

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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	)	
In the Matter of	)	
	)	
METROPACIFIC BANK	)	ORDER TO
IRVINE, CALIFORNIA	)	CEASE AND DESIST
	)	
(INSURED STATE NONMEMBER BANK)	)	Docket FDIC-08-109b
	)	
_____	)	

MetroPacific Bank, Irvine, California ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices 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 Section 1912 of the California Financial Code, 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") and with counsel for the California Department of Financial Institutions ("CDFI"), dated June 17, 2008, 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 and the CDFI.

The FDIC and the CDFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the CDFI, 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, as more fully set forth in the Joint FDIC and CDFI Report of Examination (“ROE”) dated February 25, 2008:

(a) operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

(b) operating with the Bank’s Board of Directors (“Board”) 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) operating with a large volume of poor quality loans;

(e) engaging in unsatisfactory lending and collection practices;

(f) operating in such a manner as to produce operating losses; and

(g) operating in violation of Part 323 of the FDIC’s Rules and Regulations and in Contravention of the 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses.

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 developing strategic plans, 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 and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Bank's Board 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) During the life of this ORDER, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the CDFI ("Commissioner") in writing when it proposes to add any individual to the Bank's Board 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.

(d) Within 90 days after the effective date of this ORDER, the Bank's Board shall obtain an independent study of the management and personnel structure of the Bank to determine whether additional personnel are needed for the safe and profitable operation of the Bank. Such a study shall include, at a minimum, a review of the duties, responsibilities,

qualifications, and remuneration of the Bank's officers. The Bank shall formulate a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Commissioner as determined at subsequent examinations.

2. Within 60 days from the effective date of this ORDER, the Bank's Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. 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; and individual committee actions. The Bank's Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. (a) The Bank shall maintain a Tier 1 Leveraged Capital ratio at no less than ten percent of the Bank's total assets until twelve consecutive months of profitability is achieved. Thereafter, Tier 1 capital shall be maintained at no less than eight percent total assets throughout the life of this ORDER.

(b) The level of Tier 1 capital to be maintained during the life of this ORDER, shall be in addition to a fully funded Allowance for Loan and Lease Losses, the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall restore the Allowance for Loan and Lease Losses to an appropriate level based on an Allowance for Loan and Lease Losses analysis that has been strengthened to remedy the contravention of the 2006 Interagency Policy Statement on the Allowance for Loan and Lease Losses cited in the

ROE. The Bank shall thereafter maintain an appropriate level for the Allowance for Loan and Lease Losses. In addition, the Bank's Board shall revise, adopt, and implement a comprehensive policy for determining the appropriate level of the Allowance for Loan and Lease Losses in accordance with the 2006 Interagency Policy Statement of the Allowance for Loan and Lease Losses and Frequently Asked Questions.

(b) Within 90 days from the effective date of this ORDER, the Bank shall obtain an independent review of the Allowance for Loan and Lease Losses methodology that will include an assessment of compliance with the 2006 Interagency Policy Statement and the appropriateness of the level of the Allowance for Loan and Lease Losses.

5. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" and one-half of the assets classified "Doubtful" in the ROE that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(b) Within 90 days from the effective date of this ORDER, the Bank shall develop a written action plan to reduce the Adversely Classified Loans ratio to an acceptable level within a reasonable time frame acceptable to the Regional Director and the Commissioner.

(c) Within 90 days from the effective date of this Order, the Bank shall develop written action plans on all borrowers with total borrowings, including unfunded loan commitments, exceeding \$200,000 listed in the ROE's Items Subject to Adverse Classification pages. The written action plans shall include strategies to reduce the level of assets classified "Substandard" and "Doubtful" and address the credit administration deficiencies noted in the ROE.

6. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" and is uncollected. Subparagraph 6(a) of this ORDER shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board Statement Number 15 ("FASB 15").

(b) The Bank shall cease originating loans for speculative construction and land development purposes until adequate policies and procedures are implemented, as determined by the Regional Director and the Commissioner at subsequent examinations and/or visitations.

7. (a) Within 90 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, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such 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 that require a global financial analysis of borrowers and guarantors;

(ii) provisions that address the maximum allowed loan to bulk value ratio, minimum release price, minimum requirements for extending a construction loan, and when a feasibility study should be obtained on a project;

(iii) provisions that address the minimum equity investment required of the borrower as a percent of cost for construction loans;

(iv) provisions that require Loan Committee approval of all renewals, extensions, troubled debt restructurings, and forbearance agreements for watch list and problem loans;

(v) provisions that address when loan costs such as late fees, appraisal fees, and forced place insurance can be capitalized to the balance of a problem loan;

(vi) provisions that address collection practices for problem loans such as when it is appropriate to file notices of default and when it is appropriate to require amortization of interest only loans;

(vii) provisions for the timely payoff or renewal of maturing loans;

(viii) provisions that expand the definition of watch list or problem loans to include loans subject to a forbearance agreement, troubled debt restructurings, and loans classified by the external loan review; and

(ix) provisions that establish appropriate size limits for loans and lending relationships by loan type.

(c) Within 90 days from the effective date of this ORDER, the Bank's Board shall obtain an independent study of the lending staff, which should include all individuals involved in the lending and credit administration functions. The purpose of the study is to determine whether the staff has the expertise necessary to properly perform its duties including underwriting and monitoring assigned loans, particularly construction loans, and whether additional staff is necessary for safe and prudent lending. The Bank shall formulate a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(d) The Bank shall establish limits on the volume of out-of-area loans deemed acceptable. Out-of-area loans should be tracked as exceptions to policy and reported to the Bank's Board at least quarterly.

(e) Within 60 days of the effective date of the ORDER, the Bank shall perform due diligence on all lead banks from which the Bank has purchased or will purchase loan participations to verify the financial strength of the lead Bank and management's loan administration experience, qualifications and reputation. The Bank's Board shall approve all lead banks before participations are purchased. The Bank's Board shall approve all existing and proposed lead banks based on documented due diligence.

(f) Within 60 days of the effective date of this ORDER, the Bank shall improve underwriting and credit administration practices to provide, at a minimum, the following controls:

- (i) to improve the loan grading system;
- (ii) to restrict multiple loan renewals without principal reductions;
- (iii) to restrict the capitalization of interest, loan fees, late fees, loan costs, and collection costs of problem loans;
- (iv) to establish fund controls for hard and soft costs on construction projects and monitor accordingly;
- (v) to formalize the appraisal review process;
- (vi) to restrict additional advances to borrowers with problem loans;
- (vii) to require Loan Committee approval of all renewals and extensions of problem loans;
- (viii) to require preparation of credit memos on all new loans;



(ix) for extensions and renewals including those performed under forbearance agreements;

(x) to include adversely classified and Special Mention ratios and delinquency ratios in reports to the Bank's Board;

(xi) to address all other underwriting and credit administration recommendations contained in the ROE.

(g) Within 90 days of the effective date of this ORDER, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio.

(h) Within 60 days of the effective date of this ORDER, management shall prepare responses to the two external loan reviews dated November 27, 2007 and February 20, 2008 and present them to the Bank's Board. The responses shall detail corrective action planned or taken, as well as the deadline and officer responsible for the corrective action. The Bank's Board review of the responses should be documented in the Bank's Board minutes.

(i) Within 90 days of the effective date of this ORDER, the Bank shall contract for an external loan review, which shall assess the accuracy of the Bank's loan grading system, the quality of credit underwriting and administrative practices, and correction of documentation weaknesses identified in the ROE.

8. (a) Within 60 days of the effective date of this ORDER, the Bank shall establish a target portfolio mix deemed acceptable to the Regional Director and Commissioner, as determined at subsequent examinations and/or visitations.

(b) Within one year of the effective date of this ORDER, the Bank shall comply with the target portfolio mix established by reducing the percentage of construction and land development loans to total loans.

9. (a) Within 120 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. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits as of December 31, 2008, and December 31, 2009. For each time frame, the plan will also specify the anticipated average maturity and average yield on loans and securities; the average maturity and average cost of deposits; the level of earning assets as a percentage of total assets; and the ratio of net interest income to average earning assets. The plan 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 strategic plan should address, at a minimum, the following areas:

- (i) identify initiatives to bring earnings to a satisfactory level;
- (ii) revise Allowance for Loan and Lease Losses provisions;
- (iii) interest income, and non-interest expense to capture the likely impact of the bank's problem loan portfolio; and
- (iv) establish realistic targets for gains on the sale of loans based on prior performance and current economic conditions.

10. Within 120 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan. 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 Bank's Board 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.

11. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the ROE. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

12. 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 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.

13. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) 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 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 will become effective upon its issuance by the FDIC and the CDFI. Violation of any provision of this ORDER will be deemed to be conducting business in an unsafe or unsound manner, and will subject the Bank to further regulatory enforcement action. 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 and the CDFI.

Pursuant to delegated authority.

Dated at San Francisco, California, this 26<sup>th</sup> day of June, 2008.

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Stan Ivie  
Regional Director  
Division of Supervision and  
Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation

William S. Haraf  
Commissioner  
California Department of Financial  
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Craig A. Carlson  
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Chief Examiner