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[¶11,211] **In the Matter of Eastern International Bank, Alhambra, Calif., Docket No. FDIC-95-90b (8-22-95)**

Bank ordered to cease and desist from such unsafe or unsound practices as operating with inadequate management; operating with inadequate equity capital and reserves; operating with a large volume of poor quality loans; operating with an inadequate allowance for loan and lease losses; following inadequate lending and collection practices; operating with inadequate provisions for liquidity and funds management; operating with inadequate routine and controls policies; operating in such a manner as to produce low earnings; and operating in violation of Regulation O of the Board of Governors of the Federal Reserve System and Part 353 of the FDIC Rules and Regulations.

- [\[.1\] Management—Qualifications Specified](#)
- [\[.2\] Capital—Tier 1 Capital—Increase/Maintain—Methods](#)
- [\[.3\] Assets—Adversely Classified—Eliminate/Reduce](#)
- [\[.4\] Loans—Extensions of Credit—Existing Borrowers—Curtail](#)
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- [\[.6\] Loans—Losses—Establish/Maintain Adequate Allowance](#)
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- [\[.8\] Bank Operations—Internal Routine and Control Policy—Adopt/ Implement](#)
- [\[.9\] Uncollected Funds—Advances—Policy—Adopt/Implement](#)
- [\[.10\] Loans—Conflicts of Interest—Policy—Adopt/Implement](#)
- [\[.11\] Investment Policy—Revise](#)
- [\[.12\] Deposits—Brokered—Notice to FDIC](#)
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**In the Matter of
EASTERN INTERNATIONAL BANK
ALHAMBRA,CALIFORNIA
(Insured State Nonmember Bank)
ORDER TO
CEASE AND DESIST
FDIC-95-90b**

Eastern International Bank, Alhambra, California ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violation of laws 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 August 4, 1995, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violation of laws 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 violation of laws 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 [{{10-31-95 p.C-4076}}](#) cease and desist from the following unsafe and unsound banking practices and violation of laws and/or regulations:

- (a) operating with inadequate management;
- (b) operating with inadequate equity capital and reserves in relation to the volume and quality of assets held by the Bank;
- (c) operating with a large volume of poor quality loans;

- (d) operating with an inadequate allowance for loan and lease losses;
- (e) following inadequate lending and collection practices;
- (f) operating with inadequate provisions for liquidity and funds management;
- (g) operating with inadequate routine and controls policies;
- (h) operating in such a manner as to produce low earnings; and
- (i) operating in violation of sections 215.4(a), 215.5 and 215.8 of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. §§ 215.4(a), 215.5, and 215.8, made applicable to state nonmember institutions by section 18(j)(2) of the Act, 12 U.S.C. § 1828(j)(2), as more fully described on page 8.13 of the Report of Examination as of November 21, 1994; and Part 353 of the FDIC Rules and Regulations as more fully described on page 8.13 of the Report of Examination as of November 21, 1994.

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

[.1] 1. The Bank shall have and retain qualified management in accordance with the following criteria:

(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 upgrading a low quality loan portfolio, 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 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, and liquidity.

(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 Superintendent of Banks for the State of the California ("Superintendent") 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.

(d) The Bank may not add any individual to its board of directors or employ any individual as a senior executive officer if the Regional Director issues a notice of disapproval pursuant to section 32 of the Act, 12 U.S.C. § 1831i.

[.2] 2. (a) Within 180 days from the effective date of this ORDER, the Bank shall have Tier 1 capital in such an amount as to equal or exceed eight (8.0) percent of the Bank's total assets. Thereafter, during the life of this ORDER, the Bank shall maintain Tier 1 capital in such an amount as to equal or exceed eight (8.0) percent of the Bank's total assets.

(b) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Subparagraph 2(a) 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 Superintendent as determined at subsequent examinations and/or visitations.

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(c) Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 2 of this ORDER may be accomplished by the following:

- (i) the sale of common stock; or
- (ii) the sale of noncumulative perpetual preferred stock; or
- (iii) the direct contribution of cash by the board of directors and/or shareholders of the Bank; or
- (iv) any other means acceptable to the Regional Director and the Superintendent; or
- (v) any combination of the above means.

Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 2 of this ORDER

may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(d) If all or part of the increase in Tier 1 capital required by Paragraph 2 of this ORDER is accomplished by the sale of new securities, the board of directors shall forthwith take all necessary steps to adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than fifteen (15) days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration and Disclosure Section, 550 - 17th Street, N.W., Washington, D.C. 20429, for review. Any changes requested to be made in the plan or materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Superintendent for prior approval.

(e) In complying with the provisions of Paragraph 2 of this ORDER, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within ten (10) days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(f) For the purposes of this ORDER, the terms "Tier 1 capital" and "total assets" shall have the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. §§ 325.2(t) and 325.2(v).

[.3] 3. (a) Within 10 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 of November 21, 1994, 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 180 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" as of November 21, 1994 that have not previously been charged off to not more than \$5,000,000.

(c) Within 360 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" as of November 21, 1994 that have not previously been charged off to not more than \$4,000,000.

(d) The requirements of subparagraphs 3(a), 3(b), and 3(c) of this ORDER are not to be construed as standards for future

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operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in subparagraphs 3(b), 3(c), and 3(d) the word "reduce" means:

- (i) to collect;
- (ii) to charge-off; or
- (iii) to sufficient improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC.

[.4] 4. (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 4(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) 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 classified, in whole or part, "Substandard" without the prior written approval of a majority of the board of directors or the loan committee of the Bank. Subparagraph 4(b) of this ORDER shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with FASB 15, providing that such renewal or extension shall be made only with the prior written approval of a majority of the board of directors or the loan committee of the Bank.

(c) In connection with subparagraphs 4(a) and 4(b) of this ORDER, the Bank shall not:

(i) continue the accrual of interest on any loan which is delinquent in principal or interest payments ninety (90) days or more unless the asset is both well secured and in the process of collection; or

(ii) engage in any practice or device which essentially avoids recognition of overdue loans. For any loans restructured in accordance with FASB 15, consideration should be given to the reasonableness of the modified terms of the loan, since loans should not be restructured in an attempt to conceal credit losses or delay their recognition.

(d) For the purpose of subparagraph 4(c) of this ORDER, debt is "well secured" if it is secured by:

(i) collateral in the form of liens on or pledges of real or realizable value sufficient to discharge the debt (including accrued interest) in full; or

(ii) the guaranty of a financially responsible party.

A debt is "in the process of collection" if collection of the debt is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to a current status.

[.5] 5. (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, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall make best efforts to 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 Superintendent 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, under which the accrual of interest income is discontinued and previously accrued interest income on delinquent loans is reversed;

(ii) provisions which prohibit the capitalization of interest or loan related expense unless the board of directors supports in writing and records in the [{{10-31-95 p.C-4079}}](#) minutes of the corresponding board of directors meeting why an exception thereto is in the best interests of the Bank;

(iii) provisions which require complete loan 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;

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

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

(vi) provisions which establish standards for unsecured credit;

(vii) provisions which establish officer lending limits;

(viii) 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);

(ix) 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;

(x) provisions that the lending staff properly supervise construction loans and, provisions

setting forth adequate procedures to monitor any construction involved before funds are disbursed;

(xi) 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;

(xii) provisions which require the preparation of a loan "watch list" which shall include relevant information on all loans in excess of \$50,000 which are classified "Substandard" and "Doubtful" as of November 21, 1994 or by the FDIC or California State Banking Department 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

(xiii) the board of directors shall adopt procedures whereby officer compliance with the revised loan policy is monitored and exceptions to the policy are adequately documented. 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.

[.6] 6. Within 60 days from the effective date of this ORDER, the Bank shall establish and thereafter maintain an adequate allowance for loan and lease losses.

Additionally, within 60 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 allowance shall be determined after the charge-off or all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed at least ten (10) days prior to the end of each 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 and lease 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 [{{10-31-95 p.C-4080}}](#) 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 on loan and lease loss policy established. Such policy and its implementation shall be satisfactory to the Regional Director and Superintendent as determined at subsequent examinations and/or visitations.

[.7] 7. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all correctable violation of laws which are more fully set out on page 8.13 of the Report of Examination of the Bank as of November 21, 1994. In addition, the Bank shall take all reasonable steps to ensure future compliance with all applicable laws and regulations.

[.8] 8. Within 60 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 Superintendent as determined at subsequent examinations and/or visitations.

[.9] 9. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a policy concerning advances on uncollected funds. Such policy and its implementation shall be satisfactory to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

[.10] 10. Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a policy governing conflicts of interest and loans to insiders. Such policy and its implementation shall be satisfactory to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

[.11] 11. Within 60 days from the effective date of this ORDER, the Bank shall revise its investment policy to identify suitable and unsuitable bank investments. Such policy and its implementation shall be satisfactory to the Regional Director and the Superintendent as determined at subsequent examinations

and/or visitations.

[.12] 12. While this ORDER is in effect, the Bank shall give written notice to the Regional Director and the Superintendent at such time as the Bank intends to make use of brokered deposits. The notification should indicate how the brokered deposits are to be utilized with specific reference to credit quality of investments/loans and the effect on the Bank's funds position and asset/liability matching. The Regional Director and the Superintendent shall have the right to reject the Bank's plans for utilizing brokered deposits. For purposes of this ORDER, brokered deposits are defined as described in section 337.6(a)(1) of the FDIC Rules and Regulations to include any deposits funded by third party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance.

[.13] 13. 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, Registration and Disclosure Section, 550 - 17th Street, N.W., 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.

[.14] 14. On or before January 31, 1996, and within thirty (30) days of the end of each calendar quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Superintendent 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 Superintendent have released the Bank in writing from making further reports.

This ORDER shall become effective ten (10) days from the date of its issuance.

The provisions of this ORDER shall remain [{{10-31-95 p.C-4081}}](#) 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.

Dated at San Francisco, California, this 22nd day of August, 1995.

Pursuant to delegated authority.