

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

In the Matter of

ALLEGIANT UNITED HOLDINGS, LLC
Irvine, California

NANO FINANCIAL HOLDINGS, INC.
Irvine, California

and

NANO BANC
Irvine, California

Docket No. 22-001-B-HC
22-001-B-SM

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

WHEREAS, Allegiant United Holdings, LLC, Irvine, California (“Allegiant”) and Nano Financial Holdings, Inc., Irvine, California (“Nano Financial”) (collectively, the “Companies”), are registered bank holding companies, that own and control Nano Banc, Irvine, California (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System;

WHEREAS, on February 24, 2021, the Companies and the Bank entered into a Written Agreement with the Federal Reserve Bank of San Francisco (the “Reserve Bank”) designed to improve the financial soundness of the Companies and the Bank that, among other enhancements to the Bank’s operations, required the Bank to retain an independent third party to assess the effectiveness of the Bank’s corporate governance, board and management structures, and staffing needs (the “Written Agreement”);

WHEREAS, following the execution of the Written Agreement, the Reserve Bank conducted a targeted examination of the Bank that identified additional safety and soundness deficiencies at the Bank, including with respect to unsecured loans made to shareholders of Nano Financial;

WHEREAS, the Bank is currently operating without a permanent Chief Executive Officer, and Chief Financial Officer, and a sufficient number of board members, which are vital to the safe and sound operations of the Bank in light of the numerous remedial requirements of the Written Agreement;

WHEREAS, on December 15, 2021, the California Department of Financial Institutions issued a Cease and Desist Order that requires the board of directors of the Bank to increase the number of directors in accordance with state law;

WHEREAS, it is the common goal of the Board of Governors, the Companies, and the Bank, that the Companies and the Bank operate in compliance with all applicable federal laws, rules, and regulations;

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

WHEREAS, the board of directors of the Companies and the Bank at duly constituted meetings, adopted resolutions authorizing and directing the undersigned to enter into this Order on behalf of the Companies and the Bank, respectively, and consenting to compliance with each and every provision of this Order by the Companies and the Bank, and waiving all rights that the Companies and the Bank may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges on any and all matters set forth in this Order; (ii) a hearing for the purpose of

taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking any testimony or adjudication of or finding on any issues of fact or law, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1) and (b)(3) of the FDI Act (12 U.S.C. §§ 1818(b)(1) and 1818(b)(3)), the Companies, the Bank, and their institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(3)), shall cease and desist and take affirmative action as follows:

Qualified Directors and Management

1. Within 10 days of this Order the Companies and the Bank shall propose permanent executive officers to fill the role of Chief Executive Officer, Chief Financial Officer, and Chief Credit Officer of the Bank in accordance with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 et seq.). Such executive officers shall have the qualifications and experience necessary to fulfil their duties and responsibilities, restore the Bank to a safe and sound condition, comply with applicable laws and regulations, and comply with the provisions of this Order.

2. Within 10 days of this Order the Companies and the Bank shall propose a sufficient number of directors for the Bank to achieve the minimum number of directors required under applicable state law, with a majority being outside directors, in accordance with section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12

C.F.R. §§ 225.71 et seq.). Such directors shall have the qualifications and experience necessary to fulfil their duties and responsibilities, restore the Bank to a safe and sound condition, comply with applicable laws and regulations, and comply with the provisions of this Order. For purposes of this paragraph, the term “outside director” is defined as an individual, not an employee or executive officer of the Bank or its parent company, who owns less than 10 percent of the outstanding voting stock of the Bank or its parent company, who is not related in any manner to any shareholder who owns 10 percent or more of the outstanding voting stock of the Bank or its parent company or any related interest of such a shareholder, and does not have a relationship that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

3. (a) Nano Financial shall provide the Reserve Bank with written notice 30 days prior to dismissing any of its executive officers or directors, or any director or executive officer of the Bank. The Bank shall provide the Reserve Bank with written notice 30 days prior to dismissing any executive officer of the Bank. If Nano Financial or the Bank become aware of an upcoming meeting of the shareholders of Nano Financial at which the dismissal of a director or executive officer of the Nano Financial or the Bank is proposed to be considered, Nano Financial and the Bank shall promptly provide the Reserve Bank with written notice.

(b) The written notice to the Reserve Bank shall, at a minimum, identify the officer or director being considered for removal, the reasons for the proposed removal, and the name and qualifications of any individual proposed to replace the officer or director to be removed. The management shall also provide written notice to any individual seeking to replace an executive officer or director of the Companies or the Bank that provides the individual must not exercise the authority of such position without a non-objection in accordance with the notice

provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 et seq.).

Insider Transactions

4. Within 30 days of the effective date of this Order, the Bank shall submit a written plan acceptable to the Reserve Bank to enhance the Bank's compliance with Regulation O of the Board of Governors (12 C.F.R. Part 215). The plan shall, at a minimum, address, consider and include the following three items with respect to any financial transaction subject to the provisions of Regulation O:

- (a) maintaining adequate documentation of covered financial transactions;
- (b) ensuring adequate disclosure of the financial condition of the parties involved in any covered financial transaction; and
- (c) an analysis of whether a covered financial transaction is on market terms.

Insider Transaction Review

5. (a) Within 10 days of the effective date of this Order, the Bank shall engage an independent third party acceptable to the Reserve Bank to identify and conduct a review of all extensions of credit between insiders and the Bank (the "Insider Transaction Review") that have occurred within the two year period immediately prior to the effective date of this Order, or for additional time periods as directed by the Reserve Bank, including but not limited to any loan or personal expense paid to an insider through a corporate credit card, and to prepare a written report detailing the independent third party's findings (the "Insider Transaction Review Report"). In addition, the Insider Transaction Review shall include any other financial transaction that is identified for inclusion by the Reserve Bank. For purposes of this paragraph, "insiders" and

“extensions of credit” shall be defined as in sections 215.2(h) and 215.3 of Regulation O (12 C.F.R. §§ 215.2(h), 215.3).

(b) Within 20 days after Reserve Bank’s approval of the Bank’s independent third-party selection, the Bank shall submit to the Reserve Bank for approval an engagement letter for the independent third-party conducting the Insider Transaction Review that sets forth:

(i) the scope of the Insider Transaction Review including, but not limited to: (A) the identification of all extensions of credit between insiders and the Bank; (B) an analysis of whether the extensions of credit and the other transactions identified by the Reserve Bank were made on preferential terms or present more than the normal risk of repayment or other unfavorable features; (C) an assessment of the adequacy of the due diligence performed by the Bank in connection with identifying and approving the extensions of credit and the other transactions identified by the Reserve Bank; and (D) a determination of the timing of financial disclosures made by insiders to the Bank in connection with the extensions of credit and the other transactions identified by the Reserve Bank;

(ii) the methodology for conducting the Insider Transaction Review;

(iii) the expertise and resources to be dedicated to the Insider Transaction Review;

(iv) the anticipated date of completion of the Insider Transaction Review and the Insider Transaction Review Report;

(v) a commitment that the Insider Transaction Review Report and any drafts thereof will be provided to the Reserve Bank at the same time that the Insider Transaction Review report or a draft is provided to the Bank; and

(vi) a commitment that supporting material and any drafts thereof associated with the Insider Transaction Review and the Insider Transaction Review Report will be made available to the Reserve Bank upon request.

(c) Throughout the Insider Transaction Review, Bank management shall take all steps to ensure that all matters or transactions that were not previously part of the Bank's records are timely and accurately disclosed to the independent third party.

6. Within 30 days of receipt of the final Insider Transaction Review Report by the Reserve Bank, the Bank shall submit a written plan to remediate any extension of credit or other transaction identified by the Reserve Bank or the independent third party as being made on preferential terms or presenting more than the normal risk of repayment or other unfavorable features, acceptable to the Reserve Bank.

Insider Transaction Controls

7. Within 30 days of this Order, the Bank shall submit written policies and procedures acceptable to the Reserve Bank to strengthen the Bank's internal controls related to financial transactions between the Bank and senior executives, directors, and/or any entities which they control. The policies and procedures shall address the following eight items:

(a) steps to ensure compliance with Regulation O of the Board of Governors (12 C.F.R. Part 215);

(b) measures to require the submission on an on-going basis of a full and complete confidential listing of all entities which senior executives and directors control;

(c) a revised methodology for determining the risk tolerance level for lending to senior executives, directors, and/or any entities which they control;

(d) guidelines to ensure the standard preparation of loan proposals to include the full disclosure of how such loan would impact the financial interests of any senior executives, directors, and/or any entities which they control;

(e) enhanced procedures to ensure that:

(i) all borrowers are required to fully disclose their current financial information, repayment sources, global cash flow, overall debt service ability, and the value of any collateral;

(ii) any director or Bank employee who is responsible for reviewing each such transaction discloses any financial relationship with the borrower or guarantor; and

(iii) any individual or committees responsible for approving such borrower's credit request are provided with all necessary information to support decision making.

(f) controls to ensure that financial transactions between the Bank and senior executives, directors, and/or any entities which they control are subject to adequate monitoring and subject to periodic review of related signed financial statements, balance sheets, income statements, and statements of cash flow;

(g) reporting of internal controls reviews to the board of directors; and

(h) enhancements to the Bank's corporate expense policies.

For purposes of this paragraph and paragraph 8, "control" shall be defined as in section 215.2 of Regulation O (12 C.F.R. §215.2(c)).

Lending and Credit Administration

8. Within 60 days of this Order, the Bank shall submit written lending and credit administration policies and procedures acceptable to the Reserve Bank that shall include, address, consider, and include the following five items:

(a) reassessed and enhanced underwriting standards for: (i) loans classified, in whole or in part, as “loss,” “doubtful,” or “substandard” in the most recent Report of Examination, (ii) loans made to shareholders, senior executives, directors, and/or any entities which they control, (iii) commercial real estate loans, (iv) commercial and industrial loans, and (v) loans to finance commercial real estate, construction, and land development activities (not secured by real estate) included in Call Report Schedule RC-C, Memorandum 3 (collectively, “covered loans”), to align with the bank’s lending limits and an acceptable risk tolerance;

(b) underwriting standards that require documented analyses of: (i) the borrower’s repayment sources, global cash flow, and overall debt service ability; and (ii) the value of any collateral;

(c) standards to require updated financial information and credit analysis;

(d) procedures and controls to ensure compliance with loan documentation and collateral requirements to minimize exceptions; and

(e) procedures and controls to ensure that appraisals are obtained prior to any final credit decisions.

Lending Restrictions

9. Effective immediately, and until such time as the Bank has demonstrated that the lending and credit administration enhancements required under paragraph 8 have been implemented and are sustainable to the satisfaction of the Reserve Bank, the Bank shall not

directly or indirectly approve, extend, modify or renew any covered loan, as defined in Paragraph 8(a), without prior approval from the Reserve Bank.

Affiliate Transactions

10. (a) The Companies and the Bank shall take all necessary actions to ensure that the Bank complies with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between the Bank and its affiliates, including but not limited to, Nano Financial.

(b) Within 30 days of this Order, the Bank shall submit a written policy acceptable to the Reserve Bank regarding transactions between the Companies and the Bank, including, but not limited to, the allocation, documentation, and approval of expenses to ensure compliance with sections 23A and 23B and Regulation W.

(c) The Companies and the Bank shall take all necessary steps to correct the violations of sections 23A and 23B and Regulation W cited in the most recent Report of Examination.

Compensation Governance and Controls

11. (a) Within 60 days of this Order, the Bank shall retain an independent third-party acceptable to the Reserve Bank to assess the adequacy of the Bank's compensation governance, policies, procedures, and internal controls ("Compensation Governance and Controls Review"), and to prepare a written report of findings and recommendations (the "Compensation Governance and Controls Review Report"). The Compensation Governance and Controls Review shall include an assessment and recommendations regarding the following five items:

(i) the adequacy of the board's compensation committee, to include whether the committee is comprised of only independent directors;

(ii) whether the Bank's compensation policies include all key components of a sound compensation program, including but not limited to board approved compensation types and packages, eligibility and vesting standards, risk adjustment attributes and claw back provisions, document retention and reporting requirements;

(iii) whether incentive-based compensation adequately balances risk and rewards with appropriate levels of risk management, controls and governance practices;

(iv) the adequacy of compensation internal controls to ensure the compensation policy is being adhered to; and

(v) whether the Bank's compensation policies and controls include clear roles, responsibilities, and segregation of duties.

(c) Within 10 days of the Reserve Bank's approval of the Bank's independent third party selection, the Bank shall submit an engagement letter acceptable to the Reserve Bank for approval. The engagement letter shall require the independent third party to submit the Compensation Governance and Controls Review Report within 90 days of regulatory approval of the engagement letter and a commitment that the Compensation Governance and Controls Review Report and any drafts thereof will be provided to the Reserve Bank at the same time that it is provided to the Bank's board of directors.

12. Within 30 days of receipt of the Compensation Governance and Controls Review Report, the Bank's board of directors shall submit a written plan that fully addresses the findings and recommendations in the Compensation Governance and Controls Review Report.

Approval, Implementation, and Progress Reports

13. (a) The Companies and the Bank, as applicable, shall submit the written plans, programs, policies, and procedures that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 4, 6, 7, 8, 10, and 12 of this Order. Each plan, program, policy, or procedure shall contain a timeline for full implementation of the plan, program, policy, or procedure with specific deadlines for the completion of each component of the plan, program, policy, or procedure. Independent third parties acceptable to the Reserve Bank shall be retained within the time periods set forth in paragraphs 5 and 11 of this Order. Engagement letters acceptable to the Reserve Bank shall be submitted within the time periods set forth in paragraph 5 and 11 of this Order.

(b) Within 10 days of approval by the Reserve Bank, the Companies, and the Bank, as applicable, shall adopt the approved plans, programs, policies, and procedures. Upon adoption, the Companies and the Bank, as applicable, shall promptly implement the approved plans, programs, policies, and procedures, and thereafter fully comply with them.

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

14. Within 10 days after the end of each quarter following the date of this Order, the Companies and the Bank, as applicable, shall jointly submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Order, a timetable and schedule to implement specific remedial actions to be taken, and the

results thereof. The Reserve Bank may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

Communications

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

- (a) Richard M. Ashton
Deputy General Counsel
Jason A. Gonzalez
Assistant General Counsel
Board of Governors of the Federal Reserve System
20th & C Streets, N.W.
Washington, D.C. 20551
- (b) Paul Dimapawi
Assistant Vice President
Federal Reserve Bank of San Francisco
950 South Grand Avenue
Los Angeles, California, 90015
- (c) Bill Wilson
Chief Risk Officer
Nano Banc
7755 Irvine Center Drive, 3rd Floor
Irvine California, 92618
- (d) Mark Troncale
President
Nano Banc
7755 Irvine Center Drive, 3rd Floor
Irvine, California, 92618

Miscellaneous

16. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Companies and the Bank to comply with this Order. The Companies and the Bank must submit a written request to the Reserve Bank for any extensions of time.

17. The provisions of this Order shall be binding on the Companies and the Bank, and each of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

19. This Order does not supersede the Written Agreement by and between the Reserve Bank, the Companies and the Bank, dated February 24, 2021.

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

By Order of the Board of Governors of the Federal Reserve System effective this 18th day of January, 2022.

NANO BANC

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Mark Troncale
Mark Troncale
President

By: /s/ Ann Misback
Ann E. Misback
Secretary of the Board

NANO FINANCIAL HOLDINGS INC.

ALLEGIANT UNITED HOLDING, LLC

By: /s/ Mark Troncale
Mark Troncale

By: /s/ Mark Troncale
Mark Troncale