

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of )

PACIFIC RIM BANK )  
HONOLULU, HAWAII )

(INSURED STATE NONMEMBER BANK) )  
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NOTICE OF CHARGES  
AND OF HEARING

FDIC-10-471b

The Federal Deposit Insurance Corporation (“FDIC”), having reasonable cause to believe that Pacific Rim Bank, Honolulu, Hawaii (“Bank”) has engaged in unsafe or unsound banking practices and violations of law and/or regulations, and, unless restrained, will continue to engage in such practices and violations in conducting the business of the Bank, hereby institutes this proceeding for the purpose of determining whether an appropriate order should be issued against the Bank under the provisions of section 8(b)(1) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1818(b)(1). The FDIC issues this NOTICE OF CHARGES AND OF HEARING (“NOTICE”) pursuant to the provisions of the Act and the FDIC Rules of Practice and Procedures, 12 C.F.R. Part 308, and alleges as follows:

1. The Bank is an insured depository institution as that term is defined in Section 3(c) of the Act, 12 U.S.C. § 1813(c), is a corporation existing and doing business under the laws of the State of Hawaii, and has its principal place of business at Honolulu, Hawaii. It is and has been, at all times pertinent to this proceeding, an insured state nonmember bank subject to the Act, 12 U.S.C. §§ 1811-1831aa, the Rules and Regulations of the FDIC, 12 C.F.R. Chapter III (“Rules”), and the laws of the State of Hawaii. The FDIC has jurisdiction over the Bank and the subject matter of this proceeding.

2. The Bank entered into a joint Memorandum of Understanding (“MOU”) with the FDIC and the Hawaii Division of Financial Institutions (“HDFI”) that became effective on November 3, 2009. The MOU was based on the results of a joint examination of the Bank that commenced on April 7, 2009, using financial information as of December 31, 2008.

3. The Bank was examined by examiners from the FDIC and the HDFI commencing on April 6, 2010 (“Joint Examination”). Utilizing financial information as of December 31, 2009, the Joint Examination found that:

- (a) The Bank’s total deposits equaled \$126,640,000;
- (b) The Bank’s total loans and leases equaled \$107,046,000;
- (c) The Bank’s “total assets”, as defined in section 325.2(x) of the Rules, equaled \$136,049,000;
- (d) The Bank’s “Tier 1 or Core Capital”, as defined in section 325.2(v) of the Rules (“Tier 1 Capital”), equaled \$8,726,000; and
- (e) The Bank’s “allowance for loan and lease losses”, as defined in section 325.2(a) of the Rules (“ALLL”), equaled \$1,983,000.

4. The Bank has engaged in unsafe or unsound practices in that the Bank has operated with an excessive level of classified assets. As of December 31, 2009, as calculated in the Joint Examination, the Bank’s adversely classified assets totaled \$10,470,000 and represented 97.22% of Tier 1 Capital and the ALLL. By contrast, the Bank’s classified assets represented 36.40 percent of Tier 1 Capital and the ALLL as of December 31, 2008, and 8.56 of the Tier 1 Capital and the ALLL as of December 31, 2007.

5. The Bank has engaged in unsafe or unsound practices in that the Bank has operated with an inappropriate Allowance for Loan and Lease Losses (“ALLL”). The ALLL

was inappropriate because the Bank's internal loan grading system was not accurate and the Bank's ALLL methodology did not properly apply regulatory guidance and accounting requirements, including FAS 114 and 5. In addition, the MOU required the Bank to improve its loan grading system, and develop and apply a procedure for identifying impaired loans under FAS 114, both of which the Bank has failed to do.

6. The Bank has engaged in unsafe or unsound practices in that the Bank has operated without appropriate policies and procedures to monitor and control risks with respect to concentrations of credit in commercial real estate ("CRE") and construction and land development lending ("ADC"). As of December 31, 2009, as calculated in the Joint Examination, the Bank's concentrations in CRE loans represented approximately 435.42 percent of Tier 1 capital, and its ADC loans represented approximately 162.51 percent of Tier 1 Capital. These concentrations levels are excessive. In addition, the MOU required the Board to monitor concentrations of credit in CRE and C&I, which the Board has failed to do.

7. The Bank has engaged in unsafe or unsound practices in that the Bank has operated without appropriate loan policies and credit administration procedures, as evidenced by the Bank's poor asset quality. In addition, the Bank has failed to comply with the credit administration provisions contained in paragraph 9 of the MOU.

8. The Bank has engaged in unsafe or unsound practices in that the Bank has operated with inadequate capital in relation to its volume of classified assets, level of loan concentrations, and weak earnings, as evidenced by the following:

(a) As of December 31, 2009, as calculated in the Joint Examination, the Bank's Tier 1 capital leverage ratio had declined to 6.27%, representing a decline from 7.40 percent as of December 31, 2008, and 10.25 percent as of December 31, 2007;

(b) As of December 31, 2009, as calculated in the Joint Examination, the Bank's total risk-based capital ratio had declined to 9.61 percent, representing a decline from 10.57 percent as of December 31, 2008, and 14.14 percent as of December 31, 2007; and

(c) In addition, the MOU required the Bank to submit an updated business plan that addressed, among other things, restoring the Bank's Tier 1 Capital leverage ratio to not less than 8 percent through 2013. The Bank has failed to restore its Tier 1 Capital leverage ratio to not less than 8 percent as required by the MOU.

9. The Bank has engaged in unsafe or unsound practices in that the Bank has operated with inadequate liquidity and funds management practices given the Bank's weak earnings, poor asset quality and declining capital. In addition, the MOU required the Bank to implement certain recommendations to improve the Bank's asset and liability management ("ALM") function. However, the Bank has failed to implement some of the ALM recommendations, including updating the contingency funding plan and assessing contingency funding sources, as required by the MOU.

10. The Bank has engaged in unsafe or unsound conditions in that the Bank has operated with earnings that are insufficient to support operations and maintain appropriate capital levels. As of December 31, 2009, the Bank reported a net loss of \$726,000 for an annualized Return on Average Assets ("ROAA") of negative 0.55%.

11. The Bank has operated in violation of Section 215.4(c) of Regulation O, 12 C.F.R. § 215.4(c), in that it extended credit to an insider of the Bank on multiple occasions that, when aggregated with all other extensions of credit to the insider and his related interests, exceeded the Bank's lending limit.

12. The Bank has engaged in unsafe or unsound practices in that it has operated with management whose policies and practices were detrimental to the Bank and jeopardized the safety of the Bank's deposits, as evidenced by the paragraphs above.

13. The Bank's Board of Directors has engaged in unsafe or unsound banking practices in that it has failed to provide adequate supervision over and direction to the active officers of the Bank to prevent the unsafe or unsound banking practices described above.

14. Notice is hereby given that a hearing will be held at Honolulu, Hawaii, commencing 60 days from the date of service of this NOTICE on the Bank, or on such other date as may be set by the Administrative Law Judge appointed to hear this matter, for the purpose of taking evidence on the above-mentioned charges in order to determine: Whether an order should be issued under the Act requiring the Bank: (1) to cease and desist from the unsafe or unsound banking practices and violations of law and/or regulations herein specified; and (2) to take affirmative action to correct the conditions resulting from such practices and violations.

15. The hearing referred to in paragraph 14 above will be held before an Administrative Law Judge to be assigned by the Office of Financial Institution Adjudication pursuant to 5 U.S.C. § 3105. The hearing will be public, and in all respects will be conducted in compliance with the provisions of the Act and the FDIC Rules of Practice and Procedure.

16. The Bank is hereby directed to file an Answer to this NOTICE within 20 days from the date of service of this NOTICE on the Bank, as provided by section 308.19 of the FDIC's Rules of Practice and Procedure, 12 C.F.R. § 308.19. All papers filed or served in this proceeding shall be filed with the Office of Financial Institutions Adjudication, 3501 N. Fairfax Drive, Suite VS-D8113, Arlington, VA 22226-3500, pursuant to section 308.10 of the FDIC's Rules of Practice and Procedure, 12 C.F.R. § 308.10.

17. Copies of all papers filed in this proceeding shall be served upon the Executive Secretary, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429-9990; A. T. Dill, III, Assistant General Counsel, Legal Division, Enforcement Unit; Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D. C. 20429-9990; and upon Joseph J. Sano, Regional Counsel, San Francisco Regional Office, Federal Deposit Insurance Corporation, 25 Jessie Street at Ecker Square, Suite 1400, San Francisco, California 94105.

Pursuant to delegated authority.

Dated at San Francisco, California, this 17<sup>th</sup> day of September, 2010.

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/s/  
J. George Doerr  
Deputy Regional Director  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation