

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF BUSINESS OVERSIGHT  
SACRAMENTO, CALIFORNIA

In the Matter of

COMMERCEWEST BANK  
Irvine, California

Docket No. 16-005-B-SM

Cease and Desist Order Issued  
Upon Consent Pursuant to the  
Federal Deposit Insurance Act,  
as amended

WHEREAS, CommerceWest Bank, Irvine, California (the “Bank”), is a California state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, the California Department of Business Oversight (the “Department”) is the appropriate state supervisor for the Bank;

WHEREAS, the most recent examination of the Bank conducted by the Federal Reserve Bank of San Francisco (the “Reserve Bank”) and the Department, (collectively, the “Supervisors”) identified significant deficiencies in the Bank’s risk management and compliance with applicable laws, rules, and regulations relating to anti-money laundering (“AML”), including the Bank Secrecy Act (the “BSA”) (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Chapter X); and the AML requirements of Regulation H of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 208.62 and 208.63) (collectively, the “BSA/AML Requirements”) resulting in a compliance program violation;

WHEREAS, the Bank, the Board of Governors, the Reserve Bank, and the Department have the common goal that the Bank operates in compliance with all applicable federal and state laws, rules, and regulations;

WHEREAS, the Bank, the Board of Governors, and the Department have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, on March 30, 2016, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Ivo Tjan to enter into this Order on behalf of the Bank, and consenting to compliance with each and every provision of this Order by the Bank, and waiving any and all rights that the Bank may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to section 8(b)(1) of the FDI Act (12 U.S.C. §§ 1818(b)(1)) and California Financial Code Section 580, the Bank shall cease and desist and take affirmative action as follows:

## **Board Oversight**

1. Within 60 days of this Order, the board of directors of the Bank shall submit a written plan to strengthen board oversight of the Bank's compliance with the BSA/AML Requirements acceptable to the Supervisors. The plan shall, at a minimum, address, consider, and include:

- (a) the actions that the board of directors will take to maintain effective control and oversight of Bank management's compliance with the BSA/AML Requirements;
- (b) measures to ensure adherence to approved compliance policies, procedures, and standards;
- (c) clearly defined roles, responsibilities, accountability, and reporting lines regarding compliance with the BSA/AML Requirements for the management, compliance personnel, and internal audit staff;
- (d) adequate resources for the BSA/AML compliance officer, including sufficient staffing levels, and periodic re-evaluation of resources and staffing needs; and
- (e) measures to improve the information reported to the board of directors regarding compliance with the BSA/AML Requirements.

## **BSA/AML Compliance Program**

2. Within 60 days of this Order, the Bank shall submit an enhanced written BSA/AML compliance program acceptable to the Supervisors. The enhanced program shall, at a minimum, include:

- (a) a system of internal controls reasonably designed to ensure ongoing compliance with the BSA/AML Requirements;
- (b) a risk assessment that appropriately identifies and considers all products

and services of the Bank, customer types, and geographic locations, as appropriate, in determining inherent and residual risks;

(c) enhanced independent testing procedures to ensure that comprehensive and timely reviews of the Bank's BSA/AML compliance program are performed on a regular basis by qualified parties who are independent of the Bank's business lines and compliance function;

(d) consistency with the federal and state regulatory guidance relating to the BSA/AML Requirements; and

(e) effective training for all personnel, including targeted training for personnel with compliance-related responsibilities, in all aspects of the BSA/AML Requirements and applicable internal policies and procedures.

### **Customer Due Diligence**

3. Within 60 days of this Order, the Bank shall submit a written revised program for conducting appropriate levels of customer due diligence by the Bank acceptable to the Supervisors. At a minimum, the program shall include:

(a) policies, procedures, and controls to ensure that the Bank collects, analyzes, and retains complete and accurate customer information for all account holders, to include, but not limited to:

(i) documentation necessary to verify the identity, source of wealth, and business activities of the customer; and

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

- (b) a plan, with timelines, to remediate deficient due diligence for existing customer accounts;
- (c) a methodology for assigning risk ratings to account holders that considers factors such as type of customer, type of products and services, and geographic location;
- (d) a risk-focused assessment of the Bank's customer base to:
  - (i) identify the categories of customers whose transactions and banking activities are routine and usual;
  - (ii) identify the categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank; and
  - (iii) determine the appropriate level of enhanced due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank and its subsidiaries;
- (e) procedures to ensure periodic reviews and evaluations are conducted and documented for all account holders; and
- (f) measures to ensure that customer due diligence services that are outsourced to third-parties, including, but not limited to, affiliates, are performed to meet regulatory requirements.

### **Suspicious Activity Monitoring and Reporting**

4. Within 60 days of this Order, the Bank shall submit a written enhanced program acceptable to the Supervisors to reasonably ensure the identification and timely, accurate, and complete reporting by the Bank of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

- (a) a well-documented methodology for establishing monitoring rules and processes that take into consideration the Bank's risk profile, products, services, customer base, geographic locations, and banking activities;
- (b) policies and procedures that provide for periodic review of the monitoring rules;
- (c) effective monitoring of customer accounts and transactions;
- (d) measures to ensure that alert dispositions are supported with adequate rationale and documentation to evidence the research performed and the due diligence that was relied upon to arrive at the analyst's conclusion; and
- (e) controls to ensure that transaction monitoring systems and associated processes are subject to periodic reviews and timely updates.

### **Transaction Review**

5. (a) Within 30 days following completion of the customer account remediation referenced in paragraph 3(b) of this Order, the Bank shall conduct a review of account and transaction activity associated with any high risk customer accounts conducted at, by, or through the Bank from September 1, 2014, to March 31, 2015, to determine whether suspicious activity involving high risk customers and transactions at, by, or through the Bank was properly identified and reported in accordance with applicable suspicious activity reporting regulations (the "Transaction Review") and to prepare and present to the board of directors of the Bank a written report detailing the findings (the "Transaction Review Report").

(b) Based on the Supervisors' evaluation of the results of the Transaction Review, the Supervisors may direct the Bank to conduct a review of the types of transactions described in paragraph 5(a) for additional time periods.

6. Prior to the commencement of the Transaction Review, the Bank shall submit a plan acceptable to the Supervisors that sets forth:

- (a) the scope of the Transaction Review;
- (b) the methodology for conducting the Transaction Review;
- (c) the expertise and resources to be dedicated to the Transaction Review;
- (d) the anticipated date of completion of the Transaction Review and the

Transaction Report; and

(e) a commitment that all supporting material associated with the Transaction Review will be made available to the Supervisors upon request.

7. The Bank shall provide to the Supervisors a copy of the Transaction Review Report at the same time the report is provided to the board of directors.

8. Throughout the Transaction Review, the Bank shall ensure that all matters or transactions required to be reported that have not previously been reported are reported in accordance with applicable rules and regulations.

### **New Product Review Program**

9. Within 60 days of this Order, the Bank shall submit a written program for the review of new products, services, or business lines acceptable to the Supervisors. The program shall, at a minimum, include:

(a) policies and procedures for the assessment of potential risks, including, but not limited to, compliance, reputational, fraud, and credit risks associated with proposed new products, services, or business lines;

(b) clearly defined roles, responsibilities, and accountability for the assessment of new products, services, or business lines;

- (c) a requirement that all new products, services, or business lines receive the written approval of the board of directors prior to implementation, distribution, or marketing;
- (d) policies for the implementation of appropriate risk management procedures and controls for new products, services, or business lines;
- (e) provisions to determine the appropriate customer base to whom new products, services, or business lines should be marketed to, and ensure that the products, services, or business lines are marketed only to these customer bases; and
- (f) measures to ensure that the assessments of adopted products, services, or business lines are updated on an ongoing basis as necessary to incorporate changes to the products, services, or business lines, or changes to the risk factors associated with the products, services, or business lines, and that marketing and management of the products, services, or business lines are adjusted based on the results of the updates.

### **Currency Transaction Reports**

10. (a) Within 60 days of this Order, the Bank shall submit a written program acceptable to the Supervisors to identify each transaction, or multiple transactions by or on behalf of any person during any one business day, in currency (deposit, withdrawal, exchange, or other payments or transfer) of more than \$10,000 by, through, or to the Bank (“Currency Transaction”) and to file, as necessary, Currency Transaction Reports (“CTRs”) consistent with sections 1010.311 and 1020.311 of Chapter X of the U.S. Department of the Treasury’s regulations (31 C.F.R. §§ 1010.311 and 1020.311).

### **Compliance with the Order**

11. Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors of the Bank shall submit to the Supervisors written progress reports



detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof.

### **Approval and Implementation of Plans and Programs**

12. (a) The Bank shall submit written plans and programs that are acceptable to the Supervisors within the time periods set forth in paragraphs 1, 2, 3, 4, 6, 9, and 10 of this Order. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program.

(b) Within 10 days of approval by the Supervisors, the Bank shall adopt the approved plan or program. Upon adoption, the Bank shall promptly implement the approved plan or program, and thereafter fully comply with each plan and program.

(c) During the term of this Order, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Supervisors.

### **Communications**

13. All communications regarding this Order shall be sent to:

- (a) Ms. Mongkha Lu  
Director  
Community Institutions Group  
Federal Reserve Bank of San Francisco  
950 South Grand Avenue  
Los Angeles, California 90015
- (b) Mr. Albert Marquez  
Assistant Deputy Commissioner  
California Department of Business Oversight  
7575 Metropolitan Drive, Suite 108  
San Diego, California 92108

- (c) Ms. Leeann Cochran  
Executive Vice President and Chief Financial Officer  
CommerceWest Bank  
2111 Business Center Drive  
Irvine, California 92612

**Miscellaneous**

14. Notwithstanding any provision of this Order, the Supervisors may, in their sole discretion, jointly grant written extensions of time to the Bank to comply with any provision of this Order.

15. The provisions of this Order shall be binding upon the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), in their capacities as such, and their successors and assigns.

16. Each provision of this Order shall remain effective and enforceable until stayed, modified, suspended or terminated in writing by the Supervisors.

17. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Department, or any other federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors and the California Department of Business Oversight, Division of Financial Institutions, effective this 12<sup>th</sup> day of April, 2016.

COMMERCEWEST BANK

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By: /s/ Ivo Tjan  
Ivo Tjan  
Chairman, President & CEO

By: /s/ Robert deV. Frierson  
Robert deV. Frierson  
Secretary of the Board

CALIFORNIA DEPARTMENT OF  
BUSINESS OVERSIGHT

By: /s/ Jan Lynn Owen  
Jan Lynn Owen  
Commissioner of Business Oversight