

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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 In the Matter of )  
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 NEW RESOURCE BANK )  
 SAN FRANCISCO, CALIFORNIA )  
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 (INSURED STATE NONMEMBER BANK) )  
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ORDER TO  
 CEASE AND DESIST  
  
 Docket FDIC-09-103b

New Resource Bank, San Francisco, California ("Bank"), having been advised of its right to a Notice of Charges and of Hearing detailing the unsafe or unsound banking practices and violations of law and/or regulation alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and Section 1912 of the California Financial Code, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), and with counsel for the California Department of Financial Institutions ("CDFI"), dated April 21, 2009, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the CDFI pursuant to Section 8(b)(1) of the Act and Section 1913 of the California Financial Code.

The FDIC and the CDFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the CDFI, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe and unsound banking practices, as more fully set forth in the joint FDIC and CDFI Report of Examination (“ROE”) as of September 30, 2008, dated November 10, 2008:

- (a) operating with management whose policies and practices are detrimental to the Bank;
  - (b) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;
  - (c) operating with a high percentage of poor quality loans;
  - (d) engaging in unsatisfactory lending and collection policies;
  - (e) operating in such a manner as to produce operating losses;
  - (f) operating with inadequate policies and practices regarding liquidity management;
- and
- (g) operating in violation of Section 22(h) of the Federal Reserve Act, 12 U.S.C. § 375b, and section 215 of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215, made applicable to state nonmember banks by section 18(j)(2) of the Act, 12 U.S.C. §1828(j)(2), as more fully described in the ROE as September 30, 2008, dated November 10, 2008.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

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 a chief executive officer with proven ability in managing a bank of comparable size, and experience in developing sound credit administration and credit underwriting practices and procedures, improving earnings, and other matters needing particular attention. Management shall also include a senior lending officer with significant appropriate lending, collection, and loan supervision experience. Each member of management shall be provided appropriate written authority from the Bank's Board of Directors ("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 and/or maintain 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) Pursuant to the requirements of section 32 of the Federal Deposit

Insurance Act, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner ("Commissioner") of CDFI in writing when it proposes to add any individual to the Board or employ any individual as a senior executive

officer. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed.

2. Within 60 days from the effective date of this ORDER, the Board shall document its full participation in the affairs of the Bank. 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; operating policies (on an annual basis); Bank Secrecy Act compliance; audit reports (as applicable); and individual committee actions (as applicable). Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. (a) Continuing through the life of this Order, the Bank shall:

- (i) maintain a Tier 1 capital to average assets ratio at least equal to or greater than nine (9) percent;
- (ii) maintain a total risk-based capital to total risk-weighted assets ratio at least equal to or greater than ten (10) percent; and
- (iii) Within 90 days from the effective date of this ORDER, the Bank shall develop and adopt a capital plan in a form and manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations.

(b) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to subparagraph 3(a) 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.

(c) For the purposes of this ORDER, the terms "Tier 1 capital" and "total risk-weighted assets" shall have the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2(v) and 325.2(s).

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or 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 180 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" in the ROE that have not previously been charged off to not more than forty (40) percent of Tier 1 capital plus the allowance for loan and lease losses.

(c) Within 360 days of the effective date of this Order, the Bank shall have reduced the assets classified "Substandard" in the ROE that have not previously been charged off to not more than twenty-five (25) percent of Tier 1 capital plus the allowance for loan and lease losses.

(d) As used in Subparagraphs 4 (a) and (b), 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 at subsequent examinations.

5. The Bank shall maintain its allowance for loan and lease losses by an amount sufficient to adequately address the risk in the Bank's loan portfolio as determined by the Regional Director and the Commissioner at subsequent examinations and/or visitations.

6. Within 90 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner a written three-year strategic plan, including a written profit plan. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits as of December 31, 2009 through December 31, 2011. This plan shall be forwarded to the Regional Director and the Commissioner for review and comment and shall address, at a minimum, the following:

(a) goals and strategies for improving and sustaining the earnings of the Bank, including:

(i) an identification of the major areas in, and means by which, the Board will seek to improve the Bank's operating performance;

(ii) realistic and comprehensive budgets;

(iii) a budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections; and

(iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components.

(b) coordination of the Bank's loan, investment, and operating policies, and budget and profit planning, with the funds management policy.

7. Within 90 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for selection of credit risk, appraisal reviews, timely and appropriate grading of loans, boarding of loan data, adequate and accurate monitoring and reporting of asset concentrations, which are more fully set forth in the ROE. In addition, the Bank shall obtain adequate and current

documentation for all loans in the Bank's loan portfolio. Such policies and their implementation shall be in a form and manner acceptable 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, at a minimum, shall include the following:

(i) 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;

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

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

(iv) provisions which establish standards and guidelines for specialized lending products;

(v) provisions which establish officer lending limits;

(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 directors first determine that the lending staff has the expertise necessary to properly supervise construction loans and that adequate procedures are in place to monitor any construction involved before funds are disbursed;

(viii) provisions which require the preparation of a loan "watch list" which shall include relevant information on all loans in excess of \$50,000, which are classified "Substandard" and "Doubtful" in the ROE, or by the FDIC or CDFI in subsequent reports of examination, and all other loans in excess of \$10,000, which warrant individual review and consideration by the Board as determined by the loan committee or management. The loan "watch list" shall be presented to the Board for review at least monthly with such review noted in the minutes; and

(ix) 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 the minutes of a Board meeting at which there is a quorum, and each vote is noted.

8. Within 90 days from the effective date of this ORDER, the Bank shall develop a written plan, approved by the Board, for meeting the guidelines established by FIL-104-2006 Commercial Real Estate Lending: Joint Guidance. The plan shall be in a form and manner acceptable to the Regional Director and Commissioner as determined at subsequent examinations and/or visitations.

9. Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt and implement a written conflict of interest policy ("Conflict of Interest Policy"). Such policy and its implementation shall be acceptable to the Regional Director and Commissioner, as determined at subsequent examinations and/or visitations.

10. Within 120 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the ROE dated November 10, 2008.



In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

11. Within 90 days from the effective date of this ORDER, the Bank shall revise, adopt and fully implement a written liquidity and funds management policy. At a minimum, the policy shall include a liquidity contingency plan that addresses the following:

- (a) identifying potential stress events and specific feasible plans of actions, including possible loans sales;
- (b) establishing warning indicators that are monitored daily which would trigger implementation of the plan; and
- (c) developing crisis lines of authority including delegated responsibilities and Board notification.

The revised liquidity and funds management policy, and liquidity contingency plan, and their implementation, shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

12. The Board shall designate the Audit Committee to ensure that the Bank complies with the provisions of this ORDER. The committee shall report monthly to the full Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Board meetings. This delegation to the Audit Committee shall not diminish the responsibility or liability of the entire Board to ensure compliance with the provisions of this ORDER.

13. 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.

14. 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.

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This ORDER will become effective upon its issuance by the FDIC and the CDFI. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the CDFI.

Pursuant to delegated authority.

Dated at San Francisco, California, this 28<sup>th</sup> day of April, 2009.

/s/

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Stan Ivie  
Regional Director  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation

/s/

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William S. Haraf  
Commissioner  
California Department of Financial Institutions