

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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	)	
In the Matter of	)	
	)	CONSENT ORDER
TORREY PINES BANK	)	
SAN DIEGO, CALIFORNIA	)	
	)	Docket FDIC-09-448b
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Torrey Pines Bank, San Diego, California ("Bank") under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C.1813(q). 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 November 13, 2009, that is accepted by the FDIC. Through its Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation, to the issuance of this Consent Order ("Order") by the FDIC.

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b) has been satisfied, the FDIC hereby orders that:

MANAGEMENT AND BOARD OVERSIGHT

1. The Bank have and retain qualified management as more fully set forth in the FDIC's Compliance Report of Examination ("Compliance ROE") dated September 15, 2008, and the Risk Management Report of Examination ("Risk Management ROE") dated May 26, 2009.

(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, managing compliance with consumer laws and regulations, and other matters needing particular attention; a senior lending officer with significant appropriate lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio; and a chief financial officer with proven ability in all aspects of financial management. Each member of management shall be provided appropriate written authority from the Board to implement and comply with the provisions of this ORDER and all applicable laws and regulations.

(b) From the effective date of this ORDER, the Board shall participate fully in the oversight of the Bank and all of its operations consistent with the role and expertise commonly expected for directors of banks of comparable size and complexity.

(c) During the life of this ORDER, when the Bank proposes to add any individual to the Board or employ any individual as senior executive officer, the Bank shall provide the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") with written notice for review and non-objection. 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.

#### HOLDING COMPANY AND AFFILIATE TRANSACTIONS

2. Within 60 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, its holding company and its affiliates. Such policy and its implementation shall be satisfactory to the Regional Director as determined at subsequent examinations and/or visitations. Furthermore, the Bank will comply with Sections 23A and 23B of the Federal Reserve Act in its transactions with the holding company and its affiliates and maintain adequate documentation to support all such transactions. This documentation will be available for review at subsequent examinations and/or visitations.

#### POLICIES AND PROCEDURES

3. From the effective date of this ORDER, the Bank will review all policies and procedures on an annual basis and revise, update and amend them, as necessary. The Bank's review of all policies and procedures and any applicable revisions, updates or amendments shall be approved by the Board and its actions shall be documented in the minutes.

#### COMPLIANCE ROE

4. (a) In addition to the requirements of Paragraph 1(c), the Board's participation will include assuming full responsibility for the development and approval of a written comprehensive compliance program with operating policies and procedures, training, monitoring and audit procedures.

(b) Within 60 days from the effective date of this ORDER, the Board and senior management will be trained on all applicable consumer protection and fair lending laws and regulations so as to obtain knowledge and develop an understanding that will allow the Board and senior management to assess the Bank's potential consumer compliance risk.

5. Within 60 days from the effective date of this ORDER, the Bank shall develop and maintain effective monitoring, training, and audit procedures to ensure proper management

of third-party risk in accordance with the FDIC's third-party guidance set forth in Financial Institution Letter 44-2008, "Guidance for Managing Third-Party Risk." The Bank's third-party risk management program should address 1) risk assessment; 2) due diligence in selecting third parties; 3) contract structuring and review; and 4) oversight. The policies and procedures shall, at a minimum, provide for:

- (a) A comprehensive list of Board-approved third-party vendors;
  - (b) Performance of quarterly due diligence on all third-party vendors followed by a report to the Board which will be noted in the official Board minutes;
  - (c) Development of a compliance risk program for third-party vendors with effective monitoring and auditing for every aspect of the third-party agreements and services;
- and
- (d) Regular reports to the Board and senior management of all monitoring and findings regarding third-party activities, including potential violations, deficiencies or other material concerns.

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and implement a CMS that is commensurate with the level of complexity of the Bank's operations and that is in compliance with Financial Institution Letter 10-2007, "Compliance Examination Handbook," Heading II, Compliance Examinations – Compliance Management System, Compliance Management System.

(b) The CMS shall include the development and implementation of a comprehensive written compliance program which shall include all of the consumer protection laws and regulations to which the Bank is subject. At a minimum, the compliance program shall provide for and include:

(i) Development and implementation of operating procedures for each compliance and fair lending law and regulation to which the Bank is subject. Operating procedures shall be distributed to all employees having responsibilities that relate to applicable consumer protection laws and regulations;

(ii) Development and implementation of a formal training program for all personnel who have compliance responsibilities to ensure that all such personnel are thoroughly knowledgeable of applicable compliance requirements;

(iii) Development and implementation of a program to monitor the Bank's compliance with consumer protection laws and regulations; and

(iv) Development and implementation of procedures to ensure follow-up and corrective action is provided to exceptions identified during monitoring.

(c) The Board shall review and approve the compliance program on an annual basis and its approval shall be recorded in the minutes of the Board. Thereafter, the Bank shall follow the written compliance program and/or any subsequent modification thereto.

7. (a) During the life of this ORDER, the Bank shall provide sufficient authority, time and resources to the Bank's compliance officer for the adequate oversight of all areas of the Bank.

(b) During the life of this Order, the Board and senior management will require monthly reports from the compliance officer that address all CMS activities, training provided, results of monitoring, emerging issues, and developing risks.

(c) Within 60 days from the effective date of this ORDER, the Bank will develop and implement a monitoring program for periodic reviews of compliance with all applicable consumer protection laws and regulations. Exceptions noted during monitoring

should be reported to the Board and be addressed through immediate corrective action and enhanced training, as necessary.

8. (a) Within 60 days from the effective date of this ORDER, the Bank shall commission an independent external audit of P1 to ensure compliance with consumer protection laws and regulations. The audit scope must be approved by the Board. The audit shall be conducted by a qualified firm with experience in conducting independent compliance audits of credit card affinity programs of a size and complexity comparable to P1's credit card affinity program. Once the audit has been conducted, the Bank must ensure that:

(i) Audit findings, deficiencies and recommendations be documented in a written report and provided to the Board and the FDIC within 10 days after completion of the independent audit;

(ii) Within 30 days of receipt of the independent auditor's written report, the Board shall take action to address the audits' findings, correct any deficiencies noted, and implement any recommendations or explain in writing signed by all Board members why a particular recommendation has not been implemented; and

(iii) A report of the Bank's implementation of the auditor's recommendations will be provided to the FDIC within 60 days after the Board receives the audit report.

(b) Within 60 days from the effective date of this ORDER, the Bank will develop and implement a comprehensive audit program for all bank operations. The audit program will encompass compliance with all applicable consumer protection laws and regulations. The defined scope of the audit program, at a minimum, shall include a review of:

(i) Policies and procedures;

- (ii) Internal controls;
- (iii) Internal monitoring;
- (iv) Training;
- (v) Fair lending; and
- (vi) Third-party vendor activities.

9. Within 60 days of the effective date of this ORDER, the Bank shall develop a comprehensive training program for employees. The training program will define the scope and frequency of the training sessions. Training sessions will be held on a regular basis with more frequent training provided in the areas where weaknesses were identified in the Compliance ROE.

10. Within 60 days of the effective date of this ORDER, the Bank will eliminate and/or correct all violations of consumer laws and/or regulations as more fully set forth in the Compliance ROE.

#### RISK MANAGEMENT ROE

11. Within 60 days from the effective date of this ORDER, the Bank shall develop and adopt a plan to maintain Tier 1 capital during the life of this Order in such an amount as to equal or exceed 8 percent of the Bank's total assets.

12. 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 allowance for loan and lease losses. For the purpose of this determination, the adequacy of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed at least 10 days prior to the end of each quarter, in order that the

findings of the Board with respect to the loan and lease loss allowance may be properly reported in the quarterly Reports of Condition and Income. The review should 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 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 allowance for loan and lease loss policy established. Such policy and its implementation shall be satisfactory to the Regional Director as determined at subsequent examinations and/or visitations.

13 (a) Within 60 days from the effective date of this ORDER, the Bank shall develop written workout disposition plans for each classified asset greater than \$1,000,000.00. The plans shall be reviewed and approved by the Board and acceptable to the Regional Director as determined at subsequent examinations.

(b) 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 as determined at subsequent examinations.

14. (a) Within 60 days from the effective date of this ORDER, the Bank shall develop and implement a corrective plan to address the loan underwriting and credit administration weaknesses detailed in the Risk Management ROE dated May 26, 2009. The corrective plan shall include steps for:



(i) providing the Board or Asset Quality Committee with additional loan monitoring reports, including the supervisory Loan-to-Value report, Loan Policy Exception report, all concentration reports, delinquent tickler items report, credit card portfolio reports detailing subprime information and loan loss information by affinity group.

(ii) developing acceptable written underwriting guidelines for the credit card portfolio;

(iii) documenting debt to income ratios and credit decisions on all credit card underwriting worksheets;

(iv) addressing and implementing the concentration of credit recommendations contained in the Risk Management ROE dated May 26, 2009;

(v) correcting loan documentation exceptions identified in the list provided to management at the conclusion of the May 26, 2009 examination; and

(vi) implementing appraisal recommendations identified in the Risk Management ROE dated May 26, 2009.

15. 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 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 "Commercial Real Estate Loan" Concentrations, as more fully set forth in the Risk Management ROE dated May 26, 2009.

16. The Bank shall not pay cash dividends or make other payments that would deplete capital without the prior written consent of the Regional Director.

17. Within 90 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director a written three-year strategic plan. Such plan shall include

specific goals for the dollar volume of total loans, total investment securities, and total deposits as of June 30, 2009 through June 30, 2012. For each time frame, the plan will also specify the anticipated average maturity and average yield on loans and securities; the average maturity and average cost of deposits; the level of earning assets as a percentage of total assets; and the ratio of net interest income to average earning assets. The plan shall be in a form and manner acceptable to the Regional Director as determined at subsequent examinations and/or visitations.

18. Within 90 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan. This plan shall be forwarded to the Regional Director 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.

19. (a) Within 90 days from the effective date of this ORDER, the Bank shall address and correct the following Information Technology (IT) weaknesses:

(i) address the requirements of the Gramm-Leach-Bliley Act

(GLBA) as it pertains to the P1 operating environment;

(ii) obtain an annual independent audit of the GLBA compliance program, to include the credit card division, P1;

(iii) perform a business impact analysis and conduct an IT and GLBA risk assessment for the P1 operational environment;

(iv) develop a disaster recovery and business continuity plan for P1. Once developed, the plan should be submitted for Board approval. The plan should also be tested for P1;

(v) conduct a penetration test and vulnerability assessment of TSYs, a core processing system, and the network operating systems at P1;

(vi) develop a comprehensive IT policy and IT general control procedures for P1 that are consistent with Torrey Pines Bank's IT policies and procedures; and

(vii) develop a due diligence review processes for information technology to ensure regulatory compliance prior to launching new products or businesses.

(b) Within 90 days from the effective date of this ORDER, the Bank shall revise, review,

and submit for Board adoption the following policies:

(a) the Business Continuity Plan;

(b) the Vendor Management Policy;

(c) the ACH policy;

(d) the Remote Deposit Capture Activities policy; and

(e) identify all critical vendors for P1 and ensure that these vendors fully satisfy the bank's information security program and applicable regulatory compliance guidance and regulations.

20. 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 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 has released the Bank in writing from making further reports.

21. 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.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, 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.

This ORDER will become effective upon its issuance by the FDIC.

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 provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated at San Francisco, California, this 16<sup>th</sup> day of November, 2009.

/s/

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