FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

In the Matter of MONTEREY COUNTY BANK MONTEREY, CALIFORNIA (INSURED STATE NONMEMBER BANK)	CONSENT ORDER FDIC-12-436b

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Monterey County Bank, Monterey, California ("Bank") under Section 3(q) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. § 1813(q)(3). The California Department of Financial Institutions ("CDFI") is the appropriate State banking agency for the Bank under Division 1 and Division 1.1 of the California Financial Code.

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a Stipulation to the Issuance of a Consent Order ("Stipulation"), dated February 28, 2013, that is accepted by the FDIC and the CDFI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to management, capital, asset quality, liquidity and funds management, and violations of law, to the issuance of this Consent Order ("Order") by the FDIC and the CDFI pursuant to Section 8(b)(1) of the FDI Act, and Section 580 of the California Financial Code ("CFC").

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b), and Section 580 of the CFC, Cal. Fin. Code § 580, have been satisfied, the FDIC and the CDFI hereby order that:

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the following:

(i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile;

(ii) a chief financial officer with proven ability in all aspects of financial management; and

(iii) a senior lending officer with significant lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

(b) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this Order;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the CDFI ("Commissioner"), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition or replacement of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of Section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104 and any requirement of the State of California for prior notification and approval. The notification must be received at least 30 days before the addition, replacement, employment or change of responsibilities is intended to become effective. The Regional Director and the Commissioner shall have the power under the authority of this Order to disapprove the addition, replacement, employment or change of responsibilities of any proposed senior executive officer or director.

(d) The requirement to submit information and the prior disapproval provisions of this paragraph are based upon the authority of 12 U.S.C. § 1818(b) and do not require the Regional Director and the Commissioner to complete their review and act on any such information or authority within 30 days, or any other timeframe. The Bank shall not add, employ, or change the responsibilities of any proposed director or senior executive officer until such time as the Regional Director and the Commissioner have completed their review.

2. Within 90 days from the effective date of this Order, the Board shall submit for FDIC and CDFI review and approval, and within 30 days thereafter retain an independent consultant acceptable to the FDIC and CDFI to conduct a study of the:

(a) Management and personnel structure of the Bank to determine whether the Bank is staffed by qualified individuals commensurate with its size and risk profile to ensure the safe and profitable operation of the Bank. Such study shall include, at a minimum, a review of the duties, responsibilities, qualifications, and remuneration of the Bank's executive officers, an evaluation of management resources, recommendations regarding management and staffing in the context of the Bank's strategic plan, and an assessment of the reports that management provides to the Board. The study shall specifically evaluate:

(i) the Board's structure, membership, and size to ensure that it is capable of providing oversight to management. Such study shall include, at a minimum, a review of each of the committee's charters and membership, duties and meeting schedules, and an evaluation of each committee's performance and shall further make recommendations regarding each committee;

(ii) management's reports to the Board, reviewing whether these reports provide sufficient information to enable the Board to be fully informed regarding all aspects of bank operations and business, and whether such reports consistently include germane and detailed recommendations to the Board; and

(iii) all consultants who received compensation or remuneration in excess of $25,000 in 2012 to determine whether each consultant performed or is currently performing a necessary task; whether the task is performed in a manner that is beneficial to the Bank, in view of the cost; and alternatively, whether the task may be better performed by a permanent employee or by another consultant.

(b) In addition, the independent study shall assess the salary and benefits paid to management personnel, and determine whether the aggregate compensation paid to each is equitable and appropriate, after it has taken into consideration at least the following factors:

(i) salaries of management positions and overall salaries at banks of comparable size;

(ii) duties and responsibilities;

(iii) the Bank's current profitability and capital condition; and

(iv) management personnel's performance and contribution to the Bank's current financial condition.

(c) A copy of both the engagement letter and the study shall be submitted to the Regional Director and the Commissioner upon completion. Within 30 days of the completion of the study, the Board shall formulate and adopt a plan that focuses on the implementation of the recommendations of the study. The plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

3. (a) Notwithstanding the requirements of Paragraph 2 of this Order, within 90 days from the date of this Order, the Board shall have and maintain a composition of independent directors that exceeds 50 percent of the Board.

(b) For purposes of this Order, an independent director shall be any individual who is not an officer of the Bank, any subsidiary, or any of its affiliated organizations; who does not own more than 10 percent of the outstanding shares of the Bank; who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 10 percent of the Bank's outstanding shares and does not otherwise have a common financial interest with such officer, director or shareholder; who is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an independent director for purposes of this Order by the Regional Director and the Commissioner.

4. Within 90 days from the effective date of this Order, the Board shall increase its participation in the affairs of the Bank, and will continue assuming full responsibility for the approval and implementation of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(a) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; liquidity and funds management activities; operating policies; status reports on the resolution of each problem asset; and individual committee actions. The Board shall maintain detailed and accurate Board minutes. At a minimum, the Board minutes shall fully document any and all reviews and approvals put before the Board, and shall include voting details such as the names of each director who voted for such reviews and approvals, and the names of any and all dissenting directors or directors who abstained from voting on such reviews and approvals. Further, the Board minutes shall properly record any and all votes that reflect a conflict of interest for any director, noting whether the conflicted director abstained from voting. The Board shall maintain its minutes on Bank premises; executive committee minutes are part of the Board minutes and shall be maintained with the Board minutes. Further, the contents of any Board and committee meeting minutes shall be made available in their entirety to the Regional Director and/or Commissioner upon request. The form, content, and level of detail contained in the Board minutes shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) The Board shall implement the recommendations of the independent study required by Paragraph 2 of this Order which specifically apply to each of the Bank's directors' committees, including the loan, audit, and compensation committees. In addition to such implementation of such recommendations, each committee shall have a charter that defines the role of the committee, establishes scheduled meetings, sets the committee's oversight authority, and describes the reports it shall make to the Board. Further, at a minimum, each committee shall document its reviews and approvals and submit its minutes to the Board.

5. (a) Within 90 days from the effective date of this Order, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written policy covering expense reimbursements to its directors, officers, and employees. At a minimum, the policy shall include:

(i) provisions that specify reasonable limitations for all categories of expenses related to customer entertainment and business development;

(ii) provisions that require complete documentation of all expenses related to customer entertainment and business development prior to Bank reimbursement. At a minimum, the Bank shall require the submission of original receipt(s), identification of the person(s) entertained, and the business purpose of the expense;

(iii) provisions that prohibit the reimbursement of personal expenses of the Bank's directors, officers, and employees; and

(iv) provisions that prohibit the Bank's directors, officers, or employees from approving the reimbursement of their own incurred expenses.

(b) While this Order is in effect, the Bank's Board shall conduct monthly reviews of all expenses for customer entertainment, business development, and/or any other expense submitted by the Bank's officers and directors, with the results of the reviews stated in the minutes of the meetings of the Board at which such reviews are performed. On a monthly basis, the Bank shall seek reimbursement for any expenses paid which are not in conformance with the policy established pursuant to this paragraph.

(c) Within 30 days from the receipt of any recommended changes to the written policy from the Regional Director and the Director of Banks, and after adopting those changes, the Bank shall adopt the written policy, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow the written policy.

(d) The written policy and its implementation shall be in a form and manner acceptable to the Regional Director and Commissioner, as determined at subsequent examinations and/or visitations.

6. (a) By June 30, 2013, the Bank shall increase and thereafter maintain its Tier 1 capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds 9 percent. For purposes of this calculation, assets classified "Loss" in the April 16, 2012 Joint Report of Examination ("ROE") shall not be included in Tier 1 capital.

(b) By June 30, 2013, the Bank shall increase and thereafter maintain its total risk-based capital ratio in such an amount as to equal or exceed 12 percent.

(c) Within 90 days from the effective date of this Order, the Bank shall develop and adopt a plan to meet and maintain the capital requirements of this Order and to comply with the FDIC's Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. § 325, Appendix A. Such plan and its implementation shall be in a form and manner acceptable to the Regional Director and the Commissioner, as determined at subsequent examinations and/or visitations. The capital plan must include a contingency plan in the event that the Bank has:

(i) failed to maintain the minimum capital ratios required by subparagraph 6(a) and 6(b);

(ii) failed to submit an acceptable capital plan required by this subparagraph; or

(iii) failed to implement or adhere to a capital plan to which the Regional Director and the Commissioner have taken no written objection pursuant to this subparagraph.

The contingency plan shall address other strategic alternatives, including but not limited to the sale of control or merger of the Bank. The Bank shall implement the contingency plan upon written notice from the Regional Director and the Commissioner.

(d) The level of capital to be maintained during the life of this Order shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations, and the establishment of adequate reserves for all other real estate owned ("OREO"). Any increase in Tier 1 capital necessary to meet the requirements of this paragraph may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(e) If all or part of the increase in capital required by this Order is accomplished by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with all applicable State and Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration, Disclosure and Securities Unit, 550 17th St. N.W., Washington, D.C. 20429, for review and to the Commissioner to obtain any and all necessary securities permits or other approvals. Any changes requested by the FDIC shall be made prior to dissemination. If the increase in capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(f) Subject to obtaining all required prior authorizations, permits or other approvals from the Commissioner, the Bank shall promptly revise or supplement the offering materials it is using in connection with the offer and sale of its securities to fully and fairly disclose every material change or development regarding the Bank and its operation, including every planned change that would be material, that occurs during the offering of the securities. The Bank shall provide the revised offering materials or supplement, along with a notice that the subscriber may rescind its subscription, to each subscriber that has submitted a subscription for the Bank’s securities before receiving the revised offering materials or supplement for at least ten (10) days before accepting the subscriber’s subscription.

(g) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank’s original offering materials.

(h) For the purposes of this Order, the terms “leverage ratio,” “Tier 1 capital,” and “total risk-based capital ratio” shall have, the meanings ascribed to them in Part 325 of the FDIC’s Rules and Regulations, 12 C.F.R. §§ 325.2(m), 325.2(v), 325.2(y), and Appendix A.

7. The Bank shall not pay cash dividends or make any other payments for the benefit of its holding company and its shareholders without the prior written consent of the Regional Director and the Commissioner.

8. Within 120 days from the effective date of this Order, the Bank shall refine its liquidity and funds management practices and develop or revise, adopt, and implement a written liquidity and funds management policy that adequately addresses liquidity needs and appropriately reduces its reliance on non-core funding sources and addresses the deficiencies detailed in the ROE.

(a) The revised liquidity and funds management practices shall, at a minimum, include the following specific schedules, each with sufficient supporting documentation:

(i) the Bank shall determine its liquidity needs by assessing its uses of funds over time periods, including, at a minimum, 5 days, 30 days, 90 days, six months, and the next twelve months; including deposit outflows, Federal Home Loan Bank borrowings payoffs, and loan fundings;

(ii) the Bank shall assess its core funding sources over time periods, including, at a minimum, weekly, 30 days, 90 days, six months, and the next twelve months; including time deposit rollovers, identifying its stable demand deposits, and new deposit growth projected;

(iii) the Bank shall identify the liquid funds and securities that are available as primary sources of liquidity to support its projected use of funds over time periods, including, at a minimum, weekly, 30 days, 90 days, six months, and the next twelve months;

(iv) the Bank shall identify the unpledged loans and securities that are available as secondary sources of liquidity over time periods, including, at a minimum, weekly, 30 days, 90 days, six months, and the next twelve months; and assess the marketability of these assets;

(v) the Bank shall include internet deposits as volatile funds in its cash flow scenarios;

(vi) the Bank shall correct the errors in the internal liquidity report noted in the ROE, and include the detailed data required in this section within the internal liquidity report; and

(vii) the Bank shall only include cash flows in its liquidity reports that are known and certain and shall not include proposed capital injections unless the injections are imminent.

(b) The revised policy shall, at a minimum, include:

(i) a requirement that the Asset Liability Committee shall improve its oversight of liquidity and funds management, in part, by meeting at least monthly, and provide complete reports of its oversight to the Board;

(ii) after identifying its liquidity position in an accurate manner, the Bank shall prepare a schedule with realistic timelines showing how the Bank will reduce its reliance on volatile funding sources;

(iii) a requirement for additional liquidity stress tests, including a severe stress event; and

(iv) a requirement that liquidity reports prepared for the board and regulatory purposes are accurate.

(c) The Bank's revised liquidity and funds management practices and policy shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

9. (a) During the life of this Order, the Bank shall comply with the provisions of Part 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6.

(b) Within 60 days from the effective date of this Order the Bank shall submit to the Regional Director and the Commissioner a written plan for eliminating its reliance on brokered deposits. The plan shall contain details as to the current composition of brokered deposits by maturity and explain the means by which such deposits will be reduced. For purposes of this Order, brokered deposits are defined as described in Part 337.6(a)(2) of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6(a)(2). Such plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

10. (a) As of the effective date of this Order, the Bank shall eliminate from its books, by charge-off or collection, or, if applicable, by fully reserving for collection, all assets classified “Loss” in the ROE that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(b) Within 120 days from the effective date of this Order, the Bank shall have reduced the assets classified “Doubtful” and “Substandard” in the ROE that have not previously been charged off to not more than 150% of Tier 1 capital plus the allowance for loan and lease losses (“ALLL”).

(c) Within 270 days from the effective date of this Order, the Bank shall have reduced the assets classified “Doubtful” and “Substandard” in the ROE that have not previously been charged off to not more than 125% of Tier 1 capital plus the ALLL.

(d) Within 360 days from the effective date of this Order, the Bank shall have reduced the assets classified “Doubtful” and “Substandard” in the ROE that have not previously been charged off to not more than 100% of Tier 1 capital plus the ALLL.

(e) The requirements of this paragraph are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in this paragraph the word “reduce” means:

(i) to collect;

(ii) to charge-off; or

(iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC and the CDFI.

11. (a) As of the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" and is uncollected. This paragraph shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the ASC 310-40, formerly known as FAS 15.

(b) As of the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Doubtful" or "Substandard" without the prior approval of a majority of the Board or loan committee of the Bank. The Board and loan committee shall not approve any extension of credit or additional credit to such borrowers without first collecting in cash all past due interest.

12. (a) Within 60 days from the effective date of this Order, the Bank shall revise its written plan to reduce the Bank's risk exposure in each loan adversely classified "Substandard" or "Doubtful" as of the ROE, including all outstanding loan commitments to a level of acceptable asset quality. For purposes of this provision, "reduce" means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Regional Director and the Commissioner.

(b) In revising and/or developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each such adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(c) The plan mandated by this paragraph shall also include, but not be limited to, the following:

(i) a schedule for reducing the outstanding dollar amount of each such adversely classified loan, including timeframes for achieving the reduced dollar amounts, which, at a minimum, must show its expected dollar balance on a quarterly basis;

(ii) specific action plans intended to reduce the Bank's risk exposure in each such classified loan;

(iii) a schedule showing, on a quarterly basis, the expected consolidated balance of all such adversely classified loans, and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the ALLL;

(iv) a provision mandating the Bank's submission of monthly written progress reports to its Board; and

(v) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(d) The requirements of this paragraph do not represent standards for future operations of the Bank. Following compliance with the above reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets.

(e) The Bank shall, immediately upon completion, submit the revised plan to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan.

13. (a) Within 90 days of the effective date of this Order, the Bank shall prepare and implement a plan that addresses the Bank's adversely classified OREO portfolio. The plan mandated by this paragraph shall include, but not be limited to, the following:

(i) a current valuation of each adversely classified OREO;

(ii) a determination, with underlying supporting documentation, of the appropriate reserve amount for each OREO;

(iii) a current and realistic marketing plan for each OREO;

(iv) a divestiture timeline for each OREO;

(v) specific action plans intended to reduce the Bank's risk exposure in each such classified OREO;

(vi) a schedule showing, on a quarterly basis, the expected consolidated balance of all such adversely classified OREO, and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the ALLL;

(vii) a provision mandating the Bank's submission of monthly written progress reports to its Board; and

(viii) a provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(b) The requirements of this paragraph do not represent standards for future operations of the Bank. Following compliance with required divestiture timelines, the Bank shall continue to reduce the total volume of adversely classified assets.

(c) The Bank shall, upon completion of the plan, submit it to the Regional Director and the Commissioner for review and comment. Within 30 days from receipt of any comment from the Regional Director and the Commissioner, and after due consideration of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan. The plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

14. (a) As of the effective date of this Order, the Bank shall increase the ALLL by $2,125,000, as detailed in the ROE, and shall thereafter maintain an adequate ALLL.

(b) Additionally, within 60 days from the effective date of this Order, the Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, an appropriate ALLL shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review shall be completed in order that the findings of the Board with respect to the ALLL are properly reported in the quarterly Reports of Condition and Income. The review shall focus on the accounting standards set forth in the Financial Accounting Standards ("FAS") Board Accounting Standards Codification ("ASC") 450-20 (formerly known as FAS 5) and ASC 310-10-35 (formerly known as FAS 114), the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. The Bank's policy for determining the adequacy of the Bank's ALLL and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

15. (a) Within 120 days from the effective date of this Order, the Bank shall obtain an appraisal of York Highlands Lots 3, 4, 5, 18, 20, 21, and 22, and Monterra Phase 8, Lots 139, 140, 141, 142, and 143 (the "Lots"). The appraisal shall be acceptable to the Regional Director and to the Commissioner.

(b) Within 30 days from the effective date of this Order, the Bank shall first identify and prepare a schedule of at least five California State Certified General appraisers who are qualified to appraise the Lots and shall submit this list to the Regional Director and Commissioner for their review and approval. The schedule shall provide an appraiser's statement of qualifications for each appraiser, demonstrating his/her previous experience and ability to provide competent appraisal or appraisal review analysis and reporting results. The schedule shall not include any appraiser whose firm or company has previously completed appraisals of the Lots for the Bank that have been subject to criticism by the FDIC or CDFI.

(c) Within 30 days of receipt of the schedule of appraisers, the Regional Director and Commissioner shall review the submission and notify the Bank of their decision. After receipt of approval of the list of appraisers from the FDIC and CDFI, the Bank shall next contract with one of these appraisers to prepare a comprehensive, 12-month appraisal of the Lots, and the Bank shall provide a copy of the engagement letter to the Regional Director and Commissioner for review and approval. The appraisal shall comply with the USPAP and, at a minimum, shall include the "as-is" market value, as defined in 12 C.F.R. § 323.2(g) and the Interagency Appraisal and Evaluation Guidelines (IAEG) December 2, 2010 edition, Appendix D, including appropriate deductions and discounts for raw land and developed lots for tract developments as stated in Appendix C of the IAEG and required under 12 C.F.R. § 323.4(c). The appraisal shall include an exposure and marketing period, supported by direct market evidence and market support analysis. The appraisal shall constitute a self-contained appraisal report as defined by USPAP.

(d) The appraisal report and appraisal review report shall not include any extraordinary assumptions unless previously approved, in writing, by the Regional Director and Commissioner.

(e) Within 15 days of the completion of the appraisal, the Bank shall next contract with a second appraiser on the list to review the appraisal report, including a field inspection of the Lots and comparable sales, and prepare a technical quality appraisal review report in accordance with USPAP Standards Rule 3 and Section XV of the IAEG.

(f) The appraiser shall clearly state in the body of the appraisal report that the intended use of the appraisal is to facilitate the asset monitoring process, classification and impairment decisions, and the potential disposition of the Lots. No subcontracting of any portion of the appraisals or appraisal review reports is permitted. No qualified assistance is permitted without obtaining advance approval, in writing, from the Regional Director and Commissioner.

(g) The Bank shall submit the contracts with each of these appraisers to the FDIC and CDFI for approval prior to executing the contracts. After receipt of FDIC and CDFI approvals, the Bank shall immediately execute the contracts. The Bank shall provide the appraisers with all information or assistance they require to complete the appraisals in accord with USPAP and this Order.

(h) Within 15 days of receipt, the Bank shall provide copies of all appraisals and review appraisals obtained pursuant to this Section to the Regional Director and Commissioner.

16. (a) Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. Such policies and their implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank's loan policy and practices required by this paragraph shall, at a minimum, include the following:

(i) provisions, consistent with the FDIC's instructions for the preparation of Reports of Condition and Income, under which the accrual of interest income is discontinued and previously accrued interest is reversed on delinquent loans;

(ii) provisions that prohibit the capitalization of interest or loan-related expense unless the Board supports in writing and records in the minutes of the corresponding Board meeting why an exception thereto is in the best interests of the Bank;

(iii) provisions which require complete loan documentation, realistic repayment terms, and current credit information adequate to support the outstanding indebtedness of the borrower. Such documentation shall include current financial information, profit and loss statements or copies of tax returns and cash flow projections;

(iv) provisions which incorporate limitations on the amount that can be loaned in relation to established collateral values;

(v) provisions that specify the circumstances and conditions under which real estate appraisals must be conducted by an independent third party;

(vi) provisions that require extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such persons, to be approved in advance by a majority of the entire Board in accordance with Section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(b);

(vii) provisions that prohibit loans from exceeding legal lending limits; and

(viii) the Board shall adopt procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in minutes of a Board meeting at which all members are present and the vote of each is noted.

17. (a) Within 120 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written plan addressing retention of profits, reducing overhead expenses, and setting forth a comprehensive budget covering the period 2013 to 2015. The plan required by this Paragraph shall contain formal goals, strategies and benchmarks which are consistent with sound banking practices to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. It shall also contain a thorough description of the operating assumptions that form the basis for, and adequately support, each major component of the plan. Such plan and its implementation shall

be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

18. Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a policy for the operation of the Bank in such a manner as to provide adequate internal routine and control policies consistent with safe and sound banking practices. The policy shall include, at a minimum the following:

(a) Establish internal control policies that require at a minimum, merchant banking accounts, and all Bank controlled accounts, be reconciled in a timely manner, not less than monthly, and maintain proper supporting documentation for each account;

(b) Establish physical security protocols, specifically addressing Bank keys, recordkeeping and auditing; and

(c) Ensure that officers' checks are stored in secure locations, subject to dual controls, and that dual signature logs are maintained for officers checks and that these logs are subject to monthly certifications.

Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

19. Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement a written policy governing transactions between the Bank and its holding company. The policy shall, at a minimum, set standards for the Bank to reimburse the

holding company for expenses the holding company has incurred on its behalf, and such reimbursable fees shall be approved by the Board and recorded in the Board minutes. In addition, the policy shall direct and require Bank directors, officers and employees to separately document and record any and all work performed for the holding company. The policy shall mandate that the Bank seek and obtain reimbursement from the holding company for such work performed by Bank directors, officers and employees. Such policy and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

20. Within 60 days from the effective date of this Order, the Bank shall eliminate and/or correct all apparent violations of law and contraventions of Bank bylaws, as more fully set forth in the ROE. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

21. During the life of this Order, the Bank shall file with the FDIC Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC of CDFI examination of the Bank during the life of this Order.

22. Within 45 days of the end of the first quarter following the effective date of this Order, and within 45 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank's Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been accomplished and the

Regional Director and the Commissioner have released the Bank in writing from making further reports.

23. Following the effective date of this Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholder(s) in conjunction with:

(a) The Bank's next shareholder communication; and

(b) The notice or proxy statement preceding the Bank's next shareholder meeting.

The description shall fully describe the Order in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Risk Management Supervision, Accounting and Securities Disclosure Section, 550 17th Street, N.W., Washington, D.C. 20429, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

24. During the life of this Order, the Bank shall not establish any new branches or other offices of the Bank without the prior written consent of the Regional Director and the Commissioner.

25. The Bank shall notify the Regional Director and the Commissioner no less than one business day in advance of making a planned public announcement or notification regarding changes in the Bank's financial condition, executive management or Board.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the CDFI, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the CDFI.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the CDFI.

Violation of any provisions of this Order, will be deemed to be conducting business in an unsafe or unsound manner, and will subject the Bank to further regulatory enforcement action.

Issued pursuant to delegated authority

Dated this 4th day of March, 2013.

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

/s/
Scott D. Cameron
Chief Examiner
California Department of Financial Institution