

#2001-105

AGREEMENT BY AND BETWEEN
Neighborhood National Bank
San Diego, California
and
The Office of the Comptroller of the Currency

Neighborhood National Bank, San Diego, California (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated [ROE Date] (“ROE”).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

Article I

JURISDICTION

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller
Southern California - South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008

Article II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least five (5) directors, of which no more than two (2) shall be employees of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the appointment of the Committee, and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement); and
- (b) the results of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

Article III

PROGRAM TO IMPROVE BOARD SUPERVISION

(1) Within sixty (60) days, the Board shall conduct a review of the Board's composition and committee structure. The review shall include:

- (a) an analysis of the number of Board members, number of committees, and responsibilities assigned to each member and committee;
- (b) an evaluation of each of the Board members performance in fulfilling his or her duties as a director; and
- (c) an assessment of the Board's effectiveness in ensuring:
 - (i) competent management;
 - (ii) development and implementation of sound plans and policies; and
 - (iii) oversight of strategic planning and financial performance.

(2) Within sixty (60) days, the Compliance Committee shall develop a written program to improve the effectiveness of Board supervision. At a minimum, the program shall include:

- (a) written job descriptions that clearly define areas of responsibility, accountability, and lines of authority for the president, senior management, department heads, and chairman of the board ("Management");

- (b) objectives by which the president's and Management's effectiveness will be measured;
- (c) periodic review, evaluation, and written assessment of the performance of the president and Management, including a determination of whether the performance and assigned responsibilities of the president and Management are commensurate with their compensation;
- (d) periodic evaluation of staffing needs for current and projected future levels of operations;
- (e) periodic assessment of whether Board members are receiving adequate information from the management team to enable them to effectively supervise the Bank and fulfill their fiduciary responsibilities;
- (f) procedures to ensure that the risks and benefits of all potential new or expanded Bank products and services are evaluated by the Board; and
- (g) a director education program designed to ensure that the Board has the skills and abilities necessary to effectively supervise the Bank.

(3) The program shall be submitted to the Assistant Deputy Comptroller for review and approval. Upon approval, the Board shall implement and adhere to the program.

(4) The Compliance Committee shall conduct its first set of periodic reviews, evaluations and assessments under the program within ninety (90) days.

Article IV

PROFIT PLAN

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written profit plan to improve and sustain the earnings of the Bank.

This plan shall include, at minimum, the following elements:

- (a) identification of the major areas in and means by which the Board will seek to improve the Bank's operating performance;
- (b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;
- (c) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections; and
- (d) a description of the operating assumptions that form the basis for major projected income and expense components.

(2) The budgets and related documents required in paragraph (1) above for 2001 shall be submitted to the Assistant Deputy Comptroller upon completion. The Board shall submit to the Assistant Deputy Comptroller annual budgets as described in paragraph (1) above for each year this Agreement remains in effect. The budget for each year shall be submitted on or before November 30, of the preceding year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the profit plan projections to the Assistant Deputy Comptroller on a quarterly basis.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

Article V

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and objectives to be accomplished over the short and long term;
- (d) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(c) of this Article;
- (e) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(c) of this Article;
- (f) a management employment and succession program to promote the retention and continuity of capable management;

- (g) product line development and market segments that the Bank intends to promote or develop;
- (h) an action plan to improve bank earnings and accomplish identified strategic goals and objectives, including individual responsibilities, accountability and specific time frames;
- (i) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;
- (j) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;
- (k) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and
- (l) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and approval.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

Article VI

CAPABLE CHIEF FINANCIAL OFFICER

(1) Within forty-five (45) days, the Board shall identify a full-time and capable chief financial officer who shall have sufficient knowledge and prior experience with a bank in troubled condition (or an institution with similar complexity and condition as the Bank). The chief financial officer shall be vested with the necessary authority to effectively perform the duties assigned to the chief financial officer position.

(2) When selecting such a chief financial officer, the Board shall comply with Section 914 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, 12 U.S.C. § 1831I, and 12 C.F.R. § 5.51, to the extent applicable.

Article VII

CAPITAL PLAN

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

- (a) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (b) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (c) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;

- (d) contingency plans that identify alternative methods should the primary source(s) under (c) above not be available; and
- (e) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior written approval of the Assistant Deputy Comptroller.

(2) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

Article VIII

INTERNAL CONTROLS

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's internal controls and information systems. Such program shall utilize the guidance contained in the Comptroller's Handbook, "Internal Controls" (August 1998) and ensure that all aspects of the Bank's operations are

conducted in a safe and sound manner. This program shall include, but not be limited to, procedures to ensure:

- (a) the accuracy and integrity of recorded transactions;
- (b) the reliability of financial reporting;
- (c) the security of information technology operations, including restricting employee access to the level required for a particular position;
- (d) compliance with banking laws and regulations, as well as internal policies and procedures;
- (e) proper segregation of duties over custody of assets and record keeping within each department of the bank;
- (f) an effective risk management system;
- (g) timely reporting of all audit findings to the Board; and
- (h) timely and effective corrective action of audit findings.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review and approval.

(3) The Board shall designate an individual to monitor the Bank's adherence to the program and provide a written report to the Board assessing the Bank's progress on a quarterly basis.

Article IX

INFORMATION TECHNOLOGY

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to correct each of the deficiencies noted in the Information Technology section of the ROE. This program shall include but not be limited to:

- (a) establishing formal board oversight of IT risk, including risk associated with the Bank's anticipated roll-out of the Internet delivery channel in 2002;
- (b) ensuring the adequacy of the administration and control of the Bank's core data processing system;
- (c) ensuring that the Bank's audit coverage includes all high-risk areas in the IT function;
- (d) enhancing the Bank's Information Security Policy to specify bank standards for security and password administration, including monitoring controls;
- (e) developing policies and procedures for administering the Bank's Fedline/wire operations, including procedures and standards to authenticate customer wire requests received by telephone or fax; and
- (f) designating a full-time senior bank officer to serve as the primary system administrator and be accountable for the Bank's information systems.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review and approval.

Article X

PROGRESS REPORTING - QUARTERLY

- (1) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller. These reports shall set forth in detail:
 - (a) actions to comply with each Article of the Agreement;
 - (b) results of those actions; and
 - (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.
- (2) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.
- (3) The first progress report shall be submitted for the period ending December 31, 2001 and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter end.

Article XI

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his/her hand on behalf of the Comptroller.

/s/ Steven J. Vander Wal
Steven J. Vander Wal
Assistant Deputy Comptroller
Western District

11/19/01
Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Signed	11/9/01
_____ Howard H. Carey	_____ Date
Signed	11/9/01
_____ Richard Castillo	_____ Date
_____ Roger Cazares	_____ Date
Signed	11/09/01
_____ Pierre Frazier	_____ Date
Signed	11/13/01
_____ Sally Furay	_____ Date
_____ Robert Glasberg	_____ Date
_____ Anita Gonzales	_____ Date
Signed	11/14/01
_____ Robert Ito	_____ Date
Signed	11/15/01
_____ Conny Jamison	_____ Date
Signed	11/9/01
_____ John Johnson	_____ Date
Signed	11/9/01
_____ Robert McGill	_____ Date