

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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	)	
In the Matter of	)	
	)	CONSENT ORDER
CALIFORNIA BUSINESS BANK	)	
LOS ANGELES, CALIFORNIA	)	FDIC-12-036b
	)	
(INSURED STATE NONMEMBER BANK)	)	
	)	
	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for California Business Bank, Los Angeles, California (“Bank”), under 12 U.S.C.

§ 1813(q). The California Department of Financial Institutions (“CDFI”) is the appropriate State banking agency for the Bank under the California Financial Code.

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a Stipulation to the Issuance of a Consent Order (“Stipulation”) , dated February 2, 2012, that is accepted by the FDIC and the CDFI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices related to weaknesses in capital, asset quality, management, earnings and liquidity to the issuance of this Consent Order (“Order”) by the FDIC and the CDFI pursuant to § 8(b)(1) of the FDI Act and § 581 of the California Financial Code.

Having determined that the requirement for issuance of an order under 12 U.S.C. § 1818(b) and § 581 of the California Financial Code have been satisfied, the FDIC and the CDFI hereby order that:

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: (i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile; (ii) a chief financial officer with proven ability in all aspects of financial management; and (iii) a chief credit officer with significant 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 Board of Directors (“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 asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk. Without limiting the generality of the foregoing, the Regional Director of the FDIC’s San Francisco Regional Officer (“Regional Director”) and the Commissioner of the CDFI (“Commissioner”) reserve the right 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 not add or replace any individual on the Board, or employ any individual to serve as a senior executive officer, or change the responsibilities of any existing senior executive officer to include the responsibilities of another senior executive officer position without the prior written approval of the Regional Director and the Commissioner. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104 and any requirement of the State of California for prior notification and approval. The term “senior executive officer” shall have the same meaning ascribed to it in Part 303 of the FDIC’s Rules and Regulations, 12 C.F.R. § 303.101.

2. During the life of this Order, the 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; liquidity and funds management activities; operating policies; interest rate/sensitivity reports; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. (a) By June 30, 2012, the Bank shall increase its Tier 1 Capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds 10 percent during the life of this Order.

(b) By June 30, 2012, the Bank shall increase its Tier 1 capital by not less than \$8 million.

(c) Within sixty (60) days from the effective date of this Order, the Bank shall develop and adopt a plan to meet and maintain the capital requirements of this Order and to comply with the FDIC's Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. Such plan 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.

(d) The level of capital to be maintained during the life of this Order shall be in addition to a fully funded allowance for loan and lease losses ("ALLL"), the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. Any increase in Tier 1 capital necessary to meet the requirements of this paragraph may not be accomplished through a deduction from the Bank's ALLL.

(e) If all or part of the increase in capital required by this Order is accomplished by the sale of new securities, the Board shall 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 offering of the Bank's securities (including an offering 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 all applicable State and Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 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, Disclosure and Securities Unit, 550 17th St. N.W., Washington, D.C. 20429, for review, and to the Commissioner to obtain any and all necessary securities permits or other approvals. Any changes requested by the FDIC and CDFI shall be made prior to dissemination. If the increase in 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 Commissioner for prior approval.

(f) Subject to obtaining all required prior authorizations, permits or other approvals from the Commissioner, the Bank shall promptly revise or supplement the offering materials it is using in connection with the offer and sale of its securities to fully and fairly disclose every material adverse change or development regarding the Bank and its operation, including every planned change that would be material, that occurs during the offering of the securities. The Bank shall provide the revised offering materials or supplement, along with a notice that the subscriber may rescind its subscription, to each subscriber that has submitted a subscription for the Bank's securities before receiving the revised offering materials or supplement for at least ten (10) days before accepting the subscriber's subscription.

(g) In complying with the provisions of this paragraph, 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 45 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.

(h) For the purposes of this Order, the terms “leverage ratio” and “Tier 1 capital” shall have the meanings ascribed to them in Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 325.2(m) and 325.2(v) and Appendix A.

4. The Bank shall not pay any cash dividends or make any other payments or distribution representing a reduction of its capital without the prior written approval of the Regional Director and the Commissioner.

5. (a) Within fifteen (15) days of the effective date of this Order, Bank shall charge-off assets classified “Loss” listed in the 7/25/11 joint examination report (“Examination Report”) which have not previously been charged-off.

(b) Within forty-five (45) days of the effective date of this Order, Bank shall develop, adopt, and implement a written plan to reduce the level of each classified assets through charge-off, collection, amortization, liquidation, additional collateral, or other means on all loans in excess of \$250 thousand. Such plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(c) The requirements of this paragraph are not to be construed as standards for future 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 this paragraph the word "reduce" means:

- (i) to collect;
- (ii) to charge-off; or
- (iii) to sufficiently improve the quality of assets adversely classified to

warrant removing any adverse classification, as determined by the FDIC and the CDFI.

6. (a) During the life of this Order, the Bank shall maintain an adequate ALLL commensurate to the overall risk in its portfolio.

(b) Additionally, within ninety (90) days from the effective date of this Order, the Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, the adequacy of the ALLL shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review shall be completed in order that the findings of the Board with respect to the ALLL are properly reported in the quarterly Reports of Condition and Income. The review shall focus on the accounting standards set forth in the Financial Accounting Standards Board Accounting Standards Codification ("ASC") 450 (formerly known as FAS 5) and ASC 310-40 (formerly known as FAS 114), the results of the Examination Report, 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 meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its ALLL consistent with the ALLL policy established. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

7. (a) Within ninety (90) days of the effective date of this Order, the Bank shall develop, adopt and implement a written appraisal policy that adequately addresses the requirements as outlined in the Interagency Appraisal and Evaluation Guidelines including: Bank's appraiser selection process, minimum appraisal standards, expectations, reviewer's qualification, depth of review, and resolution of deficiencies. Appraiser and reviewer should be selected based on competency and requisite experience for the assignment, considering both property type and market. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Within sixty (60) days of the effective date of this Order, the Bank shall develop, adopt and implement a system to track and analyze borrower's financial statements, tax returns, rent rolls and operating statements in a timely manner.

8. (a) Within ninety (90) days of the effective date of this Order, the Bank shall develop, adopt and implement a written plan addressing the return of profitability, reducing overhead expenses, and shall set forth a comprehensive budget for the years 2012 through at least 2014. The plan required by this Paragraph shall contain formal goals, strategies and benchmarks which are consistent with sound banking practices to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain

earnings of the Bank. It shall also contain a thorough description of the operating assumptions that form the basis for, and adequately support, each major component of the plan. Such plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) The Bank shall evaluate its actual performance in relation to the plan and record the results of the evaluation in the monthly board minutes.

9. Within sixty (60) days of the effective date of this Order, the Bank shall develop, adopt and implement a written plan to reduce reliance on non-core funding sources, such as brokered deposits, MoneyDesk internet deposits, and address large depositor concentration risk. Such plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

10. Within sixty (60) days of the effective date of the Order, the Bank shall develop, adopt and implement ongoing liquidity stress testing in compliance with the Interagency Policy Statement on Funding and Liquidity Risk Management. Such stress testing and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

11. Within sixty (60) days of the effective date of this Order, the Bank shall develop, adopt and implement an interest rate risk (IRR) model to accurately measure the Bank's IRR position. All relevant assumptions must be adequately documented and reviewed by an independent third party. Such model and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

12. During the life of this Order, the Bank shall not engage in any new lines of business or establish any new branches or other offices of the Bank without the prior written approval of the Regional Director and the Commissioner.

13. During the life of this Order, the Bank shall file Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any examination of the Bank during that reporting period.

14. Within sixty (60) days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of rules and regulations and contraventions of Interagency Policy Statements, as more fully set forth in the Examination Report. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

15. Within thirty (30) days of the end of the first quarter following the effective date of this Order, and within thirty (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 to secure 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.

16. Following the effective date of this Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholder(s) in conjunction with:

- (a) the Bank's next shareholder communication; and
- (b) the 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, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, at least twenty (20) 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.

17. The Bank shall notify the Regional Director and the Commissioner no less than one business day in advance of making a planned public announcement or notification regarding changes in the Bank's financial condition, executive management or Board.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the CDFI, 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, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the CDFI.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the CDFI.

Violation of any provisions 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.

Issued pursuant to delegated authority

Dated at San Francisco, California, this 9th day of February, 2012.

/s/

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

/s/

Scott D. Cameron
Chief Examiner
California Department of Financial Institutions