

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

SAN FRANCISCO, CALIFORNIA

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In the Matter of	)	
	)	ORDER TO CEASE AND DESIST
MOTHER LODGE BANK	)	
SONORA, CALIFORNIA	)	FDIC-09-313b
	)	
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

Mother Lode Bank, Sonora, 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 regulations 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 August 25, 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 and violations of law and/or regulations. 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 and violations of law and/or regulations, as more fully set forth in the Joint FDIC and CDFI risk management Report of Examination dated March 30, 2009 (“Risk Management ROE”) and the FDIC compliance Report of Examination dated April 22, 2009 (“Compliance ROE”) :

- (a) operating with management whose policies and practices are detrimental to the Bank;
- (b) operating with a board of directors that has failed to provide adequate supervision over and direction to the management of the Bank, including inadequate oversight of the Bank’s compliance with consumer protection laws, regulatory guidance, regulations, and policies (“Consumer Laws”);
- (c) operating with inadequate capital in relation to the kind and quality of assets held by the Bank;
- (d) operating with an inadequate loan valuation reserve;
- (e) operating with a large volume of poor quality loans;
- (f) engaging in unsatisfactory lending and collection practices;
- (g) operating in such a manner as to produce operating losses;

(h) failing to develop and administer an effective Compliance Management System that ensures compliance with Consumer Laws, including:

- (i) failing to establish an effective process to monitor compliance with Consumer Laws;
- (ii) operating with inadequate internal controls for loan origination;
- (iii) operating with inadequate consumer compliance audit procedures;
- (iv) operating with inadequate procedures governing third party service providers;
- (v) operating with inadequate consumer compliance training procedures; and
- (vi) operating in violation of Consumer Laws as set forth in the Compliance ROE.

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

**MANAGEMENT**

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 upgrading a low quality loan portfolio, improving earnings, and other matters needing particular attention. Management shall also include a chief credit officer with significant appropriate 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 Bank's Board of Directors ("Board") to implement the

provisions of this ORDER. Without limiting the foregoing, the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the CDFI ("Commissioner") reserve the right to determine whether current senior executive officers and directors of the Bank will be considered to be qualified for purposes 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 and the Commissioner in writing when it proposes to add any individual to the Bank's 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.

(d) Within 90 days after the effective date of this ORDER, the Bank's Board shall obtain an independent study of the management and personnel structure of the Bank to determine whether additional or fewer personnel are needed for the safe and profitable operation of the Bank. Such a study shall include, at a minimum, a review of the duties, responsibilities, qualifications, and remuneration of the Bank's officers and employees. The Bank shall formulate and a plan to implement the recommendations of the study. The plan shall be

acceptable to the Regional Director and the Commissioner as determined at subsequent examinations.

2. As of the effective date of this ORDER, the Bank's Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, including compliance-related activities. The Bank's Compliance Officers shall report to the Board on a monthly basis regarding the Bank's actions to comply with the consumer provisions of this ORDER. The Board shall take all necessary steps to ensure compliance with this ORDER.

### **CAPITAL**

3. (a) Within 180 days from the effective date of this ORDER, the Bank shall have and thereafter maintain Tier 1 capital in such an amount as to equal or exceed 10 percent of the Bank's total assets. In addition, the Bank shall have a Tier 1 risk-based capital ratio of at least 11 percent and a total risk-based capital ratio of at least 13%.

(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) Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 3 of this ORDER may be accomplished by the following:

- (i) the sale of common stock; or
- (ii) the sale of noncumulative perpetual preferred stock; or
- (iii) the direct contribution of cash by the Bank's Board and/or shareholders of the Bank; or

(iv) any other means acceptable to the Regional Director and the Commissioner; or

(v) any combination of the above means.

Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 3 of this ORDER may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(d) If all or part of the increase in Tier 1 capital required by Paragraph 3 of this ORDER is accomplished by the sale of new securities, the Bank's Board shall forthwith take all necessary steps to 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 the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 15 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 and Disclosure Unit, Washington, D.C. 20429, for review and to the Commissioner to obtain any and all necessary securities permits or other approvals. Any changes requested to be made in the plan or materials by the FDIC or the Commissioner shall be made prior to their dissemination. If the increase in Tier 1 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.

(e) In complying with the provisions of Paragraph 3 of this ORDER, 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.

(f) For the purposes of this ORDER, the terms "Tier 1 capital," "Tier 1 risk-based capital ratio," "total assets," 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(v) 325.2(w), 325.2(x) and 325.2(y).

#### **ASSET QUALITY**

4. (a) During the life of this ORDER, the Bank shall maintain a fully funded allowance for loan and lease losses.

(b) The appropriateness of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The loan loss reserve shall be reviewed at least once each calendar quarter. Said review shall be completed in order that the findings of the Bank's Board with respect to the loan and lease loss allowance may be properly reported in the quarterly Reports of Condition and Income. The review shall focus on the results of the Bank's internal loan review, loan 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 allowance 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 Bank's Board meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its allowance for loan and lease losses consistent with the findings of the review. The Bank's allowance for loan and lease losses shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

5. (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 Risk Management ROE that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank to the same borrower or related entity 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 Risk Management ROE that have not previously been charged off to not more than 100 percent of capital.

(c) Within 270 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" in the Risk Management ROE that have not previously been charged off to not more than 50 percent of capital.

(d) The requirements of Subparagraphs 5(a), 5(b), and 5(c) of this ORDER 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 to the same borrower or related entity is not considered collection for the purpose of this paragraph. As used in Subparagraphs 5(b) and 5(c), 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.

(e) Within 60 days from the effective date of this ORDER, the Bank shall develop written asset disposition plans for each classified asset greater than \$200,000. The plans shall be reviewed and approved by the Bank's Board and acceptable to the Regional Director and the Commissioner as determined at subsequent examinations.

(f) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan for the reduction and collection of delinquent loans. The plan shall be acceptable to the Regional Director and the Commissioner as determined at subsequent examinations.

6. (a) Beginning with 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. Subparagraph 6(a) of this ORDER shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board Statement Number 15 ("FASB 15").

(b) Beginning with 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 in excess of \$200,000 that has been classified, in whole or part, "Doubtful" without the prior approval of a majority of the Bank's Board or the loan committee of the Bank.

(c) Beginning with 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 in excess of \$200,000 that has been classified,

in whole or part, "Substandard" without the prior approval of a majority of the Bank's Board or the loan committee of the Bank.

(d) The loan committee or Bank's Board shall not approve any extension of credit, or additional credit to a borrower in Paragraphs (b) and (c) above without first collecting in cash all past due interest.

7. Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan, approved by its Board and acceptable to the Regional Director and the Commissioner for systematically reducing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, any borrowers in the "Construction and Land Development" Concentrations, as more fully set forth in the Risk Management ROE. During the life of this ORDER, the Bank shall not make any new extensions or commitments of credit to or for the benefit of any borrower or associated entity if such extension or commitment would result in the Bank exceeding any limit contained in the plan submitted pursuant to this paragraph.

### **EARNINGS**

8. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan. The plan shall be acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations. The plan shall address, at a minimum, goals and strategies for improving and sustaining the earnings of the Bank, and shall include:

(i) an identification of the major areas in, and means by which, the Bank's 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;

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

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

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop and adopt a plan to control overhead and other expenses and restore the Bank's profitability. The plan shall be in a form and manner acceptable to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

#### **DIVIDENDS**

9. The Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Commissioner.

#### **BRANCHING**

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

#### **BROKERED DEPOSITS**

11. During the life of this ORDER, the Bank shall not accept, renew or rollover any brokered deposits unless it has applied for and been granted a waiver of this prohibition by the FDIC in accordance with the provisions of section 337.6 of the FDIC's Rules and Regulations, 12 C.F.R. § 337.6.

#### **CONSUMER COMPLIANCE**

12. Within 60 days of the effective date of this ORDER, the Bank shall correct all violations of Consumer Laws, as more fully set forth in the Compliance ROE. In addition, the

Bank shall implement procedures to ensure future compliance with all applicable Consumer Laws. The Bank's actions as required by this paragraph shall be satisfactory to the Regional Director as determined at subsequent examinations and/or visitations.

13. Within 60 days of the effective date of this ORDER, the Bank shall adopt and implement procedures to monitor and ensure compliance with all applicable Consumer Laws. The Bank's procedures shall also provide for written reports to the Board that track corrective actions with respect to identified deficiencies in order to ensure that corrective action is implemented in a timely and effective manner. The procedures and their implementation shall be acceptable to the Regional Director as determined at subsequent examinations and/or visitations.

14. Within 60 days of the effective date of this ORDER, the Bank shall adopt and implement internal controls over the Bank's origination of loans in order to ensure compliance with all applicable Consumer Laws. The internal controls and their implementation shall be acceptable to the Regional Director as determined at subsequent examinations and/or visitations.

15. Within 60 days of the effective date of this ORDER, the Bank shall improve its compliance audit procedures to address the scope and frequency of such audits. The procedures shall be acceptable to the Regional Director as determined at subsequent examinations and/or visitations.

16. Within 60 days of the effective date of this ORDER, the Bank shall adopt and implement procedures to ensure that services provided to the Bank by third parties are in compliance with all written agreements with such third parties. The Bank shall ensure that such services and the related agreements are in compliance with all applicable Consumer Laws. The procedures shall be acceptable to the Regional Director as determined at subsequent examinations and/or visitations

17. Within 60 days of the effective date of this ORDER, the Bank shall implement a training program that ensures that each employee with compliance responsibilities is thoroughly knowledgeable of applicable compliance requirements pertaining to his or her respective area of responsibility. The Bank shall maintain records of the names of the employees that attended the training, the dates attended, and the subject of the training. The training program shall be acceptable to the Regional Director as determined at subsequent examinations and/or visitations.

### **PROGRESS REPORTS**

18. 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 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.

### **SHAREHOLDER NOTIFICATION**

19. 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.

This ORDER will become effective upon its issuance by the FDIC and the CDFI. Violation of any provision 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. 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 August, 2009.

/s/

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

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William S. Haraf  
Commissioner  
California Department of Financial Institutions