

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

In the Matter of

MIZRAHI TEFAHOT BANK, LTD.
LOS ANGELES, CALIFORNIA

(INSURED STATE NONMEMBER BANK)

ORDER TO CEASE AND DESIST

Docket FDIC-08-082b

Mizrahi Tefahot Bank, Ltd., 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 and violations 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 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”), dated August 27, 2008, and with counsel for the California Department of Financial Institutions (“CDFI”), dated August 27, 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 and violations of laws

and/or regulations. 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), cease and desist from the following unsafe and unsound banking practices and violations of laws and/or regulations:

- (a) operating in violation of 12 C.F.R. § 326.8 regarding a satisfactory Bank Secrecy Act (“BSA”) and anti-money laundering (“AML”) compliance program;
- (b) operating in violation of 12 C.F.R. Part 353 regarding Suspicious Activity Report (“SAR”) procedures to identify, monitor, and report suspicious activities; and
- (c) operating in violation of 31 C.F.R. § 103.176(a) regarding lack of due diligence on foreign correspondent accounts.

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

1. Within 60 days of the effective date of this ORDER, the Bank shall correct all alleged outstanding violations of law. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations, including, but not limited to, Office of Foreign Assets Control (“OFAC”) requirements.
2. During the life of this ORDER, the Bank shall not make or renew any “back-to-back” loans or any other similar extensions of credit, including loans and lines of credit, in which collateral securing the extension of credit by the Bank is held by the foreign bank of which the Bank is an insured branch unless the Bank reviews and maintains copies of all records concerning the collateral, including, but not limited to, records documenting the owner of the collateral. This provision is not meant to apply to collateral offered by a third party banking institution, including the issuer of a standby letter of credit, guarantee, or similar arrangement.

Such records shall be available for review by the FDIC and the CDFI at examinations and/or visitations of the Bank. The Bank shall ensure that all such extensions of credit comply with all applicable laws including 31 C.F.R. § 103.33, Section II(C) of the Appendix to 12 C.F.R. Pt. 364, Interagency Guidelines Establishing Standards for Safety and Soundness, and 12 C.F.R. §§ 353.3(a)(2) and (a)(4).

3. Within 90 days of the effective date of this ORDER, the Bank shall review and revise its written compliance program, as required by the applicable provisions of 12 C.F.R. § 326.8 designed to, among other things, ensure and maintain compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto. The revised program shall ensure that comprehensive BSA compliance reports are provided to the Bank's executive management on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner, CDFI ("Commissioner") as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:

(a) Provide for a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions for unusual or suspicious activity and to ensure that there is full compliance with all applicable laws and regulations.

(b) Provide for independent testing of compliance with the BSA, all applicable rules and regulations related to the BSA, and the reporting of suspicious transactions required to be reported pursuant to 12 C.F.R. Part 353. The independent testing shall be conducted on an annual basis and in accordance with the procedures described in the Federal Financial Institutions Examination Council Bank Secrecy Act/Anti-Money ("BSA/AML") Laundering Examination Manual 2007. The independent testing, at a minimum, should address the following:

(i) overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;

(ii) BSA/AML risk assessment;

(iii) BSA reporting and recordkeeping requirements;

(iv) Customer Identification Program implementation;

(v) adequacy of customer due diligence policies, procedure, and processes and whether they comply with internal requirements;

(vi) personnel adherence to the Bank's BSA/AML policies, procedures, and processes;

(vii) appropriate transaction testing, with particular emphasis on high-risk operations (products, service, customers, and geographic locations);

(viii) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;

(ix) integrity and accuracy of management information systems used in the BSA/AML compliance program;

(x) an evaluation of management's efforts to resolve alleged violations and deficiencies noted in the previous tests or audits and regulatory examinations; and

(xi) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, and completeness, and the effectiveness of the Bank's policy.

(c) Provide that the Bank's BSA compliance program is managed by a qualified officer who has the required authority, responsibility, training, resources, and management reporting structure to ensure compliance with the Bank's program requirements and BSA-related regulations;

(d) Provide and document training by competent staff and/or independent contractors of all of the Bank's affected personnel, including, without limitation, senior management, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to ensure that all personnel are provided with current and up to date information.

4. Within 90 days of the effective date of this ORDER, the Bank shall review and revise the Bank's written customer due diligence program. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the revised customer due diligence program shall provide for the following:

(a) A risk focused assessment of the customer base of the Bank to determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank and for all customers of the Bank's pledged loan portfolio.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer;
and

(iii) reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law

enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of 12 C.F.R. Part 353.

5. Within 90 days of the effective date of this ORDER, the Bank shall develop a program for reviewing the files of account holders at the Bank who have been accorded “W-8” tax exempt status, but who appear to hold such accounts for the benefit of third parties and/or do not qualify for “W-8” tax exempt status. The Bank shall take appropriate action with respect to such accounts, including as appropriate:

- (a) removing the “W-8” tax exempt status of an account;
- (b) filing a Suspicious Activity Report, as required;
- (c) re-documenting an account to reflect its actual ownership; and/or
- (d) closing an account.

6. Beginning with the effective date of this ORDER, the Bank shall ensure that it adheres to its existing policy prohibiting acceptance of customers that are Non-Banking Financial Institutions (“NBFI”), which include Money Services Businesses (“MSBs”). Within 60 days of the effective date of this ORDER, the Bank shall either continue to adhere to its existing policy prohibiting acceptance of NBFI customers, or it shall revise its written procedures to include guidelines as to what type of NBFI customers the Bank accepts and does not accept and have specific procedures for each. For MSB customers the Bank shall identify all customers who fall under the definition of an MSB in 31 C.F.R. § 103.11(uu). For MSB accounts, the Bank shall have written procedures incorporated into the BSA Policy which should include a requirement to:

- (a) obtain the customer’s local license and ensure that it has registered with the Financial Crimes Enforcement Network, if required;
- (b) confirm that the MSB has procedures to comply with applicable BSA regulations and laws enforced by OFAC;

- (c) obtain information regarding the MSBs targeted customer base;
- (d) determine if the MSB sends or receives international wires and the nature of the activity; and
- (e) establish minimum due diligence requirements for international MSBs that comply with regulatory requirements for foreign correspondent accounts.

7. Within 90 days of the effective date of this ORDER, the Bank shall revise, adopt, and implement its BSA Policy so that it includes provisions that implement the requirements of paragraphs 1 through 6 of this ORDER. The Bank's management shall fully implement the provisions of the revised BSA Policy. The revised BSA Policy and its implementation shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank.

8. Following the effective date of this ORDER, the Bank's executive management shall monitor and confirm the completion of actions taken by management to comply with the terms of this ORDER. Thereafter, management shall certify in writing to the Regional Director and the Commissioner when all of the above actions have been accomplished.

9. 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 in compliance with this ORDER and the results thereof. 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.

This ORDER will become effective upon its issuance by the FDIC and the CDFI. Violation of any provision of this ORDER may 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 27th day of August, 2008.

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

Dated at San Francisco, California, this 27th day of August, 2008.

Craig Carlson
Chief State Examiner
California Department of Financial Institutions