

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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In the Matter of)	
)	CONSENT ORDER
SAVINGS BANK OF MENDOCINO COUNTY)	
UKIAH, CALIFORNIA)	FDIC-10-887b
)	
(INSURED STATE NONMEMBER BANK))	
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_____)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Savings Bank of Mendocino County, Ukiah, 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 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 2, 2011, 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 the Bank Secrecy Act (“BSA”), 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 1913 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 CFC have been satisfied, the FDIC and the CDFI hereby order that:

1. Within 60 days of the effective date of this Order, the Bank shall comply in all material respects with the BSA and its rules and regulations.
2. Within 60 days of the effective date of this Order, the Bank shall correct all BSA violations of law, as more fully set forth in the Report of Examination dated August 16, 2010. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable BSA laws and regulations.
3. Within 60 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written BSA compliance program, as required by the applicable provisions of section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8, designed to, among other things, ensure and maintain compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto. The program shall ensure that clear and comprehensive BSA compliance reports are provided to the Board on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner, California Department of Financial Institutions ("Commissioner") as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:
 - (a) Establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations.

(b) Provide for independent testing of compliance with the BSA, all applicable rules and regulations related to the BSA, and the reporting of suspicious transactions required to be reported pursuant to Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353. The independent testing shall be conducted on an annual basis and in accordance with the procedures described in the Federal Financial Institutions Examination Council ("FFIEC") Bank Secrecy Act/Anti-Money ("BSA/AML") Laundering Examination Manual 2010. The independent testing, at a minimum, should address the following:

- (i) overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;
- (ii) BSA/AML risk assessment;
- (iii) BSA reporting and recordkeeping requirements;
- (iv) Customer Identification Program ("CIP") implementation;
- (v) adequacy of customer due diligence ("CDD") policies, procedure, and processes and whether they comply with internal requirements;
- (vi) personnel adherence to the Bank's BSA/AML policies, procedures, and processes;
- (vii) appropriate transaction testing, with particular emphasis on high-risk operations (products, service, customers, and geographic locations);
- (viii) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;
- (ix) integrity and accuracy of management information systems ("MIS") used in the BSA/AML compliance program;

(x) an evaluation of management's efforts to resolve violations and deficiencies noted in the previous tests or audits and regulatory examinations; and

(xi) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared Suspicious Activity Reports ("SARs") to determine their accuracy, timeliness, completeness, and effectiveness of the Bank's policy.

(c) Provide for independent testing of compliance with the BSA consistent with the scope and guidelines contained within the Federal Financial Institutions Examination Council ("FFIEC") guidance. The independent testing shall be conducted at least annually and should contain sufficient documentation and descriptions of the testing procedures performed and the resulting conclusions regarding the sufficiency of the program in assuring ongoing compliance with all BSA-related regulations. Such reports should be presented directly to the Board;

(d) Written reports shall be prepared which document the testing results and provide recommendations for improvement. Such reports shall be presented to the Board;

(e) Ensure that the Bank's BSA compliance program is managed by a qualified officer who has the required authority, responsibility, training, resources, and management reporting structure to ensure compliance with the Bank's BSA program requirements and BSA-related regulations, including without limitation;

(i) the identification of timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving the Bank; and

(ii) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

(f) Provide and document training by competent staff and/or independent contractors of all Board members and all appropriate personnel, including, without limitation, senior management, tellers, customer service representatives, lending officers, private and personal banking officers and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to ensure that all personnel are provided with the most current and up to date information.

4. Within 90 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written customer due diligence program. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the customer due diligence program shall provide for the following:

(a) A risk focused assessment of the customer base of the Bank to determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;

- (ii) understand the normal and expected transactions of the customer;

and

- (iii) reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

5. Within 60 days of the effective date of this Order, the Bank shall develop, adopt, and implement a written due diligence program to monitor employee and directors accounts. Such program and its implementation shall be in a manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall provide for a risk focused assessment of the employee and directors accounts of the Bank to the following:

- (a) identify the routine and usual nature of their banking activities;
- (b) determine the appropriate level of enhanced due diligence necessary for those employee or directors accounts that the Bank has determined, have unusual activity; and
- (c) reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

6. Within 60 days of the effective date of this Order, the Bank shall revise, adopt, and implement its BSA Policy to include provisions which implement the requirements of Paragraph 3 of this Order, The Board and management shall fully implement the provisions of the revised BSA Policy. The revised BSA Policy, 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 of the Bank.

7. (a) Within 60 days of the effective date of this Order, the Bank shall establish and implement policies and procedures to advise the Board of Significant Suspicious Activity Reports (“SARs”). At a minimum, the Board shall be advised in detail of all SARs involving employees, contractors, officers, and directors. The policies and procedures shall also include guidelines to determine what SARs are significant.

(b) The Bank shall establish and implement policies and procedures to ensure that Suspicious Activity Reports (“SARs”) are filed within 30 days of identifying a suspect or unusual and suspicious activity (or a total of 60 days if a suspect is unknown or once per quarter for ongoing transactions). Such a program must also ensure that timely identification of suspicious activity occurs; that timely investigation into unusual activity is undertaken; that related accounts are considered and discussed in the SARs filing; and that a detailed, accurate, comprehensive, and readable narrative description of the activity is included in the SARs filing.

8. (a) Within 90 days of the effective date of this Order, the Board audit committee shall oversee the Bank’s compliance with the BSA and Parts 326 and 353 of the FDIC’s Rules and Regulations. The committee shall receive reports from the qualified officer appointed in Paragraph 3 regarding compliance with the BSA and Parts 326 and 353, at least monthly, and shall report to the Board at every meeting.

(b) Following the effective date of this Order, the Board shall monitor and confirm the completion of actions taken by management to comply with the terms of this Order. The Board shall certify in writing to the Regional Director and the Commissioner when all of the above actions have been accomplished. All actions taken by the Board pursuant to this Order

shall be duly noted in the minutes of its meetings. The committee shall receive reports from the qualified officer appointed in Paragraph 3 regarding compliance with the BSA and Parts 326 and 353, at least monthly, and shall report to the Board at every meeting.

9. Within 90 days from the effective date of this Order, the BSA Officer shall, develop a plan to review all high-risk accounts and high-risk transactions (“Transaction Review”), including but not limited to the Bank’s large currency transaction reports (“CTRs”), cash purchases of monetary instruments, wire transfer activity, and foreign exchange services for the six-month period immediately preceding the effective date of this Order (the “Transaction Review Period”), and shall prepare and file any additional CTRs and SARs necessary based upon the review. Based upon the results of the review, the Regional Director and the Commissioner may extend the Transaction Review Period if necessary.

(a) Within 90 days of preparing a plan for the Transaction Review, but prior to commencement of the Transaction Review, the Bank shall submit to the Regional Director and the Commissioner a written plan for approval that sets forth:

- (i) The scope of the Transaction Review, including the types of accounts and transactions to be reviewed;
- (ii) the methodology for conducting the Transaction Review, including any sampling procedures to be followed;
- (iii) the expertise and resources to be dedicated to the Transaction Review;
- (iv) the anticipated date of completion of the Transaction Review; and

(v) a commitment that any interim reports, draft reports or workpapers associated with the Transaction Review will be made available to the Regional Director and the Commissioner upon request.

(b) On completion of the reviews required pursuant to the paragraphs above, the Bank shall submit the written findings of the review and copies of any additional SARs and CTRs filed to the Regional Director and the Commissioner.

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

(d) Documentation supporting any determination made pursuant to the paragraphs above, shall be retained in the Bank's records for such period of time as may be required by any applicable rules or regulations.

10. Within 30 days of the end of the first quarter following the effective date of this Order and within 30 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 Report of Condition and the Bank's Report of 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.

11. Following the effective date of this Order, the Bank shall send to its shareholder(s) or otherwise furnish a description of this Order in conjunction with the Bank's next shareholder communication and also in conjunction with its 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, Accounting and Securities Section, Washington, D.C. 20429, at least 15 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.

12. 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.

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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 at San Francisco, California, this 4th day of February, 2011.

_____/s/_____
J. George Doerr
Deputy Regional Director
Division of Supervision and Consumer Protection
San Francisco Region
Federal Deposit Insurance Corporation

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