

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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	)	
In the Matter of	)	
	)	
PAN AMERICAN BANK	)	ORDER TO
LOS ANGELES, CALIFORNIA	)	CEASE AND DESIST
	)	
(INSURED STATE NONMEMBER BANK)	)	Docket FDIC-08-079b
	)	
_____	)	

Pan American Bank, Los Angeles, 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 August 5, 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”) as of November 19, 2007:

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

(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 in such a manner as to produce low earnings;

(d) operating with inadequate provisions for liquidity;

(e) operating with inadequate internal routine and controls policies;

(f) operating in violation of section 23B of the Federal Reserve Act, 12 U.S.C. § 371c-1, made applicable to state nonmember insured institutions by section 18(j)(1) of the Act, 12 U.S.C. § 1828(j)(1), as more fully set forth in the ROE as of November 19, 2007; section 22(h) of the Federal Reserve Act, as amended, 12 U.S.C. § 375b, as more fully set forth in the ROE as of November 19, 2007; and sections 215.4(a) and section 215.4(e) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. §§ 215.4(a), and 215.4(e), made applicable to state nonmember institutions by section 18(j)(2) of the Act, 12 U.S.C. §

1828(j)(2), in regard to transactions with affiliated organizations, as more fully set forth in the ROE as of November 19, 2007;

(g) operating in violation of section 18(i) of the Act, in regard to the reduction of stock without the FDIC's approval, 12 U.S.C. § 1828(i), as more fully set forth in the ROE dated as of November 19, 2007;

(h) operating in violation of the federal securities laws administered by the FDIC as set forth in the FDIC's Rules and Regulations, 12 C.F.R. Part 335, including sections 335.111 and 335.311, as more fully set forth in the ROE dated as of November 19, 2007, and section 335.601;

(i) operating in contravention of the Joint Agency Policy Statement On Interest Rate Risk, as more fully set forth in the ROE dated as of November 19, 2007;

(j) operating in contravention of Appendix A to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, "Interagency Guidelines Establishing Standards for Safety and Soundness," as more fully set forth in the ROE dated as of November 19, 2007;

(k) operating in contravention of Appendix B to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, "Interagency Guidelines Establishing Information Security Standards," as more fully set forth in the ROE dated as of November 19, 2007;

(l) operating in contravention of the "Interagency Policy Statement on the Internal Audit Function and Its Outsourcing," as more fully set forth in the ROE dated as of November 19, 2007;

(m) operating in violation of section 1902(b) of the California Financial Code, as more fully set forth in the ROE dated as of November 19, 2007;

(n) operating in violation of section 3354(b) of the California Financial Code as more fully set forth in the ROE dated as of November 19, 2007;

(o) operating in violation of section 3355(b) of the California Financial Code as more fully set forth in the ROE dated as of November 19, 2007; and

(p) operating in violation of section 3359(d)(3) of the California Financial Code as more fully set forth in the ROE dated as of November 19, 2007.

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 improving earnings, and other matters needing particular attention. Management shall include a senior lending officer with significant appropriate lending, collection, and loan supervision experience. Management shall also include a chief financial officer with proven abilities in asset/liability management and in maintaining a bank's books and records of comparable size, in accordance with generally accepted accounting principles and the Instructions for the Consolidated Reports of Condition and Income (Call Report). 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 earnings, management effectiveness, liquidity, sensitivity to market risk and operating

with adequate internal routines and controls as determined at subsequent examinations and/or visitations. The Commissioner and the Regional Director reserve the right during the life of this ORDER to determine whether current senior executive officers and directors of the Bank will be considered to be qualified for purposes of this ORDER.

(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) (1) Within 60 days from the effective date of this Order, the Bank shall engage an independent third party acceptable to the Regional Director and Commissioner and that possesses appropriate expertise and qualifications to analyze and assess the Bank's the management and staffing performance and needs. 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 and/or visitations. The engagement shall require that the analysis and assessment shall be summarized in a written report to the board of directors (Management Report). Within 15 days of receipt of the Management Report, the board will conduct a full and complete review of the Management Report, which review shall be recorded in the minutes of the meeting of the board of directors. The analysis may be developed by an independent committee of the Bank's board of directors or an outside consultant reporting to the Bank's board of directors; however, if

the committee is composed of members of the Bank's board of directors, a majority of the committee shall consist of directors that are not officers at the Bank or family members of Bank officers. The acceptability of the third party or committee shall be determined based upon the ability to conduct the assessment and advise the Bank in each of the areas subject to this ORDER.

(2) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third party for review before it is executed. The contract or engagement letter, at a minimum, shall include:

- (i) A description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement, and the aggregate fee;
- (ii) The responsibilities of the firm or individual;
- (iii) An identification of the professional standards covering the work to be performed;
- (iv) Identification of the specific procedures to be used when carrying out the work to be performed;
- (v) The qualifications of the employee(s) who are to perform the work;
- (vi) The time frame for completion of the work;
- (vii) Any restrictions on the use of the reported findings;
- (viii) A provision for unrestricted examiner access to workpapers; and
- (ix) A certification that the firm or individual is not affiliated in any manner with the Bank.

2. (a) Within 30 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; individual committee actions; liquidity reports and rate sensitivity analysis. The Bank's Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) Within 60 days from the effective date of this Order, the Bank shall review and prepare a written report on the composition, structure, and effectiveness of the Bank's current Board. The review shall, at a minimum, include an evaluation and assessment of the performance and abilities of each director, as well as any recommended changes to the composition of the Board or any Board committee. Such written report shall include the findings, conclusions, and recommendations for director or operational changes resulting from such review. The written report shall be submitted to the Regional Director and the Commissioner within 15 days of its completion.

3. 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" as set forth in the ROE as of November 19, 2007 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.

4. 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, 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.

5. 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 2008, 2009, and 2010. 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.

6. Within 90 days from the effective date of this ORDER, the Bank shall develop and adopt a plan to restore the Bank to profitability. 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.

7. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and cease operating in contravention of policies, as more fully set forth in the ROE as of November 19, 2007. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

8. Within 60 days from the effective date of this ORDER, the Bank shall develop or revise, adopt, and implement a written liquidity and funds management policy and an interest rate risk policy. 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.

9. 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.

10. The Bank shall improve its Information Technology (IT) risk management practices by:

(a) Within 60 days from the effective date of this ORDER, the Board shall review the Bank's annual information security program report as required by Section III.(F) of Part 364, Appendix B of the FDIC's Rules and Regulations – Interagency Guidelines Establishing Information Security Standards (Security Guidelines). At a minimum, the Bank's information security program report (Report) to the Board shall include the overall status of the information security program; decisions about risk management and control; Bank's compliance with the Security Guidelines; results of the risk assessment process; service provider arrangements; results of security monitoring and testing; security breaches or violations and management's responses; and recommendations for changes in the information security program. In addition, the Report shall consider the results of management assessments and reviews, internal and external audit activity related to information security, third-party reviews of the information security program and information security measures, and other internal or external

reviews designed to assess the adequacy of information security controls. Thereafter, the Bank shall provide the Board with an information security program report at least annually. Such Reports and their content shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Within 60 days from the effective date of this ORDER, the Board shall implement a written policy establishing a formal information technology (IT) audit program that provides comprehensive and ongoing audit coverage, the scope of which shall be based on a comprehensive risk assessment. The audit program shall include the areas recommended in the Audit Booklet of the Federal Financial Institutions Examination Council's (FFIEC) Information Technology Examination Handbook dated August 2003. The audit program shall be implemented by individuals or third parties possessing sufficient experience and expertise in conducting such audits. All audit reports shall be submitted to the Audit Committee or the Board for review, which shall be noted in the minutes of the meeting. Any subsequent changes to the audit plan shall be submitted to the Audit Committee or the Board for review. The implementation of the IT audit program content shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(c) Within 60 days from the effective date of this ORDER, the Audit Committee shall enter into an engagement contract with a Certified Public Accountant (CPA) or a qualified IT security professional to conduct an audit of the Bank's information system operations, information security, business continuity planning process, and the FedLine Advantage<sup>®</sup> funds transfer system. The bank's outsourcing arrangement(s) shall abide by the "Interagency Policy Statement on the Internal Audit Function and Its Outsourcing" dated March 17, 2003. At a minimum, the scope of the aforementioned IT-related audits shall include Tier I examination procedures in the Operations Booklet dated July 2004, Information Security Booklet

dated July 2006, and the Business Continuity Planning Booklet dated March 2008 of the FFIEC. The information security audit shall include a penetration test and an evaluation to locate security vulnerabilities. At a minimum, the audit of the FedLine Advantage<sup>®</sup> funds transfer system shall address the audit procedures in the Federal Reserve's publication, "FedLine Advantage<sup>®</sup> Monitoring and Control Guidelines." All IT-related audit reports shall be reviewed by the Audit Committee and/or the Board within 30 days of receipt. The implementation of audit report findings and recommendations shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(d) Within 60 days from the effective date of this ORDER, the Board shall review and approve the business continuity testing program. The Board shall ensure that the testing program demonstrates the Bank's ability to meet its requirements for continuity of operations. In addition, the Board shall ensure that the business continuity testing is performed annually. Within 30 days after the completion of the Business Continuity Plan testing, the Board shall review the test results and ensure that appropriate follow-up on test results is performed. The Board shall document all actions in its minutes.

(e) Within 90 days from the effective date of this ORDER, the Board and senior management shall ensure that a business continuity training program has been established. The Board shall document all actions in its minutes.

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall maintain Tier 1 capital in such an amount as to equal or exceed 10.0 percent of the Bank's total assets.

(b) Within 60 days from the effective date of this Order, the Bank shall develop, adopt, and implement a capital maintenance and augmentation plan. Such plan shall include provisions for monitoring, controlling and addressing risks to the Bank's capital, as well

as a capital contingency plan.

(c) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Subparagraph 4(a) shall be in addition to a fully funded allowance for loan and lease losses (“Allowance”), the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

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

12. Within 10 days from the effective date of this ORDER, the Respondent shall retain an independent third party consultant acceptable to the Regional Director and the Commissioner and that possesses appropriate expertise and qualifications to conduct a comprehensive forensic audit of all transactions impacting the Bank’s correspondent Bank Account with the Federal Reserve Bank of San Francisco for the time period starting December 31, 2005 until March 31, 2008, in order to determine the extent of any irregular or suspicious activities or transactions, or potential violations of state or federal laws or regulations, between the Respondent and any affiliates, including institution-affiliated parties, agents, employees or other third parties. Such engagement shall require that the forensic audit shall be summarized in a written report to the board of directors. The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the third party for review before it is executed. The contract or engagement letter, at a minimum, shall include:

- (a) A description of the work to be performed under the contract or engagement letter, the fees for each significant element of the engagement and the aggregate fee;
- (b) The responsibilities of the firm or individual;
- (c) An identification of the professional standards covering the work to be performed;

- (d) Identification of the specific procedures to be used when carrying out the work to be performed;
- (e) The qualifications of the employee(s) who are to perform the work;
- (f) The time frame for completion of the work;
- (g) Any restrictions on the use of the reported findings;
- (h) provision for unrestricted examiner access to workpapers; and
- (i) A certification that the firm or individual is not affiliated in any manner with the Bank.

and a final report of the forensic audit shall be delivered to the Commissioner and the Regional Director within 30 days of the date of the forensic audit is completed.

13. Within 30 days of the end of the first calendar quarter, following the effective date of this ORDER, and within 30 days of the end of each calendar 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 Consolidated Reports of Condition and 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.

14. 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 Disclosure Section,

Division of Supervision and Consumer Protection, Washington, D.C. 20429 and to the CDFI, 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 20<sup>th</sup> day of August, 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 Institutions

By:

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Craig A. Carlson  
Senior Deputy Commissioner and Chief Examiner  
California Department of Financial Institutions