and lease loss allowance may be properly reported in the quarterly Reports of Condition and Income. The review should focus on the results of the Bank's internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the allowance shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the board of directors meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its allowance for loan and lease losses consistent with the allowance for loan and lease loss policy established. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. In addition, the Bank shall obtain adequate and current documentation to the extent possible for all existing loans in the Bank's loan portfolio. For all new loans, the Bank shall obtain adequate and current documentation prior to origination. The Bank's lending and collection policies and their implementation shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall include the following:

(i) provisions, consistent with FDIC instructions for the preparation of Reports of Condition and Income.

(ii) provisions which require complete loans documentation, realistic repayment terms and current credit information adequate to support the outstanding indebtedness of the borrower. Such documentation shall include current financial information, profit and loss statements or copies of tax returns and cash flow projections;

(iii) provisions which incorporate limitations on the amount that can be loaned in relation to established collateral values;

(iv) provisions which specify the circumstances and conditions under which real estate appraisals must be conducted by an independent third party;

(v) provisions which establish standards for unsecured credit;

(vi) provisions which establish officer lending limits;

(vii) provisions that require extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such persons, to be approved in advance by a majority of the entire board of directors in accordance with section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(b);

(viii) provisions which prohibit the issuance of standby letters of credit unless the letters of credit are fully secured by readily marketable collateral and/or are supported by current and complete financial information;

(ix) provisions that directors first determine that the lending staff has the expertise necessary to properly supervise all types of loan products offered and that adequate procedures are in place to monitor all loan types;

(x) provisions which prohibit concentrations of credit in excess of 25 percent of the Bank's total equity capital and reserves to any borrower and that borrower's related interests;

(xi) provisions which require the preparation of a loan "watch list" which shall include relevant information on all loans in excess of \$100,000 which are classified "Special Mention," "Substandard," and "Doubtful" in the FDIC and DFI's joint Report of Examination dated May 8, 2006, or by the FDIC or DFI in subsequent Reports of Examination and all other loans in excess of \$100,000, which warrant individual review and consideration by the board of directors as determined by the loan committee or active management. The loan "watch list" shall be presented to the board of directors for review at least monthly with such review noted in the minutes; and

(xii) the board of directors shall adopt procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in minutes of a board of directors meeting at which all members are present and the vote of each is noted.

5. Within 30 days of the effective date of this ORDER, the Bank shall correct all deficiencies to the extent possible, including all technical exceptions and other identified criticisms or cited regulatory concerns related to the loans discussed on pages 36-38 of the FDIC and DFI's joint Report of Examination dated May 8, 2006.

6. Within 90 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner a written three-year strategic plan, including a written profit plan. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits as of December 31, 2007 and December 31, 2008. This plan shall be forwarded to the Regional Director and the Commissioner for review and comment and shall address, at a minimum, the following:

(a) goals and strategies for improving and sustaining the earnings of the Bank, including:

(i) an identification of the major areas in, and means by which, the board of directors will seek to improve the Bank's operating performance;

(ii) realistic and comprehensive budgets;

(iii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections; and

(iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(b) coordination of the Bank's loan, investment, and operating policies, and budget and profit planning, with the funds management policy.

7. Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct to the extent possible all violations of law and contraventions of policy as more fully set out on pages 18-30 in the FDIC and DFI's joint Report of Examination dated May 8, 2006. In addition, the Bank shall take all necessary steps to ensure future material compliance with all applicable laws and regulations.

8. Within 90 days from the effective date of this ORDER, the Bank shall adopt and implement a policy for the operation of the Bank in such a manner as to provide adequate internal routine and control policies consistent with safe and sound banking practices. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

9. The Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Commissioner.

10. Within 90 days of the effective date of this ORDER, the Bank shall comply in all material respects with the Bank Secrecy Act ("BSA") and its rules and regulations.

11. 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 the Bank with the BSA and the rules and regulations issued pursuant thereto. The program shall ensure that clear and comprehensive BSA compliance reports are provided to the Bank's Board of Directors 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 of the Bank. At a minimum, the program shall:

(a) Establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations.

(b) Provide for independent testing of compliance with the BSA, all applicable rules and regulations related to the BSA, and the reporting of suspicious transactions required to be reported pursuant to Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353. The independent testing shall be conducted on an annual basis in compliance with the procedures described in the FDIC's "Guidelines for Monitoring Bank Secrecy Act Compliance." The testing, at a minimum, shall include the following:

- (i) a test of the Bank's internal procedures for monitoring the BSA;
- (ii) a sampling of large currency transactions followed by a review of the Currency Transaction Report filings;
- (iii) a test of the validity and reasonableness of the customer exemptions granted by the Bank;
- (iv) a test of the Bank's suspicious activity monitoring and reporting systems;
- (v) a test of the Bank's recordkeeping system for compliance with the BSA; and
- (vi) documentation of the scope of the testing procedures performed and the findings of the testing.

Written reports shall be prepared which document the testing results and provide recommendations for improvement. Such reports shall be presented to the Bank's Board of Directors.

(c) Ensure that the Bank's BSA compliance program is managed by a qualified officer who shall have responsibility for all BSA compliance and related matters, including, without limitation;

(i) the identification of timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving the Bank; and

(ii) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

(d) Provide and document training by competent staff and/or independent contractors of all appropriate personnel, including, without limitation, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to ensure that all personnel are provided with the most current and up to date information. The Bank shall also provide training regarding the essential elements of the BSA for all board members, which training shall be updated periodically.

12. Within 60 days of the effective date of this ORDER, the Bank shall develop, adopt and implement a written customer due diligence program. 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 of the Bank. At a minimum, the customer due diligence program shall provide for the following:

(a) A risk focused assessment of the customer base of the Bank to determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer;
and

(iii) reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

13. Within 90 days of the effective date of this ORDER, the Bank shall revise, adopt and implement its BSA Policy to include provisions which implement the BSA-related requirements of this ORDER. The Bank's Board of Directors and management shall fully implement the provisions of the revised BSA Policy. The revised BSA Policy, and its implementation, shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank.

14. Within 60 days of the effective date of this ORDER, the Bank shall establish and implement policies and procedures to advise the Bank's Board of Directors of all Significant Suspicious Activity Reports.

15. Following the effective date of this ORDER, the Bank's Board of Directors shall monitor and confirm the completion of actions taken by management to comply with the terms of this ORDER. The Board of Directors shall certify in writing to the Regional Director and the Commissioner when all of the above actions have been accomplished. All actions taken by the Board of Directors pursuant to this ORDER shall be duly noted in the minutes of its meetings. The Board of Directors shall designate an existing or establish a new committee which shall receive reports from the qualified officer appointed in paragraph 11(c) regarding compliance with the BSA and Parts 326 and 353, at least monthly, and which shall report to the Bank's Board of Directors at least monthly.

16. Within 40 days of the end of the first quarter following the effective date of this ORDER, and within forty (40) 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 Report of Condition and the Bank's Report of 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.

17. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER in conjunction with the Bank's

next shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The 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 fifteen (15) 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.

This ORDER shall become effective upon its issuance by the FDIC. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated at San Francisco, California, this 22nd day of December, 2006.

John F. Carter
Regional Director
Division of Supervision and Consumer Protection
San Francisco Region
Federal Deposit Insurance Corporation