

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)	
Universal Bank)	AA-WE-11-77
West Covina, California)	

CONSENT ORDER

The Comptroller of the Currency of the United States of America (“Comptroller”), through his Federal Thrift Examiner, has supervisory authority over Universal Bank, West Covina, California (“Bank”).

On or about September 17, 2010, the Office of Thrift Supervision (“OTS”), acting by and through its Regional Director for the Western Region, and the Bank, by and through its duly elected and acting Board of Directors (“Board”), entered into an Order to Cease and Desist designed to address certain unsafe or unsound practices relating to Board and management oversight and credit risk management (the “September 17, 2010 Order”).

As described in the in the Report of Examination (the “ROE”) for an examination of the Bank that was conducted as of December 31, 2010 and began on or about February 7, 2011 (the “Examination”), repeat and additional unsafe or unsound practices were discovered by the Office of Thrift Supervision (“OTS”).

On or about July 21, 2011, pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010), all functions of the OTS related to Federal savings associations were transferred to the Office of the Comptroller of the Currency (“OCC”). Effective July 21, 2011, to facilitate the OCC’s enforcement and administration of former OTS rules and to make appropriate changes to those rules to reflect OCC supervision of Federal savings associations as of the transfer date, the OCC republished

and re-codified in 12 C.F.R. Chapter I, all OTS regulations from 12 C.F.R. Chapter V that the OCC has the authority to promulgate and enforce, with appropriate nomenclature and other technical changes. 76 Fed. Reg. 48950 (August 9, 2011).

Now, the Bank, by and through its Board, executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated October 20, 2011, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order by the Comptroller.

Pursuant to the authority vested in it by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

Article I

Replacement of September 17, 2010 Order

(1) The articles of the September 17, 2010 Order are replaced and superseded in their entirety by this Consent Order (hereafter referred to as the “Order”), and upon execution of the “Stipulation and Consent to the Issuance of a Consent Order,” dated October 20, 2011, the September 17, 2010 Order is hereby terminated. Further, to the extent there are any provisions in this Order that are inconsistent with prior communications from the OCC, the prior communications shall be superseded by this Order.

Article II

Compliance Committee

(1) The Board shall ensure that the Bank maintains a Compliance Committee consisting of at least three (3) directors of which a majority shall not consist of employees or controlling shareholders of the Bank or any of its affiliates, or family members of any such

person. In the event of a change in the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller.

(2) The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order and shall meet at least monthly.

(3) Within one month of every calendar quarter end (e.g., April 30th, July 31st, October 31st, and January 31st), the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Order;
- (b) actions taken to comply with each Article of this Order; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller by no later than forty five (45) days following the end of each calendar quarter (e.g., by May 15th, August 15th, November 15th, and February 15th).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Order shall be forwarded to the:

Assistant Deputy Comptroller
Santa Ana Field Office
1551 Tustin Ave., Suite 1050
Santa Ana, California 92705

(6) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policies, procedures, and programs required by this Order.

Article III

Management and Board Supervision

(1) Within ninety (90) days of this Order, the Board shall fill the position of Chief Operating Officer or Chief Financial Officer, whichever position is vacant so that both positions are filled with full-time, dedicated individuals vested with sufficient knowledge, skills, and abilities, including but not limited to, the technical expertise and the leadership skills necessary to fulfill the duties and responsibilities of the respective position. In the event that the Chief Operating Officer or Chief Financial Officer position of the Bank becomes vacant thereafter, the Board shall take the necessary steps to identify a suitable candidate and fill the vacancy within ninety (90) days of receiving notice of such vacancy.

(2) Prior to the appointment or employment of the Chief Operating Officer or Chief Financial Officer or changing the roles and responsibilities of any existing officer, the Bank shall comply with the prior notice requirements of 12 U.S.C. § 1831i and 12 C.F.R. § 163.560, or any applicable successor regulation, and submit the following information:

- (i) the information required by 12 C.F.R. § 163.570 and listed in OTS' *Applications Processing Handbook*, Section 720, "Officers and Director Approvals," and any successor regulations or guidance, together with executed authorization forms to perform all necessary background checks;
- (ii) a written statement of the Board's reasons for selecting the proposed individual; and
- (iii) a written description of the proposed duties and responsibilities.

(3) Prior to entering into any contract with any person for any of these positions, the Board shall submit the name(s) and qualifications of the proposed individual, the proposed terms

of employment, and a copy of any employment contract to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. Prior to submission of any such contract to the Assistant Deputy Comptroller, the Board shall ensure that the contract fully complies with the requirements of all applicable laws, regulations, and regulatory guidance, including, but not limited to 12 C.F.R. Part 359, 12 C.F.R. §§ 163.39 and 163.161(b), Section II.I and III. of 12 C.F.R. Part 170 – Appendix A, and OTS’ Examination Handbook, Section 310, “Management,” or any applicable successor regulation or guidance, as specified by the Comptroller.

(4) Beginning with the second Friday following the execution of this Order, the Board shall provide progress reports every two weeks to the Assistant Deputy Comptroller summarizing its progress in the appointment of a Chief Operating Officer or Chief Financial Officer, whichever position is vacant.

(5) By no later than ninety (90) days from this Order, the Board shall ensure that the Bank has competent management and staff in place on a full-time basis to carry out the Board’s policies, ensure compliance with this Order, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner to include at a minimum, the staffing of qualified individuals in the positions of Compliance Officer, Chief Lending Officer, Chief Credit Officer, Chief Operating Officer, Chief Financial Officer, and Chief Executive Officer. In the event that any of the aforementioned positions becomes vacant, the Board shall take the necessary steps to identify a suitable candidate and fill the vacancy within ninety (90) days of receiving notice of such vacancy in accordance with the procedures described in Paragraphs (2) and (3) of this Article.

(6) In the event that the appointment of any individual for any position required by Paragraphs (1) or (5) of this Article is delayed by more than thirty (30) days as a result of a failure to obtain the regulatory approval or supervisory non-objection required by the prior notice requirements referred to in Paragraph (2) or the submission referred to in Paragraph (3), respectively, of this Article, then the time periods contained in Paragraphs (1) or (5) of this Article shall be tolled by the time exceeding thirty (30) days.

(7) Within ninety (90) days of this Order, the Board shall adopt and take the necessary steps to implement corporate governance and decision-making processes to correct the Bank's deficiencies in management leadership and Board oversight as described in the ROE, to include specific actions for attaining the necessary management expertise and Board involvement to return the Bank to a safe and sound condition, including but not limited to, the establishment of:

- (a) clear lines of responsibility and authority for each member of senior management, including but not limited to, the Compliance Officer, Chief Lending Officer, Chief Credit Officer, Chief Operating Officer, Chief Financial Officer, and Chief Executive Officer;
- (b) operating policies and procedures designed to ensure:
 - (i) the Board provides proper oversight of the affairs of the Bank; and
 - (ii) the Board receives and reviews sufficient Bank information from management (including scope, frequency and content) on the operation of the Bank to enable them to provide proper oversight and fulfill their fiduciary duties and other responsibilities under law; and

- (c) processes to ensure that management appropriately responds to any audit or compliance criticisms, and regulatory criticisms to include: violations of law, unsafe or unsound banking practices, and Matters Requiring Attention or Matters Requiring Board Attention (collectively, “material criticisms”), to include at a minimum:
 - (i) requirements for the development of written action plans to address material criticisms that include:
 - (A) corrective actions to be taken;
 - (B) deadlines for taking the corrective action; and
 - (C) the individual responsible for ensuring timely corrective action is taken and is effective;
 - (ii) review and approval by the Board of management’s proposed actions to be taken; and
 - (iii) a tracking system that will ensure that material criticisms are reported to the Board and corrected in a timely manner.

Article IV

Capital and Strategic Plan

- (1) The Bank shall achieve and thereafter maintain at all times, the following minimum capital ratios:
 - (a) Tier 1 capital to adjusted total assets equal to or greater than nine percent (9%); and
 - (b) Total Risk-Based Capital equal to or greater than thirteen percent (13%) of risk-weighted assets.

(2) For purposes of this Article, “Tier 1 capital,” “Risk-Based Capital,” and “risk-weighted assets” are as defined in 12 C.F.R. Part 167, and any successor regulations.

(3) The requirement in this Order to meet and maintain a specific capital level means that the Bank is not to be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 165, pursuant to 12 C.F.R. § 165.4(b)(1)(iv).

(4) Effective immediately, the Bank shall only declare dividends or make any other capital distributions when:

- (a) the Bank is in compliance with the Bank’s Three-Year Plan as described below;
- (b) the Bank is in compliance with all applicable laws and regulations relating to the payment of dividends; and
- (c) the Bank has received a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(5) Effective as of the date of this Order, the Bank shall not increase its commercial real estate loans, including but not limited to, non-residential, multifamily and construction and development loans, held as of June 30, 2011 as reported in the Bank’s Thrift Financial Report, until the Bank corrects the deficiencies in Asset Quality described in the ROE, returns the Bank to a satisfactory condition, and the Bank receives a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

(6) Within forty-five (45) days of this Order, the Board shall develop a written strategic plan for the Bank covering at least the next three years (hereafter the “Bank’s Three-Year Plan”), complete with specific time frames that incorporate the strategic and other

requirements of this Article. A copy of the Bank's Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(7) The Bank's Three-Year Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, product line development and market segments that the Bank intends to promote or develop, together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and, at a minimum, address or include:

- (a) an assessment of the Bank's current and projected risks and competitive factors in the Bank's identified target market(s);
- (b) strategic goals and objectives to be accomplished;
- (c) an evaluation of the Bank's internal operations, staffing and management requirements, Board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed pursuant to this Article that is consistent with the Management Plan for which the OTS took no supervisory objection and the requirements of Article III;
- (d) assigned responsibilities and accountability for the strategic planning process, new products, proposed changes in the Bank's operating environment, and reducing problem assets;
- (e) loan growth limitations and actions to monitor, control, and reduce significant concentrations of credit, including but not limited to, the non-residential, multifamily and construction and development loan portfolios

in accordance with Paragraph (5) of this Article and the concentration limits established pursuant to Article V;

- (f) a description of control systems to identify and reduce risk to capital and earnings and risks associated with significant concentrations;
- (g) recognition that the Bank cannot enter new market segments until it adopts an appropriate credit culture, implements sound risk management principles, and returns the Bank's condition to satisfactory;
- (h) specific plans for the maintenance of adequate capital that may in no event be less than the requirements specified in Paragraph (1) of this Article;
- (i) a dividend policy that only permits the declaration of a dividend in accordance with Paragraph (4) of this Article;
- (j) specific plans for the maintenance of adequate liquidity;
- (k) projections for capital and liquidity requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, and off-balance sheet activities that includes probable and stressed-case scenarios;
- (l) the primary source(s), especially those that are not credit sensitive, from which the Bank will strengthen its capital structure to meet the Bank's needs in probable and stressed-case scenarios;
- (m) contingency plans that identify alternative methods and specific time-frames should the primary source(s) under subparagraph (l) not be available that include, but are not limited to, a merger or sale of the Bank and voluntary liquidation;

- (n) a financial forecast to include projections for major balance sheet and income statement accounts and expected financial ratios over the next three years that shall address or include consideration of the requirements of this Article and address probable and stressed-case scenarios; and
- (o) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(8) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall adopt and take the necessary steps to implement and thereafter ensure adherence to the Bank's Three-Year Plan.

(9) Prior to adoption by the Board of any revision or amendment to the Bank's Three-Year Plan, any such subsequent amendment or revision, including but not limited to, the offering or introduction of new products, shall be forwarded to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall adopt and the Bank shall immediately implement and adhere to the Bank's Three-Year Plan, as revised or amended.

(10) The Bank may not initiate any action that deviates significantly from the Board-approved Three-Year Plan without a written determination of no supervisory objection from the Assistant Deputy Comptroller. The Board must give the Assistant Deputy Comptroller thirty (30) day advance, written notice of its intent to deviate significantly from the Bank's Three-Year Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures

to identify, measure, monitor, and control the risks associated with the change in the Bank's Three-Year Plan.

(11) For the purposes of this Article, changes that may constitute a significant deviation from the Bank's Three-Year Plan include, but are not limited to, a change in the Bank's marketing strategies, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, accounting processes and practices, or funding strategy, any of which, alone or in aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in operations, or external factors that may have a material impact on the Bank's operations or financial performance.

(12) If the Bank fails to achieve and maintain the minimum capital ratios as required by Paragraph (1) of this Article or fails to appoint a Chief Operating Officer or Chief Financial Officer (as applicable) within the time required by this Order, and after notice and opportunity to correct the Order violation within the time period specified in the notice, which time period shall not be less than thirty (30) days from the date of notice (hereafter known as the "Cure Period"), then after the expiration of the Cure Period, in the sole discretion of the Assistant Deputy Comptroller, the Bank shall develop and submit, within thirty (30) days of receiving written notice from the OCC, to the Assistant Deputy Comptroller for review and prior written determination of no supervisory objection, a Disposition Plan to either: (i) sell or merge the Bank, or (ii) liquidate the Bank in accordance with applicable laws, regulation, and regulatory guidance and at no loss or cost to the Deposit Insurance Fund of the FDIC.

Article V

Credit Risk Management

(1) Effective immediately, the Board shall take the necessary steps to ensure the Bank adheres to lending policies and procedures to ensure appropriate credit risk management and underwriting consistent with 12 C.F.R. §§ 160.101, 160.170, and the guidelines set forth in OTS' *Examination Handbook*, Asset Quality Sections 201, 210, 213 and 214, and any successor regulation or guidance, that include, at a minimum:

- (a) procedures to ensure that loans are properly monitored to include periodic receipt, analysis and documentation of sufficient financial and operating information to measure and monitor the borrower's and guarantor's financial condition and repayment ability, to include periodic (at least annually) cash flow analysis of income-producing collateral;
- (b) the development of commercial real estate ("CRE") concentration limits and an overall reduction strategy, stratified by type, locality, and other meaningful measures supported by written analysis;
- (c) monthly monitoring of concentration reports that stratify the CRE portfolios by product type, locality and other meaningful measures;
- (d) semi-annual portfolio-level multi-factor stress testing and/or sensitivity analysis on homogeneous pools of loans (e.g., multifamily, HELOC, undeveloped land, office space) to quantify the impact of changing economic conditions on asset quality, earnings, and capital;

- (e) significant individual loan stress testing and/or sensitivity analysis to quantify the impact of changing economic conditions on asset quality, earnings, and capital; and
- (f) procedures and accountability to ensure the Bank accurately risk-weights loans and loan portfolios, including but not limited to, the multifamily portfolio.

(2) Effective as of the date of this Order, the Bank may not grant, extend, renew, modify or restructure any loan or other extension of credit, or purchase any loan participation, equal to or exceeding five hundred thousand dollars (\$500,000), without:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining current and satisfactory credit information, including performing and documenting analysis of credit information and a detailed cash flow analysis of all expected repayment sources;
- (e) determining and documenting whether the loan complies with the Bank's lending policies and procedures and if it does not comply, providing identification of the exception and justification to support waiving the policy exception;
- (f) determining and documenting the customer's ability to repay the credit on the proposed repayment terms;

- (g) providing an accurate risk assessment grade and proper accrual status for each credit;
- (h) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable;
- (i) ensuring that any loan participations purchased are consistent with sound banking practices, the guidelines set forth in OTS' *Examination Handbook*, Section 201.6, "Limits and Guidelines for Purchasing Loans," June 2005, and any successor regulation or guidance; and
- (j) obtaining the written approval of the Bank's Loan Committee or Board.

(3) The Board shall undertake the necessary steps to ensure that the Bank maintains current and satisfactory credit and proper collateral information on all loans. Within thirty (30) days of notification, the Board shall undertake the necessary steps to ensure that the Bank obtains any missing credit or collateral information described in the ROE, in any internal or external loan review, or in any listings of loans lacking such information provided to management at the conclusion of an examination.

Article VI

Problem Asset Management

(1) Effective as of the date of this Order, the Board shall undertake immediate and continuing action to protect the Bank's interest in those assets criticized (special mention, substandard, doubtful, loss) in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management during any examination.

(2) Within forty-five (45) days of this Order, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a

written plan designed to reduce the Bank's criticized assets (the "Criticized Assets Reduction Plan" or "CARP"). The CARP shall include or address the following matters:

- (a) reporting of classified asset levels by type to the Board or a designated committee thereof every month;
- (b) reporting of Special Mention asset levels by type to the Board or a designated committee thereof every month; and
- (c) specific plans for the reduction of classified and Special Mention assets by asset type with target reductions by month.

(3) Compliance with Paragraphs (1) and (2) of this Article shall include the development of procedures for the monthly submission to and review by the Board of all criticized (Special Mention and classified) credit relationships or parcels of Other Real Estate ("ORE") totaling five hundred thousand dollars (\$500,000) or more, and that require the preparation of Criticized Asset Reports ("CARs" or "CAR") that contain, at a minimum, analysis and documentation of the following:

- (a) an identification of the expected sources of repayment and an analysis of their adequacy;
- (b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable, as well as other necessary and appropriate documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;

- (e) trigger dates for positive borrower actions or for loan officers to reassess the strategy, enact collection plans, and make appropriate downgrades or place on nonaccrual;
- (f) a determination of whether the loan is considered a troubled debt restructuring, should be placed on nonaccrual, and/or is impaired and the amount of the impairment, consistent with Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114); and
- (g) for criticized relationships of five hundred thousand dollars (\$500,000) or above that were made for the purpose of constructing or developing real estate, the CARs shall also include:
 - (i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;
 - (ii) project development status;
 - (iii) a comparison of development costs to the budgeted amount;
 - (iv) a comparison of sales activity to the original sales projections;
 - (v) amount of initial interest reserve and the amount of any subsequent additions to the reserve;
 - (vi) an assessment of the borrower's global cash flow;
 - (vii) an assessment of any guarantor's global cash flow; and
 - (viii) any other significant information relating to the project.

(4) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall take the necessary steps to ensure the Bank immediately implements and thereafter adheres to the plan required by this Article.

(5) A copy of each CAR prepared during the month of each quarter end (e.g., March, June, September, and December), along with any Board comments regarding the effectiveness of the effort to eliminate the weaknesses in each credit, shall be submitted to the Assistant Deputy Comptroller within fifteen (15) days following each calendar quarter end.

(6) Effective as of the date of this Order, the Bank may not extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized internally, in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management during any examination and whose aggregate loans or other extensions of credit equal or exceed five hundred thousand dollars (\$500,000), unless each of the following conditions is met:

- (a) the Board or a designated committee thereof finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the Board or a designated committee thereof approves the credit extension and documents in writing the reasons that such extension is necessary to promote the best interests of the Bank; and
- (b) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of credit.

Article VII

Credit Risk Ratings and Troubled Asset Accounting

(1) Effective immediately, the Board shall undertake the necessary steps to ensure that the risk associated with the Bank's loans is properly reflected and accounted for on the Bank's books and records, to include, at a minimum, the monthly review of all credit relationships that equal or exceed five hundred thousand dollars (\$500,000) by the loan officers or other responsible staff to ensure that:

- (a) the Bank's loans and other assets are appropriately and timely risk rated and charged off using a loan grading system that is based upon current facts, existing repayment terms and that is consistent with the requirements set forth in 12 C.F.R. § 160.160, and the OTS' *Examination Handbook*, Section 260, "Classification of Assets," July 2010, and any successor regulation or guidance;
- (b) the Bank's loans and other assets are timely placed on nonaccrual in accordance with the instructions for the preparation of Thrift Financial Reports and once implemented, the instructions for Consolidated Reports of Income and Condition (also known as a "Call Report"), (collectively referred to as a "Public Report") and the OTS' *Examination Handbook*, Section 260, "Classification of Assets," July 2010;
- (c) the Bank's loan and other assets are timely designated as troubled debt restructurings in accordance with the instructions for preparation of the Public Reports and consistent with Accounting Standards Codification

310-40 (formerly known as FASB Statement of Financial Accounting Standards No. 15) and Accounting Standards Update 2011-2; and

- (d) the Bank's loans and other assets are timely designated as impaired and impairment timely measured, consistent with Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114).

(2) By no later than November 15, 2011, the Board shall prepare a written program designed to ensure that the Bank complies with Paragraph (1) of this Article, that contains at a minimum:

- (a) immediate and ongoing training for the lending staff and management with respect to the application of Subparagraphs (a)-(d) of Paragraph (1) of this Article;
- (b) procedures to ensure that loan officers, staff and management are held accountable for failing to appropriately and timely risk rate, place loans on nonaccrual, and/or designate as troubled debt or impaired, including but not limited to, consideration of loan officer, staff and management failures in periodic performance reviews and compensation; and
- (c) procedures for the review and approval in advance of any return to accrual status, or risk rating upgrade of any loan, or lending relationship, totaling five-hundred thousand dollars (\$500,000) or more, by a majority of the Board of Directors or a designated committee thereof that is supported by written documentation for the basis of the return to accrual status or upgrade that is maintained in the books and records of the Bank.

(3) After the Board has developed the program required by this Article, the Board shall take the necessary steps to ensure the Bank immediately implements and thereafter adheres to the program required by this Article.

Article VIII

External Loan Review

(1) Within forty-five (45) days of this Order, the Board shall employ a qualified, independent consultant or firm to perform semi-annual asset quality reviews of the Bank's loan portfolio with the first report due no later than January 16, 2012, and subsequent reports due every six months thereafter. The proposed consultant or firm may not be the same consultant or firm who has performed loan risk rating or loan review procedures for the Bank or any affiliate of the Bank in either of the last two years. The review shall provide for a written report to be filed with the Board after each review, and use a loan grading system consistent with GAAP, 12 C.F.R. § 160.160, and the OTS' *Examination Handbook*, Section 260, "Classification of Assets," July 2010, and any successor regulations and guidance. Such reports shall, at a minimum, include the consultant's or firm's comments and conclusions regarding:

- (a) the identification, type, rating, and amount of all criticized loans;
- (b) the identification and amount of delinquent and nonaccrual loans;
- (c) the identification/status of credit related violations of law or regulation;
- (d) credit underwriting and documentation exceptions;
- (e) credit analysis and documentation of such analysis;
- (f) accuracy of internal risk ratings;
- (g) completeness and effectiveness of problem loan workout plans;

- (h) loans and other extensions of credit considered exceptions to, or not in conformance with, the Bank's lending policies and procedures;
- (i) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (h) of the Article;
- (j) overall credit administration practices;
- (k) concentrations of credit;
- (l) the accuracy of the Bank's loan risk-weighting;
- (m) the accuracy of specific allocations to the Allowance for Loan and Lease Losses;
- (n) an evaluation of the Bank's efforts to manage and account for its ORE in accordance with the OTS' *Examination Handbook*, Section 251, "Real Estate Owned and Repossessed Assets," December 2010, 12 C.F.R. §§ 160.172, 167.1, and any successor regulation or guidance;
- (o) loans and leases to affiliates, insiders, and related parties; and
- (p) any recommendations for improvements.

(2) Prior to the appointment or employment of any consultant or firm or entering into any contract with any consultant or firm, the Board shall submit the name and qualifications of the proposed consultant or firm and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. After the OCC has advised the Bank that it does not take supervisory objection to the consultant or firm, and the scope of the review, the Board shall immediately engage the consultant or firm pursuant to the proposed terms of the engagement.

(3) In the event that the appointment or employment of any consultant or firm as required by Paragraph (1) of this Article is delayed by more than ten (10) days as a result of its failure to receive the supervisory non-objection required by this Article, then the time periods contained in Paragraph (1) of this Article shall be tolled by the time exceeding ten (10) days.

(4) The Board or a designated committee shall review the independent loan review reports and ensure that, if appropriate, immediate, adequate, and continuing remedial action, is taken upon the findings noted in the reports.

(5) A copy of the reports submitted to the Board, as well as a summary of remedial actions taken and, if appropriate, planned, shall be documented and provided to the Assistant Deputy Comptroller by no later than January 31, 2012, and thereafter within fifteen (15) days of the receipt of each external loan review report.

(6) The Bank shall not terminate the consultant's or firm's asset quality review services without a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

Article IX

Allowance for Loan and Lease Losses

(1) Within sixty (60) days of this Order, the Board shall take the necessary steps to ensure the Bank implements and adheres to appropriate written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses ("Allowance") in accordance with GAAP. The Allowance policies and procedures shall be consistent with 12 C.F.R. § 160.160 and applicable regulatory guidance, including but not limited to, the Federal Financial Institutions Examination Council's "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006 (OTS CEO Memorandum No. 250); OTS'

Examination Handbook, Section 261, “Adequacy of Valuation Allowances,” January 1994; OTS CEO Memorandum No. 329 (Accounting for Credit Losses and Impairments), dated December 9, 2009; OTS CEO Memorandum No. 304 (ALLL-Observed Thrift Practices Including Sound Practices), dated May 22, 2009; and any applicable successor regulation and guidance, and shall at a minimum include:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with Accounting Standards Codification 310-10 and 450-20 (formerly known as FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies);
- (c) procedures for validating the Allowance methodology; and
- (d) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
 - (i) trends in the Bank’s internal risk ratings, delinquent and nonaccrual loans;
 - (ii) results of the Bank’s external loan review;
 - (iii) concentrations of credit in the Bank;
 - (iv) present and prospective economic conditions; and
 - (v) applicable experience of the Bank’s lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Public Report, for the Allowance. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Public Report, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) The Board shall take the necessary steps to ensure that an independent review and test of the Allowance sufficiency is performed prior to the filing of each Public Report beginning with the quarter ending December 31, 2011.

(4) The Board shall engage an independent consultant or accountant to perform annual reviews of the appropriateness of the Bank's Allowance methodology. The first review shall be performed before the filing of the December 31, 2011 Public Report. The independent review and test required by Paragraph (3) of this Article may be performed by, and the independent consultant required by this Paragraph may be, the same person employed to perform the external loan review required by Paragraph (1) of Article VIII, provided that the consultant or firm is not the same consultant or firm who has performed loan risk rating or review procedures for the Bank or any affiliate of the Bank in either of the last two years.

Article X

Liquidity Management

(1) Within sixty (60) days of this Order, the Board shall adopt and ensure the Bank implements the necessary policies and procedures to ensure the Bank maintains liquidity at a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base, to address the requirements set forth in

applicable regulations and guidance, including but not limited to, 12 C.F.R. § 163.161(a)(2); OTS CEO Memorandum No. 342 (Interagency Policy Statement on Funding and Liquidity Management), dated March 17, 2010 and OTS *Examination Handbook*, Section 510, “Funds Management,” April 2001 and Section 530, “Liquidity Risk Management,” January 2010, and any successor regulations and guidance, and include at a minimum:

- (a) measures to maintain sufficient on-balance sheet liquidity;
- (b) measures to ensure limited reliance upon non-core funding sources, including brokered deposits and credit-sensitive wholesale borrowings;
- (c) the establishment of additional back-up funding sources;
- (d) policies and procedures to ensure the implementation of adequate liquidity planning tools, to include:
 - (i) a review of administrative policies and procedures to ensure they are consistent with the Board’s guidance and risk tolerances;
 - (ii) specific balance sheet liquidity targets that are consistent with the tools used to measure performance;
 - (iii) reasonable risk limits to control the level of liquidity risk that incorporate forward-looking risk measurements and liability concentration limits such as limits on the amount of funds that may be sourced from any individual customer or groups of customers, or liability concentration limits by instrument; and
- (e) a contingency funding plan that ensures the Bank can remain liquidity solvent through stressed environments and that includes, at a minimum:

- (i) management’s best estimate of balance sheet changes that may result from a liquidity or credit event;
- (ii) specific terms or events that trigger enactment of the plan;
- (iii) necessary management information systems and reporting criteria for use in crisis situations;
- (iv) management responsibilities for enacting the plan and for taking specific actions once enacted; and
- (v) prioritization of all sources of funding for the various scenarios including asset side funding, liability side funding, and off-balance sheet funding.

Article XI

Information Technology

(1) Within sixty (60) days of this Order, the Board shall adopt and ensure the Bank implements the necessary policies and procedures to ensure that the Bank’s information security program complies with the requirements of Gramm-Leach-Bliley Act 501(b) (“GLBA”) and the Interagency Guidelines Establishing Information Security Standards, 12 C.F.R. Part 170, Appendix B (“Guidelines”), and any applicable successor regulation or guidance.

(2) Compliance with Paragraph (1) of this Article shall include the appointment of an Information Security Committee (“IT Security Committee”) that shall be responsible for:

- (a) selecting and appointing a knowledgeable, capable person to serve as Information Security officer, who shall be responsible for ensuring compliance with this Article;
- (b) the annual submission to the Board of a comprehensive risk

assessment covering the Bank's operations pursuant to the Guidelines that includes, at a minimum, an assessment of the risks associated with all repositories containing customer information and:

- (i) identification and testing of key controls protecting such repositories;
- (ii) documenting the evidence of such testing;
- (iii) identification of control gaps revealed by such testing; and
- (iv) establishing mitigation plans addressing any identified control gaps.

(3) Within sixty (60) days of this Order, the Board shall undertake the necessary steps to ensure the Bank prepares and submits a Business Continuity Plan ("BCP") that provides a schedule for the testing of the contingency planning for the recovery of critical systems and resumption of key business units that considers the results of a disaster recovery risk assessment that reflects all realistically potential disaster scenarios to include, fire, earthquake, and terrorist attack and provides for annual testing, review and updates of the BCP to the Assistant Deputy Comptroller.

Article XII

Third-Party Contracts

(1) Effective immediately, the Board shall take the necessary steps to ensure the Bank manages and controls the risks associated with the Bank's third-party service providers consistent with the guidance contained in Thrift Bulletin 82a, "Third-Party Arrangements," and any successor guidance, to include procedures, at a minimum, to ensure that the Board or a

designated committee thereof approves the third party arrangement or contract and makes the following written certifications:

- (a) why the third party arrangement or contract is in the best interest of the Bank;
- (b) that management has completed, and the Board of Directors has reviewed and approved, a risk assessment that identifies the Bank's needs and requirements;
- (c) that management has completed and documented proper due diligence to identify and select a third party provider (including the consideration of more than one competitive and arms length bid or proposal);
- (d) that the arrangement or contract with the third party is governed by written agreements that outline duties, obligations, and responsibilities of the parties involved;
- (e) that management and the Board of Directors have established processes to provide ongoing oversight of the third parties and third-party activities; and
- (f) that the arrangement or contract with the third party complies with applicable law, regulation, regulatory guidance, and safe and sound practices, including, but not limited to Thrift Bulletin 82a and OTS Examination Handbook, Section 310 (Corporate Governance and Oversight by the Board of Directors) or any successor regulation or regulatory guidance issued by the OCC.

Article XIII

Administrative Appeals and Extensions of Time

(1) This Order becomes effective upon execution by the Assistant Deputy Comptroller. Unless otherwise specified, any time limitations set by this Order shall begin to run on the effective date of the Order.

(2) If the Bank contends that compliance with any provision of this Order would cause undue hardship to the Bank, or requires an extension of any timeframe within this Order, the Board shall submit a written request to the Assistant Deputy Comptroller asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with a provision, that require the Assistant Deputy Comptroller to exempt the Bank from a provision, or that require an extension of a timeframe within this Order.

(3) All such requests shall be accompanied by any supporting documentation, and, to the extent requested by the Assistant Deputy Comptroller, a sworn declaration or declarations setting forth any other facts upon which the Bank relies.

(4) The Assistant Deputy Comptroller's decision concerning a request made pursuant to this Article is subject to Article XIV, Paragraph (3) of this Order, and is final and not subject to further review.

Article XIV

Closing

(1) Although the Bank is required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Assistant Deputy Comptroller, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(2) If, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) 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 amended, suspended, waived, or terminated in writing by the Comptroller.

(4) In each instance in this Order in which the Bank or the Board is required to ensure implementation of or adherence to, or to undertake to perform, an obligation of the Bank, the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary or appropriate for the Bank to perform its obligations under this Order;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (c) follow up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner for any non-compliance with such actions.

(5) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding the Comptroller or the United States.

(6) The terms of this Order, including this Paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned has hereunto set his hand.

/s/

October 20, 2011

Lawrence D. Carter
Assistant Deputy Comptroller
Santa Ana Field Office

Date

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)	
Universal Bank)	AA-WE-11-77
West Covina, California)	

**STIPULATION AND CONSENT
TO THE ISSUANCE OF A CONSENT ORDER**

The Comptroller of the Currency of the United States of America (“Comptroller”) intends to initiate proceedings against Universal Bank, West Covina, California (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges for an Order to Cease and Desist for unsafe and unsound banking practices relating to the Bank’s Board and management oversight, capital and strategic planning, and credit risk management and administration.

The Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated October 20, 2011 (“Order”);

In consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

Article I

Jurisdiction

(1) The Bank is a Federal savings association which was chartered and examined by the Office of Thrift Supervision (“OTS”) pursuant to the Home Owners’ Loan Act, as amended, 12 U.S.C. § 1461 *et seq.*

(2) Pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010), all functions of the OTS related to Federal savings associations were transferred to the Comptroller.¹

(3) The Comptroller is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(4) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

(5) Upon the issuance of this Order:

- (a) the Bank will not be eligible for “expedited treatment” pursuant to 12 C.F.R. § 116.5 for the purposes of 12 C.F.R. Part 159 regarding subordinate organizations, unless otherwise informed in writing by the OCC;
- (b) the Bank will be subject to the limitation of 12 C.F.R. § 163.555 for the purposes of 12 C.F.R. § 163.560 requiring OCC approval of a change in directors and senior executive officers, unless otherwise informed in writing by the OCC; and
- (c) the Bank will be subject to the limitation on golden parachute and indemnification payments provided by 12 C.F.R. § 359.1(f)(1)(ii)(C) and 12 C.F.R. § 163.555, unless otherwise informed in writing by the OCC.

Article II

Agreement

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

¹ See Dodd-Frank Act § 312(b), 12 U.S.C. § 5412.

(2) The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818(i). Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(3) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other Federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities.

Article III

Waivers

- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
 - (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b) and 12 C.F.R. Part 109;
 - (b) any and all procedural rights available in connection with the issuance of the Order;
 - (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i) and 12 C.F.R. Part 109;

- (d) all rights to seek any type of administrative or judicial review of the Order; and
- (e) any and all rights to challenge or contest the validity of the Order.

Article IV

Other Actions

(1) The Bank agrees that the provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set his hand on behalf of the Comptroller.

/s/

October 20, 2011

Lawrence D. Carter
Assistant Deputy Comptroller
Santa Ana Field Office

Date

