FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of CALIFORNIA PACIFIC BANK SAN FRANCISCO, CALIFORNIA (INSURED STATE NONMEMBER BANK)	)	NOTICE OF CHARGES AND OF HEARING FDIC-13-094b

The Federal Deposit Insurance Corporation ("FDIC"), having determined that California Pacific Bank, San Francisco, California ("Bank") has violated the Bank Secrecy Act, 31 U.S.C. § 5311 *et seq.*, 12 U.S.C. § 1829b, 12 U.S.C. §§ 1951-1959 and 12 U.S.C. § 1818(s), and its implementing regulations, 31 C.F.R. Chapter X (effective March 1, 2011), section 326.8 and 12 C.F.R. Part 353 of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8 and 12 C.F.R. Part 353 (collectively the "BSA"), institutes this proceeding seeking an appropriate ORDER against the Bank under the provisions of sections 8(s) and 8(b)(1) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. §§ 1818(s) and 1818(b)(1).

The FDIC hereby issues this NOTICE OF CHARGES AND OF HEARING ("NOTICE") under the provisions of the FDI Act, 12 U.S.C. §§ 1811-1831aa, and the Rules of Practice and Procedures of the FDIC, 12 C.F.R. Part 308, and alleges as follows:

JURISDICTION

1. The Bank is, and at all times relevant to this proceeding has been, a corporation organized, existing, and doing business under the laws of the State of California with its principal place of business in San Francisco, California.

2. The Bank is, and at all times relevant to this proceeding has been, a "State nonmember bank" within the meaning of section 3(e)(2) of the FDI Act, 12 U.S.C. § 1813(e)(2); an "insured depository institution" within the meaning of section 3(c)(2) of the FDI Act, 12 U.S.C. § 1813(c)(2); and subject to the FDI Act, 12 U.S.C. §§ 1811-1831aa, the Rules and Regulations of the FDIC, 12 C.F.R. Chapter III, 12 C.F.R. Part 353, and the laws of the State of California.

3. The FDIC is the "appropriate Federal banking agency" as that term is defined in section 3(q)(2) of the FDI Act, 12 U.S.C. § 1813(q)(2), with respect to the Bank, and the FDIC has jurisdiction over the Bank, the "institution-affiliated parties" of the Bank as that term is defined in section 3(u) of the FDI Act, 12 U.S.C. § 1813(u), and the subject matter of this proceeding.

THE FDIC'S 2012 EXAMINATION

4. The FDIC commenced a safety and soundness examination of the Bank on December 3, 2012 ("The 2012 Examination") utilizing Bank information as of September 30, 2012.

5. The 2012 Examination included an examination of the Bank's compliance with the BSA.

6. The 2012 Examination concluded on December 21, 2012.

7. The 2012 Examination found that the Bank has violated section 326.8 of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8, and Part 353 of the Rules and Regulations of the FDIC, 12 C.F.R. Part 353.

12 C.F.R. § 326.8 – BSA COMPLIANCE PROGRAM: PILLAR VIOLATIONS

8. Section 326.8(a) of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8(a), requires insured depository institutions, such as the Bank, to establish and maintain procedures reasonably designed to assure and monitor their compliance with recordkeeping and reporting requirements set forth in subchapter II of chapter 53 of title 31, United States Code, 31 U.S.C. § 5311 et. seq., and the implementing regulations issued by the Department of Treasury at 31 Code of Federal Regulations Chapter X, 31 C.F.R. Chapter X.

9. To comply with Section 326.8(a), the Bank is required to develop and administer a written, board-approved BSA compliance program ("BSA Compliance Program") that must have, at a minimum, the following four pillars: (1) provides for a system of internal controls to assure ongoing compliance; (2) provides for independent testing for compliance conducted by bank personnel or by an outside party; (3) designates an individual or individuals responsible for coordinating and monitoring day-to-day compliance; and (4) provides training for appropriate personnel. 12 C.F.R. § 326.8(b) and 12 C.F.R. § 326.8(c)(1)-(4).

10. The 2012 Examination found that the Bank has violated the four pillars and, as a result, has failed to provide for the continued administration of a BSA Compliance Program reasonably designed to assure and monitor compliance with the BSA, in

violation of section 326.8(b) of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8(b), and as described further in paragraphs 11 through 14 below.

The Bank's System of Internal Controls

11. The Bank failed to establish an adequate system of internal controls consisting of effective policies, procedures, and processes to assure ongoing BSA compliance, in violation of section 326.8(c)(1) of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8(c)(1), as follows:

(a) The Bank failed to identify certain of its customers, particularly those engaged in import/export activities and with trade financing letters of credit, as high-risk at the time of the opening of their accounts and/or failed to provide for an effective system to monitor such customers and accounts for suspicious activity.

(b) The Bank failed to conduct adequate customer due diligence and enhanced due diligence in assessing the risk of illicit activities for certain of its customers. For example, the 2012 Examination reviewed a random twenty-four customer account sample and found that, in sixteen of them as set forth in Attachment A which is incorporated herein, the Bank failed to gather basic information such as the customer's business and range of activities, the customer's risk rating, and/or the customer's source of funds. In addition, the Bank did not perform documented site visits of customers where appropriate.

(c) The Bank failed to accurately assess its risk profile which is, in fact, high-risk given such factors as the significant number of its customers who are import/export firms or brokers and their activity levels, the high number of non-resident alien accounts, and its otherwise weak BSA Compliance Program as determined at the 2012 Examination.

(d) The Bank failed to have in place sufficient controls and monitoring systems for identifying and reporting suspicious activity. The 2012 Examination found that:

(i) The Bank failed to analyze customer accounts for suspicious activity based on the level of activity in the account;

(ii) The Bank failed to review and aggregate customer account information over a meaningful time period in order to identify patterns or fluctuations in activity that could be deemed to be suspicious;

(iii) The Bank failed to document its review of potential suspicious activity;

(iv) The Bank failed to adequately document and support decisions made not to file SARs; and

(v) The Bank failed to file a SAR for suspicious activity as set forth in paragraph 17, below.

<u>The Bank's Independent Testing</u>

12. The Bank failed to conduct adequate independent testing, in violation of section 326.8(c)(2) of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8(c)(2), as follows:

(a) Although the Bank contracted for an internal audit for compliance with the BSA and that audit was conducted, the Bank's independent testing was not adequate. The 2012 Examination found that:

(i) The Bank's internal audit report failed to identify the BSA weaknesses found in the 2012 Examination; and

(ii) The Bank's internal audit report failed to include an evaluation of the overall adequacy and effectiveness of its BSA Compliance Program and did not contain sufficient information to reach a conclusion about the overall quality of its BSA Compliance Program.

The Bank's BSA Officer

13. The Bank failed to designate an individual who has adequately coordinated and monitored day-to-day compliance with the BSA, in violation of section 326.8(c)(3) of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8(c)(3), as follows:

(a) On January 28, 2012, the Bank appointed Alan Chi as its BSA Officer.

(b) Alan Chi is the son of Richard Chi who is the Chairman of the Board of the Bank, and Alan Chi is also the brother of Candace Chi who is a Director of the Bank.

(c) When the Bank appointed Alan Chi as the BSA Officer in January, 2012, it failed to appoint a knowledgeable, experienced, and trained BSA Officer and failed to provide Alan Chi with adequate time to fulfill his BSA-related duties:

(i) Alan Chi had limited knowledge of BSA and its related regulations;

(ii) Alan Chi had limited experience with BSA and its related regulations;

(iii) Alan Chi had not received the level and extent of training sufficient for a BSA Officer; and

(iv) Alan Chi also serves in the following positions at the Bank and, as a result, does not have adequate time to perform his duties as BSA Officer: Senior Credit Officer, Chief Financial Officer, internal auditor, operations compliance officer, management information systems supervisor, and member of the Bank's Director and Officer Loan Committee. Furthermore, because of the multiple roles that Alan Chi serves, his objectivity in his role as the BSA Officer for the Bank cannot be assured.

(d) The Bank has failed to appoint a back-up BSA Officer with adequate training.

The Bank's BSA Training

14. The Bank failed to provide adequate BSA training, in violation of section 326.8(c)(4) of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8(c)(4), as follows:

(a) BSA training was conducted only by Alan Chi, the Bank's BSA Officer, who, himself, lacked the qualifications to provide such training.

(b) BSA training was not tailored to employee positions or job functions.

(c) BSA training materials for 2012 were inaccurate in that they:

   (i) Suggested that certain crimes, such as racketeering, are not Federal crimes; and

   (ii) Provided a quick reference guide for money services businesses, instead of for banks.

(d) BSA training materials for 2012 were insufficient in that they failed to include the majority of the Bank's BSA and Anti-Money Laundering Policy.

12 C.F.R. PART 353 – SAR VIOLATION

15. Section 353.3(a)(4)(iii) of the Rules and Regulations of the FDIC, 12 C.F.R. § 353.3(a)(4)(iii), requires that, whenever a bank knows, suspects, or has reason to suspect that a transaction involving or aggregating $5,000 or more in funds or other assets, has no business or apparent lawful purpose, or is not the sort of transaction in which the particular customer would normally be expected to engage, and the bank knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction, the bank must file a SAR (also known as "Form FDIC 6710/06").

16. The 2012 Examination found that the Bank failed to file a SAR in violation of Part 353 of the Rules and Regulations of the FDIC, 12 C.F.R. § 353, as described in paragraph 17, below.

17. The Bank failed to file a SAR in connection with the suspicious activity of a Bank customer who held power of attorney on two accounts opened by non-resident aliens, and who was also a signor on another operating account of a U.S. company owned by the Bank customer. The 2012 Examination reviewed transactions in these three accounts from 2009 to 2011 and found that deposits into these accounts primarily consisted of large wires from China and withdrawals from these accounts consisted primarily of round dollar amounts. Based on the transactions reviewed for this time period, the aggregate dollar amount wired through the accounts totaled in the millions with many checks over $75,000.

18. By virtue of each of the paragraphs set forth above in this NOTICE, the FDIC has determined that the Bank violated the BSA and section 326.8 and Part 353 of the Rules and Regulations of the FDIC, 12 C.F.R. § 326.8 and 12 C.F.R. Part 353, and prays that an appropriate ORDER be issued against the Bank under the provisions of sections 8(s) and 8(b)(1) of the FDI Act, 12 U.S.C. §§ 1818(s) and 1818(b)(1).

NOTICE OF HEARING

19. Notice is hereby given that a hearing will be held in San Francisco, California, within 60 days from the date of service on the Bank of this NOTICE, or on such 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 FDI Act requiring the Bank:

(a) To cease and desist from the violation of laws and/or regulations herein specified; and/or

(b) To take affirmative action to correct the conditions resulting from such violations.

20. The hearing 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 open to the public and, in all respects, will be conducted in compliance with the provisions of the FDI Act and the Rules of Practice and Procedures of the FDIC.

21. The Bank is hereby directed to file an answer to this NOTICE within 20 days as provided by section 308.19 of the Rules of Practice and Procedures of the FDIC, 12 C.F.R. § 308.19. All papers filed or served in this proceeding shall be filed upon the Office of Financial Institution Adjudication, 3501 N. Fairfax Drive, Suite VS-D8116, Arlington, Virginia 22226-3500, pursuant to section 308.10 of the Rules of Practice and Procedures of the FDIC, 12 C.F.R. § 308.10. The Bank is encouraged to file any answer electronically with the Office of Financial Adjudication at ofia@fdic.gov.

22. In addition, 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 Section, Federal Deposit Insurance Corporation, 550 17th Street, N.W., Washington, D.C. 20429-9990; and upon Joseph J. Sano, Regional Counsel (Supervision), Federal Deposit Insurance Corporation, San Francisco Regional Office, 25

Jessie Street at Ecker Square, 14th Floor, San Francisco, California 94105.

Pursuant to delegated authority.

Dated at San Francisco, California, this 18th day of July, 2013.

/s/
Kathy L. Moe
Deputy Regional Director
Division of Risk Management Supervision
San Francisco Region
Federal Deposit Insurance Corporation

ATTACHMENT A

	Risk Rating	Nature of Business	Expected Activity	Actual activity significantly higher than expected	Other Issues[3]
Bank Customer 1[1]	X[2]	inadequate		X	
Bank Customer 2	X	X	X	unknown	X
Bank Customer 3		incorrect		X	
Bank Customer 4				X	
Bank Customer 5		inadequate		X	X
Bank Customer 6	X	inadequate			X
Bank Customer 7				X	
Bank Customer 8	X				X
Bank Customer 9	X	inadequate		X	X
Bank Customer 10	X	inadequate		X	X
Bank Customer 11		inadequate	X	unknown	
Bank Customer 12	X		X	unknown	X
Bank Customer 13		inadequate		X	
Bank Customer 14	X	inadequate	X	unknown	
Bank Customer 15		inadequate			X
Bank Customer 16	incorrect				X

[1] To protect the identities of Bank Customers 1-16, their real names have not been used for purposes of this document but will be disclosed as appropriate within the course of the litigation. Bank Customers 3, 5, 6, 7, 8, 9, 11, and 13 are import/export businesses. Bank Customers 10 and 14 broker the import/export of goods. The remaining Bank Customers appear to be business accounts that are not involved in import/export.

[2] An "X" means that the information is missing from the Bank's documents.

[3] Other Issues: Bank Customer 2 (no source of income; no purpose of account); Bank Customer 5 (no source of funds); Bank Customer 6 (no surce of funds); Bank Customer 8 (no executed IRS Form W-8BEN; no source of funds); Bank Customer 9 (no source of funds); Bank Customer 10 (no source of funds); Bank Customer 12 (no purpose of account); Bank Customer 15 (no purpose of account; no source of funds); Bank Customer 16 (no source of funds).