

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

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<b>In the Matter of:</b>	)	
	)	
City National Bank of New Jersey	)	AA-EC-2018-87
Newark, New Jersey	)	
_____	)	

**CONSENT ORDER**

The Comptroller of the Currency of the United States of America (Comptroller), through his authorized representatives, has supervisory authority over City National Bank of New Jersey, Newark, New Jersey (Bank).

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a “Stipulation and Consent to the Issuance of a Consent Order,” dated February 12, 2018, 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 (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

COMPLIANCE COMMITTEE

(1) The Board shall maintain a Compliance Committee of at least three (3) Directors who shall not be employees, former employees, controlling shareholders of the Bank or of any of its affiliates (as the term affiliate is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. The names of the members of the Compliance Committee and, in the event of a

change of the membership, the name of any new member, shall be submitted in writing to the Director for Special Supervision (Director) within seven (7) days. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order. The entire Board shall be responsible for the Bank's compliance with the provisions of this Order.

(2) The Compliance Committee shall meet at least monthly.

(3) Within sixty (60) days of the date of this Order and every thirty (30) days thereafter, or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the actions needed to achieve compliance with each Article of this Order;
- (b) Bank personnel responsible for implementing the corrective actions and the time frames for completion;
- (c) actions taken to comply with each Article of this Order;
- (d) the results and status of those actions;
- (e) the audit tracking logs as required in paragraph (4) of Article XVIII of this Order; and
- (f) the date and manner in which Bank personnel corrected any cited violation of law as required by paragraph (2) of Article XIX of this Order.

(4) The Board shall forward a copy of the Compliance Committee's monthly report, with any additional comments by the Board, to the Director within ten (10) days of receiving such report.

## ARTICLE II

### STRATEGIC PLAN

(1) Within ninety (90) days of the date of this Order, the Board shall forward to the Director, pursuant to paragraph (2) of this Article, a revised written Strategic Plan for the Bank, covering at least a two-year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact strategic goals and objectives;
- (d) an identification and prioritization of initiatives and opportunities, including timeframes that comply with the requirements of this Order;
- (e) a description of the Bank's targeted market(s) and competitive factors in its identified target market(s) and a description of control systems to mitigate risks in the Bank's markets;
- (f) an assessment of the present and planned product lines (assets and liabilities) and the identification of appropriate risk management systems to identify, measure, monitor, and control risks within the product lines;
- (g) assigned responsibilities and accountability for the strategic planning; and

(h) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) Prior to adoption by the Board, a copy of the Strategic Plan, and any subsequent amendments or revisions, shall be submitted to the Director for prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(3) The Bank may not initiate any action that deviates significantly from a Strategic Plan (that has received written determination of no supervisory objection from the Director and has been adopted by the Board) without a prior written determination of no supervisory objection from the Director. The Bank's written notice of its intent to deviate significantly from the Strategic Plan must include an assessment of the impact of such proposed change on the Bank's condition and risk profile, 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 proposed change in the Strategic Plan.

(4) For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, products and services, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, 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 personnel, operations, or external factors that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, a written evaluation of the Bank's performance against the Strategic Plan shall be prepared by Bank management. Within ten (10) days of the evaluation's creation, the Board shall review the evaluation and determine the actions the Board will require the Bank to take to address any shortcomings. The Board's review of the evaluation and discussion of actions to address any shortcomings shall be documented in the Board minutes. Upon completion of the Board's review, the Board shall submit a copy of the evaluation as well as the actions the Board will require the Bank to take to address any shortcomings to the Director.

(6) The Board shall review and update the Strategic Plan at least annually and more frequently if necessary or if required by the Director in writing.

(7) Until the Bank has received a written determination of no supervisory objection for the Strategic Plan required by the Article, the Board and management will make no changes to the current products, services, and delivery systems currently in place.

### ARTICLE III

#### CAPITAL PLAN AND MINIMUMS

(1) The Bank shall, within ninety (90) days of the date of this Order, achieve and thereafter maintain the following minimum capital ratios (as defined in 12 C.F.R. Part 3):

(a) total capital at least equal to thirteen percent (13%) of risk-weighted assets;

and

(b) tier 1 capital at least equal to nine percent (9%) of adjusted total assets.

(2) The requirement in this Order to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within sixty (60) days of the date of this Order, the Board shall adopt and submit to the Director, for prior written determination of no supervisory objection, a written Capital Plan to ensure maintenance of appropriate capital levels, which shall be no less than the requirements in paragraph (1) of this Article, as well as safe and sound capital planning and management practices. Following receipt of the Director’s written determination of no supervisory objection, the Board shall ensure implementation and adherence to the Capital Plan. The capital planning process shall, ensure the integrity, objectivity, and consistency of the process through adequate governance. Refer to Office of the Comptroller of the Currency (OCC) Bulletin 2012-16, Guidance for Evaluating Capital Planning and Adequacy for guidance.

(4) If the Bank’s written Capital Plan is primarily based on a sale or merger of the Bank, the Capital Plan shall address the steps that will be taken and the associated timeline, to ensure that within ninety (90) days after the receipt of the Director’s written determination of no supervisory objection to the Capital Plan, the Bank executes a definitive agreement for the sale or merger.

(5) If the Bank fails to achieve or maintain the capital ratios required by paragraph (1) of this Article, fails to submit a Capital Plan as required by paragraph (3) of this Article, or fails to implement a Capital Plan to which the Director has provided a written determination of no supervisory objection, then the Bank may, in the Director’s sole discretion, be deemed undercapitalized for purposes of this Order. The Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized depository

institutions under 12 U.S.C. § 1821o(e) and 12 C.F.R. § 6. For purposes of this requirement, an action “necessary to carry out the purpose of this section” under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank’s capital to the minimum ratios required by this Order, and any other action deemed advisable by the OCC to address the Bank’s capital deficiency or the safety and soundness of its operations.

## ARTICLE IV

### BOARD SUPERVISION AND MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Board shall ensure implementation of and adherence to safe and sound corporate governance and decision-making processes. At a minimum, the Board shall ensure and document the following:

- (a) senior executive officers, including those defined in 12 C.F.R. § 5.51(c)(4) as well as the Chief Information Officer and Bank Secrecy Act (BSA) Officer, are capable of performing present and anticipated duties, factoring in each officer’s past actual performance, experience, and qualifications, compared to their position description, duties, and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan required by Article II of this Order and to correct the concerns raised in the November 17, 2017 Report of Examination, any subsequent Report of Examination (ROE) or any supervisory or regulatory communications;
- (b) clear lines of responsibility and authority for each senior executive officer;
- (c) sufficient processes, personnel, and control systems to effectively implement and adhere to all provisions of this Order, and that Bank personnel have

sufficient training and authority to execute their duties and responsibilities under this Order; and

(d) a process to ensure that management corrects the problems identified in any audit, or compliance or regulatory criticisms.

(2) The independent members of the Board shall establish, at least annually, the objectives by which the Board will measure senior executive officers' effectiveness.

(3) The independent members of the Board shall perform and prepare an annual written performance appraisal for each Bank senior executive officer that evaluates performance according to the position's description and responsibilities, adherence to the Strategic Plan, objectives established by the Board, and the effectiveness of developing and successfully implementing action plans to remedy issues raised in ROEs, any supervisory or regulatory communications, or audit reports. If necessary and as appropriate, the Board shall engage a qualified independent third party to assist the Board in preparing the written performance appraisals. Upon completion, copies of each performance appraisal shall be submitted to the Director. The Board shall ensure that any identified deficiencies are addressed in a manner consistent with paragraph (1) of this Article.

## ARTICLE V

### LOAN PORTFOLIO MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Board shall adopt, and management, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a safe and sound, written program to improve loan portfolio management. Refer to the "Loan Portfolio Management" booklet of the *Comptroller's Handbook* for guidance.



The program shall include, but not be limited to, a revised written loan policy tailored to the Bank's loan portfolio with procedures that ensure:

- (a) conformance with sound loan underwriting and approval requirements;
- (b) extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information and ensuring perfected collateral documentation;
- (c) satisfactory credit and collateral documentation;
- (d) updated interim financial analysis or annual reviews, including updating credit and collateral documentation or alternative procedures for borrowers who do not provide updated documentation;
- (e) tracking and analyzing policy exceptions; and
- (f) implementation of timely, complete, and accurate internal loan portfolio management information systems (MIS).

(2) Within thirty (30) days after the adoption of the loan portfolio management program required under paragraph (1) of this Article, the Board shall ensure that all lenders or any other personnel performing credit analyses receive training, at least annually, and are adequately trained in cash flow analysis, particularly analysis using information on a global cash flow basis, evaluation of contingent liabilities, and verification of liquidity. The Board shall ensure that the Bank's processes and procedures require that additional training is identified and provided as needed.

## ARTICLE VI

### LOAN REVIEW & CREDIT RISK RATING

(1) Within ninety (90) days of the date of this Order and quarterly thereafter, the Bank management shall develop and the Board shall adopt an effective and independent loan review program to ensure the timely identification and categorization of problem credits. Upon the Board's adoption of the program, management shall, subject to Board review and ongoing monitoring, immediately implement and ensure adherence to the program. The program shall include, at a minimum, provisions requiring that:

- (a) the program shall provide for a written report to be filed with the Board promptly after each review and shall employ a safe and sound loan and lease rating and loss reserving system, refer to the "Rating Credit Risk" and "Allowance for Loan and Lease Losses," booklets of the *Comptroller's Handbook* for guidance;
- (b) the Bank's loans and other assets are appropriately and timely risk rated and charged off by management using a safe and sound loan grading system that is based upon current facts and existing repayment terms, refer to the "Rating Credit Risk" booklet of the *Comptroller's Handbook* for guidance; and
- (c) officers and other appropriate personnel are held accountable, including in performance evaluations and compensation, for failing to appropriately and timely risk rate or place loans on nonaccrual.

(2) The Board shall evaluate the loan and lease review report(s), upon receipt, and shall ensure that the Bank takes immediate, adequate, and continuing remedial action, as appropriate, upon all findings noted in the report(s). At least quarterly, Bank management shall

provide written reports to the Board on the remedial actions taken by the Bank regarding findings noted in the loan review report(s). The Board shall also ensure that the Bank preserves documentation of any actions taken by the Bank to collect or strengthen assets identified as problem credits.

## ARTICLE VII

### ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) Within thirty (30) days of the date of this Order, the Board shall adopt and thereafter ensure implementation and adherence to safe and sound written policies and procedures for maintaining an adequate Allowance for Loan and Lease Losses (ALLL), including adequate loan classification. The policies and procedures shall establish loss reserves in accordance with U.S. Generally Accepted Accounting Principles (GAAP). Refer to the Federal Financial Institutions Examination Council's (FFIEC) "Interagency Policy Statement on the Allowance for Loan and Lease Losses" dated December 13, 2006 (OCC Bulletin 2006-47) (Interagency Statement), "Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions" dated July 20, 2011 (OCC Bulletin 2001-37) (Policy Statement), and the "Allowance for Loan and Lease Losses," booklet of the *Comptroller's Handbook* for guidance. These policies and procedures 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 (ASC) 310-10 (Receivables - Overall - Subsequent Measurement - Impairment);

- (b) procedures for segmenting the loan portfolio and estimating losses on groups of loans that are consistent ASC 450-20, Loss Contingencies. These procedures shall require the Bank to document its estimation of credit losses and its analysis of the qualitative factors set forth in the Interagency Statement;
- (c) procedures for validating the ALLL methodology;
- (d) support for each of the qualitative factor adjustments and impairment analysis calculations included in the written analysis;
- (e) a process for summarizing and documenting, for the Board's prior review and approval, the amount to be reported in the Consolidated Reports of Condition and Income (Call Report) for the ALLL; and
- (f) a description of the individuals responsible and methodology used to determine the ALLL.

(2) Within thirty (30) days of the date of this Order, the Board shall adopt written policies and procedures to ensure that all official and regulatory reports filed by the Bank accurately reflect an adequate ALLL balance as of the date that such reports are submitted. Any difference between the ALLL balance as determined by the analysis required by this Article and the Bank's actual ALLL balance shall be remedied through appropriate account adjustments in the quarter it is discovered, prior to the filing of the Call Report.

(3) The Board shall review and update the program on an annual basis or more frequently, if necessary, or if required by the Director in writing.

## ARTICLE VIII

### CRITICIZED ASSETS

(1) Within sixty (60) days, the Board shall adopt and the Bank shall implement a written program designed to protect its interest in those assets criticized in the most recent ROE, in any subsequent ROE, by the Bank, by internal or external loan review, or in any list provided to management by the OCC during any examination. The term “criticized” as used in this Article refers to assets rated the equivalent of “doubtful,” “substandard,” or “special mention” as defined in the “Rating Credit Risk” booklet of the *Comptroller’s Handbook*.

(2) The program shall include creating Criticized Asset Reports (CAR) for all credit relationships or other assets totaling in aggregate one hundred thousand dollars (\$100,000) or more, criticized as “doubtful,” “substandard,” or “special mention.” Management shall submit the CARs to the Board monthly and to the Director quarterly. Each CAR shall cover an entire credit relationship and include, at a minimum, analysis and documentation of the following:

- (a) an identification of the expected sources of repayment;
- (b) an analysis of the borrower’s ability to repay the loan based on current and satisfactory credit information, including an appropriate analysis of the guarantor’s current financial position where repayment is dependent in whole or in part on the support of a guarantor;
- (c) the appraised value of supporting collateral, along with the date and source of the appraisal, and the position of the Bank’s lien on such collateral, as well as other necessary documentation to support the current collateral valuation;
- (d) results of any ASC 310 impairment analysis;
- (e) significant developments, including changes since the prior CAR, if any;

- (f) safe, sound, and accurate risk ratings, refer to the *Comptroller's Handbook* on "Rating Credit Risk" for guidance; and
- (g) action(s) the Bank plans to take to protect its interest in, or eliminate the basis of criticism of, the asset, including timeframes for implementing and evaluating the effectiveness of those actions.

(3) The Board shall review each CAR, no later than the end of each quarter. A copy of each review shall be forwarded to the Director within thirty (30) days of the end of the quarter in which the review occurred. The review shall include, at minimum, a written analysis of:

- (a) the status of the assets;
- (b) management's adherence to the plans to protect its interests in the assets;
- (c) the status and effectiveness of the plans; and
- (d) the need to revise the plans or take alternative action.

(4) The Bank shall not extend credit, directly or indirectly, including renewals, modifications, or extensions, to a borrower whose loans or other extensions of credit are criticized in any ROE, by the Bank, in any internal or external loan review, or in any list provided to management by the OCC, unless and until a majority of the Board finds and documents in writing that each of the following conditions is met:

- (a) the extension of credit is necessary to promote the best interests of the Bank and why such extension is necessary;
- (b) a written credit and collateral analysis is performed;
- (c) the Bank's plan to protect its interest in the criticized asset will not be compromised by the extension of credit; and
- (d) a copy of the Board approval shall be maintained in the borrower's file.

## ARTICLE IX

### THIRD PARTY RISK MANAGEMENT

(1) Within sixty (60) days of the date of this Order, the Board shall adopt safe and sound written policies and procedures governing the Bank's relationships with third parties (Third Party Policy). The Board shall ensure that management implements and adheres to the Third Party Policy. Refer to "Third Party Relationships" dated October 20, 2013 (OCC Bulletin 2013-29) for guidance. At a minimum, the Third Party Policy must contain:

- (a) plans that outline the Bank's strategy and detail how the Bank selects, assesses, and oversees a third party;
- (b) proper due diligence standards for selecting a third party, including cost benefit analysis as well as a review of the third party's ability to comply with all applicable laws and Bank policies;
- (c) ongoing monitoring of third parties' activities and performance;
- (d) written contracts with third parties that outline the rights and responsibilities of all parties, including contingency plans for terminating legal contracts or relationships;
- (e) clearly defined Board and management roles and responsibilities for overseeing and managing third party relationships and the risk management process.

## ARTICLE X

### THIRD PARTY BANK SECRECY ACT PROGRAM REVIEW

(1) Within thirty (30) days of the date of this Order, the Board shall submit to the Director, for a prior written determination of no supervisory objection, the name and qualifications of a proposed qualified independent consultant to perform a complete review of the Bank's Bank Secrecy Act / Anti Money Laundering ("BSA/AML") Compliance Program, as well as the proposed scope and terms of the qualified independent consultant's engagement. The proposed review shall include, at a minimum, internal controls, independent testing, training, and an evaluation of BSA Officer performance and Board oversight. The proposed engagement shall be consistent with sound practices for the engagement of Independent Consultants. Refer to OCC Bulletin 2013-33, "Use and Review of Independent Consultants in Enforcement Actions: Guidance for Bankers" for guidance.

(2) Within fifteen (15) days following receipt of the Director's written determination of no supervisory objection to the qualified independent consultant (BSA Consultant), the scope of the review, and the proposed timeframe for completion of the review, the Board shall engage the BSA Consultant pursuant to the proposed terms.

- (3) The review conducted by the BSA Consultant shall, at a minimum, provide for:
- (a) a comprehensive, risk based review of the Bank's BSA/AML systems including internal controls, independent testing, training, and the evaluation of BSA Officer performance and Board oversight; and
  - (b) a detailed schedule for the timely correction of all deficiencies identified in the BSA/AML comprehensive review or any OCC ROE, including



deficiencies related to the Bank's suspicious activity monitoring and reporting.

(4) The BSA Consultant must provide a detailed report of the BSA/AML work performed, along with its findings (Third Party BSA Review) to the Board and the Director within fourth-five (45) days of the BSA Consultant's completion of the BSA review.

## ARTICLE XI

### BANK SECRECY ACT PROGRAM

(1) Within sixty (60) days of the Board receiving the Third Party BSA Review required by Article X of this Order, the Board shall revise and forward to the Director, pursuant to paragraph (2) of this Article, the Bank's revised BSA/AML program. The BSA/AML program shall be a written program of policies and procedures to provide for compliance with the Bank Secrecy Act as amended (31 U.S.C. § 5311 et seq.), the regulations promulgated thereunder at 31 C.F.R. Chapter X; and 12 C.F.R. § 21.21, and the rules and regulations of the Office of Foreign Assets Control (OFAC) (31 C.F.R. Chapter V), and for the appropriate identification and monitoring of transactions that pose greater than normal risk for compliance with the BSA. At a minimum, this program shall include comprehensive policies, procedures, and controls for all lines of business to:

- (a) record and maintain information about transactions that pose greater than normal risk for compliance with the BSA;
- (b) perform annual BSA risk assessments, which provide sufficient coverage of the Bank's operation, products, services, and the geographies of operation;

- (c) maintain records of the sales of monetary instruments, including the identification and verification of the purchaser;
- (d) establish a method for introducing new products and services that ensures that the policies and procedures governing new products and services are consistent with the Bank's program for compliance with the BSA;
- (e) establish a method for evaluating the BSA risks, including potential conflicts of interest, in offering products and services to the Bank and Bank's holding company shareholders;
- (f) establish a method for determining whether to enter into or maintain medium- or high-risk customer relationships based on the Bank's business objectives, evaluation of the risks associated with particular products and services, evaluation of customers' expected and actual activity, and the Bank's ability to manage those risks effectively;
- (g) formally evaluate the knowledge, capabilities, and performance of the Bank's BSA staff for identifying transactions that pose greater than normal risk for compliance with the BSA; taking into account the findings of the Third Party BSA Review required by Article X of this Order, and any subsequent examination and audit findings, and factoring in the BSA staff performance, experience, and qualifications compared to their position descriptions, duties, and responsibilities; and
- (h) establish a comprehensive training program for all appropriate operational and supervisory personnel, and the Board of Directors, to ensure their awareness

of their responsibility for compliance with the requirements of the BSA, including:

- i. appropriately monitor medium- and high-risk accounts;
- ii. submitting suspicious activity reports (SAR) pursuant to 12 C.F.R. § 21.11, regardless of the size of the relationship or type of customer involved; and
- iii. submitting SARs on any suspicious transactions, regardless of the source of the funds.

(2) Prior to adoption by the Board, a copy of the BSA/AML program, and any subsequent amendments or revisions, shall be submitted to the Director for prior written determination of no supervisory objection. No later than the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and management shall, subject to Board review and ongoing monitoring, immediately implement and thereafter ensure adherence to the BSA/AML program.

## ARTICLE XII

### BANK SECRECY ACT OFFICER

(1) Within ninety (90) days of the date of this Order, the Board shall ensure that the Bank has a permanent, qualified, and experienced BSA Officer who shall be vested with sufficient executive authority to fulfill the duties and responsibilities of the position.

(2) In the event that the position becomes vacant, the Board shall, within ninety (90) days, identify a proposed new BSA Officer and then submit to the Director the following information:

- (a) the information sought in the “Changes in Directors and Senior Executive Officers” and “Background Investigations” booklets of the Comptroller’s Licensing Manual, together with legible fingerprint cards for the proposed individual;
- (b) a written statement of the Board’s assessment of the proposed officer’s qualifications; and
- (c) a written description of the proposed officer’s duties and responsibilities.

(3) The Director shall have the power to disapprove the appointment of the proposed BSA Officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed BSA Officer.

(4) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Director to complete a review and act on any such information or authority in less than ninety (90) days.

### ARTICLE XIII

#### BANK SECRECY ACT RISK MANAGEMENT

- (1) Until the Bank has received a prior written determination of no supervisory objection from the Director, the Bank shall not open new accounts for:
  - (a) commercial customers that the Bank designates as medium risk or higher in the following lines of business: money service businesses (MSB), foreign or domestic correspondent banks, payment processors, or cash-intensive businesses;

(b) commercial customers other than those described in subparagraph (a) that the Bank designates as medium risk or higher; and

(c) individual customers that the Bank designates as medium risk or higher.

(2) The Bank may request a prior written determination of no supervisory objection from the Director to open new accounts when the Bank has a BSA program that can adequately identify and manage the risks of medium risk or higher customers.

(3) As part of the Bank's compliance with paragraph (1) of this Article, the Bank shall not permit any existing customer with a Bank risk rating of medium risk or higher from:

(a) adding any new Bank products or services;

(b) processing any transaction for which the Bank's automated system cannot include the individual transaction in its monitoring or for which the Bank cannot otherwise reasonably ensure the legitimacy of the sources and uses of funds, to include at a minimum:

i. Activities conducted directly or indirectly through foreign or domestic correspondents; and

ii. Activities involving the batching of transactions, such as remote deposit capture (RDC) activities and vault and armored car services; and

(c) directly or indirectly processing any funds transfer without being able to identify and appropriately monitor when the transfer involves a high-risk jurisdiction.

## ARTICLE XIV

### CUSTOMER DUE DILIGENCE AT ACCOUNT OPENING

(1) By thirty (30) days following receipt of the Third Party BSA Review required by Article X of this Order, the Board shall adopt and ensure implementation and adherence to expanded account opening policies and procedures for all medium risk or higher customers and accounts. The policies and procedures shall address any concerns or recommendations in the Third Party BSA Review and, at a minimum, shall require:

- (a) identification of all account owners and beneficial owners in compliance with applicable rules and regulations;
- (b) identification of the officers, directors, and majority shareholders of any corporate customer, and the partners of any partnership customer; and
- (c) documentation of the following minimum information, as relevant, for all Bank designated higher-risk accounts:
  - i. purpose of the account;
  - ii. source of the customer's funds and wealth;
  - iii. occupation or type of business conducted by the customer;
  - iv. domicile of the business;
  - v. any relevant financial information concerning the customer;
  - vi. description of the customer's primary trade area and whether international transactions are expected to be routine;
  - vii. description of the business operations, the anticipated activity volume and total sales, and a list of major customers and suppliers;

- viii. Bank products and services to be used and expected activity by product or service;
  - ix. on-site review, complete with photographs of the business;
  - x. the results of the use of non-documentary verification tools and screening technology and internet searches for BSA/AML/OFAC commensurate with industry standard on the business, authorized signers, principal owners, and any 10 percent or more beneficial owners;
  - xi. copies of any business license, corporate resolution, or other relevant operating information;
  - xii. evidence of registration with the Financial Crimes Enforcement Network if applicable;
  - xiii. MSB customer's BSA/AML program and copy of its most recent independent audit report demonstrating that the audit performed transactional testing;
  - xiv. how the customer's operating accounts will be segregated to avoid commingling of lines of business and high-risk activities and allow transparency to properly monitor accounts; and
  - xv. any other due diligence required by this Order, the Bank, the BSA Officer, any ROEs, or the Third Party BSA Review required by Article X of this Order; and
- (d) the proper administration and monitoring of accounts utilizing Automated Clearing House (ACH) and RDC transactions, to include;

- i. the establishment of appropriate individual ACH and RDC transaction limits;
- ii. determination of anticipated ACH and RDC transaction and dollar volumes, and type (e.g. payroll checks, third-party checks, or traveler's checks);
- iii. comparison of projected activity to actual activity, and ensuring results are reasonable and consistent; and
- iv. ensuring the transparency of underlying individual transactions.

(2) The Board and management must also develop policies and procedures to address the Bank's steps regarding customer onboarding while the information required in paragraph (1) of this Article is collected. The policies and procedures must contain at a minimum the requirements:

- (a) preventing the opening of an account or the use of an account while verifying a customer's identity or other information; and
- (b) closing accounts and filing SARs, if appropriate, when the Bank does not receive the information required by paragraph (1) of this Article by the date the information is due.

## ARTICLE XV

### BANK SECRECY ACT RISK ASSESSMENT

(1) Within ninety (90) days of the date of this Order, Bank management shall develop a written institution-wide, ongoing BSA/AML Risk Assessment that accurately identifies the BSA/AML risks posed to the Bank after consideration of all pertinent information (Risk



Assessment). The Board shall ensure implementation and adherence to the Risk Assessment. The Risk Assessment shall employ safe and sound assessment practices and reflect a comprehensive analysis of the Bank's vulnerabilities to money laundering and financial criminal activity, and provide strategies to control risk and limit any identified vulnerabilities. Refer to the 2014 FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual (Rev. November 17, 2014) (FFIEC BSA/AML Examination Manual) for guidance. The Risk Assessment methodology shall include:

- (a) the identification of specific risk categories, including at a minimum:
  - i. products and services offered;
  - ii. customer type and entities served;
  - iii. transaction types;
  - iv. countries or geographic locations of customers and transactions; and
  - v. methods that the Bank uses to interact with its customers;
- (b) a detailed analysis of all pertinent data obtained regarding the specific risk categories, including but not necessarily limited to:
  - i. volumes and types of transactions and services by country or geographic location; and
  - ii. numbers of customers that typically pose higher BSA/AML risk, both by type of risk and by geographic location, to permit the Bank to revise or develop, and implement appropriate policies, processes, and procedures to monitor and mitigate the Bank's BSA/AML risks within those risk categories. The analysis to be conducted shall include an evaluation of all relevant information obtained through the Bank's Customer

Identification Program (CIP) and Customer Due Diligence Program  
(CDD);

- (c) an assessment of BSA/AML risk both individually within the Bank's business lines and on a consolidated basis across all Bank activities and legal entities, to permit the Bank to identify BSA/AML risks and risk categories accurately within and across specific lines of business and product categories;
- (d) a provision requiring that the Risk Assessment be updated at least every twelve (12) months to identify and respond to changes in the Bank's risk profile (such as when existing products or services change, high-risk customers open or close accounts, or the Bank expands through mergers or acquisitions);
- (e) the Risk Assessment must be updated concurrently with the introduction of any new products or services;
- (f) a provision requiring maintenance of appropriate documentation, including customer due diligence information, to assess customer risk and support the Risk Assessment's conclusions; and
- (g) a provision requiring testing to confirm the reasonableness of the Risk Assessment that may be undertaken one hundred and twenty (120) days after the date of this Order. The written results of the testing shall be completed not more than one hundred eighty (180) days after the date of this Order.

## ARTICLE XVI

### SUSPICIOUS ACTIVITY REVIEW “LOOKBACK”

(1) Within ninety (90) days of the date of this Order, the Board shall submit to the Director, for a prior written determination of no supervisory objection, the name and qualifications of a proposed independent, third-party consultant to review and provide a written report on the Bank’s suspicious activity monitoring (SAR Look-Back). Refer to OCC Bulletin 2013-33, “Use and Review of Independent Consultants in Enforcement Actions: Guidance for Bankers” for guidance.

(2) Within sixty (60) days following receipt of the Director written determination of no supervisory objection to the qualified independent consultant to conduct the SAR Look-Back (Look-Back Consultant), the Board shall submit, for a prior written determination of no supervisory objection, a proposed scope and timeline for completion of the engagement that addresses the requirements of Paragraphs (3) and (4) of this Article and includes a list of the customers, accounts, and alerts selected, and the methodologies, factors, and other considerations used to select the customers, account, and alerts. Refer to OCC Bulletin 2013-33, “Use and Review of Independent Consultants in Enforcement Actions: Guidance for Bankers” for guidance.

(3) The purpose of the SAR Look-Back is to determine whether additional SARs should be filed for any previously unreported suspicious activity, including cases in which the BSA Officer or BSA staff identified suspicious activity but failed to support a decision not to file a SAR, to review the quality and accuracy of previous SAR filings to determine whether corrections or amendments are necessary to ensure that the suspicious activity identified was

accurately reported in accordance with 12 C.F.R. § 21.11, and to identify any accounts that represent excessive BSA/AML risk.

(4) The scope of the SAR Look-Back shall include the Bank's medium risk or higher activity from June 1, 2016 through June 30, 2017 and shall be risk-based, as determined by annual volume, geography and product risk, and other factors. The scope of the SAR Look-Back shall also include account activity, for the same period for accounts:

- (a) owned by officer, employees, or directors of the Bank or any of its shareholders or a family member of any such person;
- (b) for which the Bank received a law enforcement subpoena; or
- (c) that generated internal alerts for which the Bank determined it would not file a SAR.

(5) Within ten (10) days following receipt of the Director's written determination of no supervisory objection to the proposed consultant and proposed timeframe for completion of the review, the Board shall engage the Look-Back Consultant to perform the SAR Look-Back pursuant to the proposed terms.

(6) Within thirty (30) days of completion of the SAR Look-Back, the Look-Back Consultant shall provide the Board with a written report that contains a list of any SARs that the Look-Back Consultant recommends that the Bank should file or existing SARs that the Bank should modify to comply with the requirements of 12 C.F.R. § 21.11, a list of accounts that represent excessive risk for BSA/AML compliance, and a conclusion about the effectiveness of the Bank's suspicious activity monitoring. This SAR Look-Back report should also, among other things, describe:

- (a) the methodologies and tools used in conducting the review;

- (b) the process followed for investigating customers and customer activities;
- (c) a summary of the number and types of customers and accounts reviewed;
- (d) the number of customers and accounts requiring additional investigation;
- (e) the number of customers the Look-Back Consultant recommended to the Bank that warranted SAR filings or modifications to existing SAR filings; and
- (f) the number of customers where the Bank determined not to file a SAR.

(7) When providing the written report to the Board, the Look-Back Consultant shall, at the same time, directly provide a copy of the written report of the findings and recommendations from the SAR Look-Back to the Director. The supporting materials and work papers associated with the SAR Look-Back shall be made available to the OCC upon request.

(8) Based upon the results of the SAR Look-Back, the OCC, at its sole discretion, may expand the scope of the SAR Look-Back period. If an additional SAR Look-Back period is deemed appropriate the SAR Look-Back will be completed in accordance with the requirements of this Article.

## ARTICLE XVII

### ONGOING BANK SECRECY ACT MONITORING

(1) Within sixty (60) days of the Board receiving the Third Party BSA Review required by Article X of this Order, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program of policies and procedures to provide for the appropriate identification, analysis, and monitoring of all accounts identified in the Risk Assessment. This program shall address any findings or recommendations in the Third Party BSA Review and

shall include, at a minimum, policies and procedures and the use of management information systems for monitoring accounts, including:

- (a) timely identification and monitoring of account activity, including: employee identification and referral of potentially suspicious activity; handling of law enforcement inquiries and requests; use of automated systems; and the use of alternative monitoring systems for account activity that cannot be adequately monitored using the existing automated system, to include, at a minimum, foreign exchange transactions, internal account transfers, and international wire activity;
- (b) application of appropriate thresholds and filters for automated systems in monitoring all types of transactions, accounts, customers, products, services, and geographic areas that include at a minimum: meaningful thresholds and alert scenarios for filtering transaction activity and customers for further monitoring; validation of the thresholds and filters established by the Bank; and a periodic independent assessment of the appropriateness of thresholds and filters;
- (c) timely investigation and resolution of transactions;
- (d) procedures for conducting the review of alerts and other customer or account follow-up research and investigation, and the standards for documenting the conclusions of such review and follow-up;
- (e) recording, maintaining, and recalling information;
- (f) maintenance of an accurate and complete list of higher-risk customers using: CDD and enhanced due diligence (EDD) information, as appropriate,

including normal and expected account activity; the Bank's customer risk rating system; and automated systems;

(g) a requirement for a periodic review of each higher-risk account that includes updating all relevant customer information to ensure customer profiles remain accurate and current; and

(h) ongoing updates to customer profiles to include updating of current information and, if appropriate, the filing of SARs when observed activity is inconsistent with the customer's profile and is not satisfactorily explained after investigation.

## ARTICLE XVIII

### INTERNAL AUDIT

(1) Within sixty (60) days from the date of this Order, the Board shall submit to the Director, for a prior written determination of no supervisory objection, a proposed Bank employee or consultant to serve as the Bank's internal auditor. The Board shall ensure that the internal auditor has sufficient resources and expertise. The internal auditor shall report directly Board's Audit Committee and shall be independent of Bank management.

(2) Within ninety (90) days from the date of this Order, the Board shall submit to the Director, for a prior written determination of no supervisory objection, a safe and sound revised internal audit program. Refer to the "Internal and External Audit" booklet of the *Comptroller's Handbook* for guidance. The program shall be sufficient to:

- (a) detect irregularities in the Bank's operations;
- (b) determine the Bank's compliance with applicable laws, rules and regulations;

- (c) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its BSA/AML/OFAC policies, loan policies concerning underwriting standards, and problem loan identification and classification;
- (d) ensure adequate audit coverage in all areas, including information technology and security; and
- (e) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives.

(3) All audits conducted by the internal auditor shall be engaged by, reviewed, and approved by the Audit Committee. All reports prepared by internal or external auditors shall be submitted in writing, along with adequate supporting work papers, directly to the Audit Committee.

(4) The Board shall ensure that the Bank's audit tracking system provides documented independent verification of corrective action taken by the Bank to remedy deficiencies brought to the Bank's attention, and shall include:

- (a) all findings and recommendations from final audit and regulatory reports;
- (b) a risk/priority rating for each finding;
- (c) the person(s) responsible for corrective action;
- (d) expected completion dates that are reasonable and commensurate with the risk of the finding or recommendation, as well as actual completion dates;
- (e) a description of the steps taken to address each corrective action; and
- (f) the date upon which audit verified the corrective action.



(5) No less than every thirty (30) days, the Board or Audit Committee must review the Bank's audit tracking system to ensure that corrective actions are completed in a timely manner. The audit tracking logs shall be submitted to the Director as part of the reports required by Article I of this Order.

## ARTICLE XIX

### VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent ROE or any subsequent ROE, or brought to the Board or Bank's attention in writing by management, regulators, auditors, loan review, or other third parties. Within sixty (60) days after the violation is cited or brought to the Board or Bank's attention, Bank management shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified date.

(2) The reports required by Article I of this Order shall include the date and manner in which each violation of law correction has been effected during that reporting period.

(3) Within sixty (60) days of the date of this Order, the Board shall submit to the Director, for a prior written determination of no supervisory objection, proposed compliance management procedures, including:

(a) specific procedures to prevent violations cited in the most recent ROE; and

(b) general procedures that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(4) Following receipt of the Director's written determination of no supervisory objection to the compliance management procedures, the Board shall adopt the procedures and management, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to the compliance management procedures.

## ARTICLE XX

### OTHER PROVISIONS

(1) Although the Bank is by this Order required to submit certain proposed actions and programs for the review or a prior written determination of no supervisory objection of the Director, 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) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America 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) Each citation or referenced guidance included in this Order includes any subsequent law, regulation, or guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(4) The provisions of this Order are effective upon issuance by the Comptroller, through his authorized representative whose hand appears below, and 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, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(6) If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Order, the Board shall submit a written request to the Director asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a time frame within this Order.

(7) The Director's decision concerning a request submitted pursuant to paragraph (6) of this Article is final and not subject to further review.

(8) In each instance in this Order in which the Board or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to this Order, and that Bank management and personnel have sufficient training and authority to execute their duties under this Order;
- (b) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Order;

- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner for any non-compliance with such actions.

(9) 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 on the Comptroller or the United States.

(10) The OCC issued a Cease and Desist Order to the Bank on December 12, 2010, OCC Order No. AA-EC-10-112. This Order replaces OCC Order No. AA-EC-10-112 in its entirety. OCC Order No. AA-EC-10-112 is terminated pursuant to the February \_\_\_\_, 2018, Termination Order, OCC Order No. AA-EC-2018-8. However, no provision in this Order shall bar or otherwise limit any enforcement action the OCC may choose to initiate, in its discretion, against the Bank or its institution-affiliated parties for any failure to comply with the OCC Order No. AA-EC-10-112 while it was effective.

(11) All reports or plans which the Bank or Board has agreed to submit to the Director pursuant to this Order shall be forwarded, by overnight mail or via email, to the following address:

Director for Special Supervision  
Comptroller of the Currency  
400 7th St., S.W., Suite 8E-608  
Washington, DC 20219

(12) 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.

IT IS SO ORDERED, this 12<sup>th</sup> day of February, 2018.

/s \_\_\_\_\_

Julie A. Thieman  
Director for Special Supervision

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

<b>In the Matter of:</b>	)	
City National Bank of New Jersey	)	AA-EC-2018-87
Newark, New Jersey	)	

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

**WHEREAS**, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against City National Bank of New Jersey, Newark, New Jersey (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges due to the Bank’s critically deficient Bank Secrecy Act (“BSA”) program in violation of 12 C.F.R. § 21.21.

**WHEREAS**, the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated February 12, 2018 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order (“Stipulation”).

**NOW THEREFORE**, 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 national banking association chartered and examined by the Comptroller pursuant to the National Banking Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Bank is an “insured depository institution” within the meaning of 12

U.S.C. §§ 1813(c) and 1818(b).

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

## 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.

(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.

(3) 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, 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.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Order and/or execute the Order.

(5) The Bank also expressly acknowledges that no officer or employee of the OCC 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.

(6) The terms and provisions of the Stipulation and the Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Order.

### ARTICLE III

#### WAIVERS

- (1) The Bank, by signing this Stipulation, hereby waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
  - (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(b) and (h), 12 C.F.R. Part 109;
  - (d) all rights to seek any type of administrative or judicial review of the Order;
  - (e) any and all rights to challenge or contest the validity of the Order; and
  - (f) any and all claims for fees, costs, or expenses against the Comptroller, or any of his agents or employees, related in any way to this enforcement matter or this Order, whether arising under common law or the terms of any statute, including,



but not limited to the Equal Access to Justice Act, 5 U.S.C. § 504  
and 28 U.S.C. § 2412.

ARTICLE IV

CLOSING PROVISIONS

(1) The provisions of this Stipulation and Order shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, he deems it appropriate to do so to fulfill the responsibilities placed upon him 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  
\_\_\_\_\_  
Julie A. Thieman  
Director for Special Supervision

2/12/2018  
\_\_\_\_\_  
Date

**IN TESTIMONY WHEREOF**, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s  
Preston D. Pinkett III

2/12/2018  
Date

/s  
Roland Anglin

2/13/2018  
Date

/s  
Alfonso Carney Jr.

2/12/2018  
Date

/s  
Michael Hopson

2/12/2018  
Date

/s  
Lemar Whigham

2/12/2018  
Date

/s  
H. O'Neil Williams

2/12/2018  
Date

/s

2/22/2018