

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of)	
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HATCH BANK)	
San Marcos, California)	CONSENT ORDER
)	
)	FDIC-24-0062b
(INSURED STATE NONMEMBER BANK))	
)	
_____)	

The Federal Deposit Insurance Corporation (**FDIC**) is the appropriate Federal banking agency for Hatch Bank, San Marcos, California (**Bank**), under 12 U.S.C. § 1813(q).

The FDIC considered the matter and determined the Bank has engaged in unsafe or unsound banking practices and violations of law or regulation relating to, among other things, the Bank Secrecy Act, 31 U.S.C. § 5311 *et seq.*, 12 U.S.C. § 1829b, and 12 U.S.C. §§ 1951-60; 31 C.F.R. Chapter X; and 12 U.S.C. § 1818(s) and the FDIC’s implementing regulations, 12 C.F.R. § 326.8 and 12 C.F.R. Part 353 (collectively, the **BSA**) with respect to the Bank’s Anti-Money Laundering/Countering the Financing of Terrorism Program (**AML/CFT Program**), including its internal controls, program for independent testing of the AML/CFT Program, information sharing, the Customer Identification Program, customer due diligence, and suspicious activity reports (**SARs**).

The Bank, by and through its duly elected and acting board of directors (**Board**), has executed a Stipulation and Consent to the Issuance of a Consent Order (**Consent Agreement**), dated April 2, 2025, that is accepted by the FDIC. With the Consent Agreement, the Bank has

consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this Consent Order (**Order**) by the FDIC pursuant to 12 U.S.C. § 1818(b)(1).

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:

I. Board Requirements

A. Supervision, Direction, and Oversight. The Board must increase, commensurate with the size of the Bank and the nature, scope, complexity, and risk of Bank products and services, whether conducted or provided by the Bank, or on behalf of the Bank through one or more Third-Party Relationships, as defined below, (**Bank Activities**) and business arrangements between the Bank and another person or entity, by contract or otherwise, and any business arrangements with an entity conducting one or more Bank Activities, or a component of a Bank Activity (collectively, **Third-Party Relationships**), its supervision and direction of Bank management, and its oversight and monitoring of the AML/CFT Program, including ensuring sufficient resources, the implementation of and adherence to appropriate written policies, procedures, processes, and/or practices (collectively, **Procedures**), and at a minimum:

1. *Information and Procedures*. Ensure that Procedures regarding Board oversight and monitoring of the AML/CFT Program (a) appropriately consider the nature, scope, complexity, and risk of Bank Activities and Third-Party Relationships; (b) include provisions which (i) require the Board be provided with the information and documentation necessary to fulfill its duties and responsibilities under this Order; and (ii) enable the Board to monitor and regularly evaluate the adherence to and the effectiveness of the Procedures; and (c) are appropriately revised in a timely manner to assure on-going and proactive compliance with

applicable laws and regulations; and

2. *Meetings*. Ensure that the minutes of meetings of the Board and Board committees are sufficiently detailed and reflect the discussion of and rationale for material decisions and any specific actions taken or to be taken by the Board and/or any requirements of or directions to Bank management as a result of the discussions.

B. Corrective Action. The Board must also ensure that the Board and the Bank continue to take all steps necessary, consistent with other provisions of this Order, and safe and sound banking practices to:

1. *Banking Practices and Violations*. Eliminate or correct the unsafe or unsound banking practices and the violations of law or regulation identified in the March 4, 2024 Report of Examination issued jointly by the FDIC and the California Department of Financial Protection and Innovation (**2024 ROE**) and establish and maintain Procedures to track, eliminate or correct, and thereafter prevent any unsafe or unsound banking practices or violations of law or regulation identified in future reports of examination or visitation reports;

2. *Deficiencies and Weaknesses*. Appropriately address the AML/CFT-related deficiencies and weaknesses identified in the 2024 ROE and establish and maintain Procedures to track and appropriately address these and any other deficiencies or weaknesses identified in the 2024 ROE and future reports of examination or visitation reports; and

3. *Order Compliance*. Fully comply with the provisions of this Order in a timely manner.

II. AML/CFT Program

Within 90 days from the effective date of this Order, the Board must ensure that the Bank's written AML/CFT Program is reasonably designed to assure and monitor the Bank's

compliance with the BSA. At a minimum, the AML/CFT Program must (i) be commensurate with the Bank's size, organizational structure and complexity, the nature, scope, complexity, number, volume, and risk of Bank Activities and Third-Party Relationships and the Bank's money laundering (ML), terrorist financing (TF), identity theft, and other illicit financial activity risk profile (collectively, **ML/TF Risk Profile**); (ii) address the BSA-related deficiencies and weaknesses identified in the 2024 ROE; (iii) comply with the requirements of this Order; (iv) include Procedures for monitoring the performance of and the Bank's adherence to the AML/CFT Program and documenting, tracking, and reporting such performance and adherence; and (v) include Procedures for the performance of an initial and then periodic risk-based reviews and appropriate revisions of the AML/CFT Program to ensure that it is and continues to be reasonably designed to assure and monitor the Bank's compliance with the BSA.

A. Risk Assessment. The Board must ensure that, within 60 days from the effective date of this Order, the Bank's written assessment of ML, TF, identity theft, and other illicit financial activity risks (collectively, **ML/TF Risk Assessment**) accurately reflects the Bank's ML/TF Risk Profile. The ML/TF Risk Assessment must, at a minimum:

1. appropriately consider all pertinent information, including information regarding Bank Activities, Third-Party Relationships, Customers, as defined below, transactions, and geographic locations;
2. include a detailed qualitative and quantitative written analysis of the risks of ML, TF, identity theft and other illicit financial activity (collectively, **ML/TF Risks**) within each identified category;
3. include the appropriate risk-mitigating strategies for the ML/TF Risks identified in the ML/TF Risk Assessment that will be implemented.

B. System of AML/CFT Internal Controls. The Board must ensure that, within 90 days from the effective date of this Order, the Bank has a system of internal controls in place that assures and monitors compliance with the BSA (**AML/CFT Internal Controls**). The AML/CFT Internal Controls must appropriately consider the ML/TF Risk Profile; ML/TF Risk Assessment; and the anticipated number of new Bank Activities and their respective complexity, scope, and volumes, and the anticipated number of new Third-Party Relationships and their complexity and scope (**Growth Plans**). The AML/CFT Internal Controls must also, at a minimum, include Procedures requiring:

1. *AML/CFT Resources Reviews*. The performance of an initial and then periodic risk-based reviews and assessments of the adequacy and appropriateness of the Bank's current AML/CFT related resources (**AML/CFT Resources Review**). An AML/CFT Resources Review must, at a minimum: (a) appropriately consider the ML/TF Risk Profile; the ML/TF Risk Assessment; and Growth Plans; and (b) assess whether the Bank has the appropriate level and type of AML/CFT related resources, including the appropriate number of Bank staff with the requisite expertise, skillsets, and sufficient authority and independence, to effectively mitigate ML/TF Risks, ensure appropriate oversight and supervision of the AML/CFT-related Procedures, Bank Activities, and Third-Party Relationships, and ensure compliance with this Order and the BSA. An AML/CFT Resources Review must be satisfactorily documented and supported in a written report which identifies any deficiencies, including those due to employee turnover, and/or additional AML/CFT resource needs, with recommendations on how they should be addressed;

2. *Third-Party Relationships Review*. The performance of an initial and then periodic risk-based comprehensive reviews of any Third-Party Relationship performing a BSA

compliance activity or function on behalf of the Bank (**AML/CFT Third-Party Relationship Reviews**) to (a) assess whether the systems used by the Third-Party Relationship to risk rate Customers, monitor, detect, and report suspicious activity and/or identify and file BSA-related reports (**BSA Reports**) based on the Bank's current ML/TF Risk Assessment and ML/TF Risk Profile have been appropriately validated, including a validation of the accuracy, completeness, and consistency of the system's information; (b) assess whether the Third-Party Relationship's system documentation and related Procedures accurately reflect the rules, thresholds and scenarios in use by the Bank and are appropriately supported; and (c) assess whether decisions to adjust or not adjust system parameters resulting from an AML/CFT Third-Party Relationship Review are appropriately documented and supported. All AML/CFT Third-Party Relationship Reviews must be satisfactorily documented and supported in a written report which identifies any deficiencies, with recommendations on how they should be addressed.

3. *AML/CFT Reporting Reviews.* The performance of an initial and then periodic risk-based comprehensive reviews (**AML/CFT Reporting Reviews**) to (a) assess and validate each of the systems, including the accuracy, completeness, and consistency of the system's information, used by the Bank to risk rate Customers, monitor, detect, and report suspicious activity and/or identify and file BSA Reports based on the current ML/TF Risk Assessment and ML/TF Risk Profile; (b) assess whether the Bank's system documentation and related Procedures accurately reflect the rules, thresholds and scenarios in use and are appropriately supported; and (c) assess whether decisions to adjust or not adjust system parameters resulting from an AML/CFT Reporting Review are appropriately documented and supported. An AML/CFT Reporting Review must be satisfactorily documented and supported in a written report which identifies any deficiencies, with recommendations on how they should be

addressed;

4. *Monitoring and Reporting.* The review and appropriate revision of the Bank's Procedures and systems for identification, monitoring, detecting, and reporting of activity conducted within or through the Bank to, at a minimum:

(a) ensure the timely detection, investigation, and reporting of suspicious activity with the filing of accurate and complete SARs;

(b) address all stages of suspicious activity monitoring, including alert reviews, investigations, requests for information, case reviews, escalations, case closings, the filing of SARs, and SAR follow-ups, and be comprehensive, clear, and consistent;

(c) require appropriate levels of documentation, analysis, and support for each stage of the suspicious activity monitoring and reporting process; and

(d) ensure the timely, accurate, and complete filing of all reports regarding searches requested by the Financial Crimes Enforcement Network under 12 C.F.R. § 1010.520(b)(3) (**FinCEN Searches**), with an appropriate level of documentation, analysis, and support for monitoring and reporting process decisions; and

5. *Customer Due Diligence.* The review and appropriate revision of the Bank's due diligence Procedures, including its Customer Identification Program, for all new and existing customers (**Customers**) to, at a minimum:

(a) ensure consistency with the ML/TF Risk Profile and ML/TF Risk Assessment and require an increased focus on Customers identified by the Bank as posing a heightened risk of ML, TF, identity theft, or other illicit financial activities;

(b) establish a standardized methodology designed to ensure the risk level of the Bank's Customers is appropriately identified and assessed based on the potential for

ML, TF, identity theft, or other illicit financial activity posed by the Customer's activities, with appropriate consideration given to the nature and purpose of the account, including the anticipated type and volume of account activity, types of products and services offered, and locations and markets served by the Customer;

(c) ensure the Bank has sufficient information to understand the nature and purpose of Customer relationships for purposes of developing a Customer risk profile and address the means by which information will be requested and collected from Customers;

(d) ensure the Bank collects and verifies, as appropriate, ownership information of legal entity Customers;

(e) ensure an appropriate level of ongoing monitoring commensurate with Customer risk profiles to ensure that the Bank can accurately identify those Customers the Bank has reason to believe pose a heightened risk of ML, TF, identity theft, or other illicit financial activities and require additional due diligence;

(f) establish when, what, and how additional information will be collected for Customers the Bank has identified as posing a heightened risk of ML, TF, identity theft, or other illicit financial activities, taking into account

(g) the Customer risk profile and the specific risks posed by the Customer;

(h) establish whether and when Customer information, including information regarding the beneficial owner(s) of legal entity Customers, should be updated to ensure it is current and accurate;

(i) establish standards for conducting and documenting analysis associated with the due diligence process, including guidance for resolving issues when insufficient or inaccurate information is obtained; and

(j) establish specific staff responsibilities, including who is responsible for requesting and collecting Customer information, overseeing the collection of Customer information through Third-Party Relationships, determining whether collected Customer information is sufficient, and reviewing and/or authorizing changes to Customer risk profiles and/or Customer information.

C. AML/CFT Independent Testing. The Board must ensure that, within 90 days from the effective date of this Order, the Bank has implemented Procedures for the independent testing of the AML/CFT Program and the Bank's compliance with the BSA (**AML/CFT Independent Testing Procedures**) that consider all pertinent information, including the current ML/TF Risk Assessment, and are appropriate for the Bank's ML/TF Risk Profile. The AML/CFT Independent Testing Procedures must, at a minimum, require:

1. *AML/CFT Program Evaluation*. The evaluation of the overall adequacy and effectiveness of the AML/CFT Program, including the Bank's Procedures, and whether the Board, Bank management, staff, consultants, and agents, including any Third-Party Relationships serving as agents of the Bank, satisfactorily adhere to the Bank's AML/CFT Program;

2. *AML/CFT Risk Assessment and Profile Review*. A review of the ML/TF Risk Assessment and ML/TF Profile;

3. *Transaction Testing*. Appropriate risk-based transaction testing to verify the Bank's compliance with the BSA;

4. *BSA Officer Evaluation*. An evaluation of the BSA Officer's skills and ability to effectively coordinate and monitor day-to-day compliance, administer all aspects of the AML/CFT Program, including the Bank's compliance with the BSA, and report directly to the

Board or the Compliance Committee with regard to all matters related to the BSA;

5. *Management Evaluation.* An evaluation of Bank management's efforts to resolve violations cited and deficiencies noted in previous audits and regulatory examinations;

6. *AML/CFT Training Program Review.* A review of the AML/CFT Training Program, defined below, for completeness and effectiveness;

7. *Systems and Information Assessment.* An assessment of the quality, completeness, reliability, and accuracy of AML/CFT Program systems and information;

8. *BSA Reporting Assessment.* An assessment of the effectiveness of the Bank's identification of suspicious activity, and filing of BSA Reports, including reviews of SAR- and FinCEN Searches-related documentation to determine their accuracy, timeliness, and completeness;

9. *Testing Documentation Assessment.* An assessment of the documentation prepared in connection with the scope of the testing procedures performed, each step of the testing process, including the escalation and exclusion process for issues or concerns, and whether they include appropriately detailed descriptions and are satisfactory supported by workpapers that have undergone an appropriate quality assurance review; and

10. *AML/CFT Audit Report Preparation.* Preparation of a report reflecting the results of the testing (**AML/CFT Audit Report**) that, at a minimum:

- (a) includes a root cause analysis for each identified issue or concern;
- (b) indicates whether the identified issue or concern is new or was previously identified;
- (c) reflects the employee(s) or business line responsible for the identified issue or concern;

(d) summarizes management's response to the identified issue or concern noting concurrence or disagreement with the finding, an explanation for the existence of the issue or concern, and management's plans for and timing of remediation of the issue or concern; and

(e) is submitted to the Audit Committee and the Compliance Committee immediately upon completion.

D. AML/CFT Training. The Board must ensure all appropriate personnel are aware of, and can comply with, the requirements of the BSA applicable to the individual's specific duties and responsibilities to assure the Bank's compliance with the BSA and ensure that the Bank implements effective training for the Board, Bank management, staff with assigned duties under the AML/CFT Program, and other Bank staff (collectively, **Bank Personnel**) regarding the BSA generally and with respect to the compliance of Bank Activities and the Bank's Procedures with the BSA (**AML/CFT Training Program**) within 60 days from the effective date of this Order. The AML/CFT Training Program must, at a minimum:

1. *Tailored Training*. Ensure training is tailored to address the specific duties and responsibilities of the Bank Personnel for which the training is being provided;
2. *Initial and Periodic Training*. Require initial and periodic tailored training, updated as appropriate; and
3. *Documentation*. Require full documentation of the AML/CFT Training Program and its implementation including type of training, training materials, dates of the training sessions, and attendance records.

III. OFAC Compliance Program

The Board must ensure that the Bank complies with the requirements of the laws and regulations administered by the Office of Foreign Assets Control (collectively, **OFAC Requirements**) and that the program established by the Bank (**OFAC Compliance Program**) appropriately assesses the risk associated with compliance with OFAC Requirements and satisfactorily enables the Bank to comply with the OFAC Requirements. Within 90 days from the effective date of this Order, the Board should evaluate whether the OFAC Compliance Program (i) is commensurate with the Bank's compliance risk and appropriately considers the Bank's products, services, Customers, entities, transactions, geographic locations, and reliance on Third-Party Relationships to fulfill any of the Bank's OFAC Requirements; (ii) is reviewed and appropriately updated as new products, services, business lines, geographic locations and Third-Party Relationships are added; and (iii) the OFAC Compliance Program-related deficiencies and weaknesses identified in the 2024 ROE have been appropriately addressed.

IV. Directors' Compliance Committee

Within 7 days from the effective date of this Order, the Board must submit the proposed composition of a Compliance Committee of the Board of Directors to the FDIC for review, and comment or non-objection in accordance with Paragraph V of this Order. Within 15 days of receipt of the FDIC's non-objection to the composition of the Compliance Committee, the Board must establish and maintain its Compliance Committee. If, after receiving the non-objection of the FDIC, there is a proposed change to the composition of the Compliance Committee, such proposed change must be submitted to the FDIC for review, and comment or non-objection in accordance with Paragraph V of this Order. The Compliance Committee will have the responsibility of overseeing the Bank's compliance with this Order. The Compliance Committee

must ensure it receives detailed monthly reports from Bank management regarding corrective action required in connection with this Order and must present a detailed written report to the Board at each regularly scheduled Board meeting regarding the Bank's compliance with this Order. This report and any discussions related to it must be included in the minutes of the corresponding Board meeting. Nothing herein, including the existence of the Compliance Committee, diminishes the responsibility of the entire Board to ensure full compliance with this Order in a timely manner.

V. Non-objection, Implementation and Adherence

A. Review, and Comment or Non-objection. When a provision of this Order requires the submission of a matter to the FDIC for review, and comment or non-objection (**Submission**), the Bank will make the Submission to the FDIC as a PDF document through the FDIC's Secure Email portal (securemail.fdic.gov) using e-mail address: NYMailRoom@fdic.gov. Within 30 days from receipt of comments from the FDIC, the Board or Bank will make such modifications as may be necessary to respond to the FDIC's comments and resubmit the Submission for review, and additional comments or non-objection.

B. Adoption, Implementation, and Adherence. The Board will adopt any Submission at its next regularly scheduled meeting following receipt of the FDIC's written non-objection to such Submission. For any matter required by this Order but not requiring the written non-objection of the FDIC, the Board must act on such matter within the timeframe required for such action in this Order. All actions must be appropriately reflected in the Board minutes. Thereafter, the Board must ensure that the Bank fully implements and adheres to the Procedure or other matter as adopted. In the event a Submission required by this Order and adopted by the Board, or any portion thereof, is not fully implemented or adhered to, the Board must promptly,

in no instance more than 30 days from the event, advise the FDIC in writing of the specific reasons for the deviation or delay and the steps it will take to address the deviation or delay. The FDIC may either provide a written non-objection to any such deviation or delay or require compliance with the Submission as adopted by the Board.

VI. Progress Reports

Within 45 days of the end of each calendar quarter following the effective date of this Order, the Board must furnish to the FDIC written progress reports detailing the form, manner, and results of any actions taken to secure compliance with this Order. All progress reports and other written responses to this Order must be reviewed and approved by the Board and be made a part of the Board minutes.

VII. Notice to Shareholder

The Bank must provide either a copy of this Order or an accurate and complete description of all material aspects of the Order to its parent banking institution within 10 days of the effective date of this Order.

VIII. Miscellaneous

The provisions of this Order do 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 is effective on the date of issuance and its provisions will remain effective and enforceable until a provision is modified, terminated, suspended, or set aside in writing by the

