

AGREEMENT BY AND BETWEEN
Legacy Bank, N. A.
Campbell, California
and the
Office of the Comptroller of the Currency

Legacy Bank, N. A., Campbell, California (“Bank”) and the Office of the Comptroller of the Currency (“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 has found unsafe and unsound banking practices relating to the Bank’s management and board supervision, credit administration and underwriting, and financial management.

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 Formal Agreement (“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) This Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller. This Agreement shall cause the Bank to continue to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller.

(6) 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:

Brian J. Quade, Assistant Deputy Comptroller
San Francisco Field Office
One Front Street, Suite 1000
San Francisco, California 94111

Article II

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) Within sixty (60) days, the Board shall develop a plan to ensure that the Bank has competent management in place on a permanent full-time basis in its Chief Executive Officer, Chief Financial Officer and Chief Credit Officer positions to carry out the Board’s policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner. This plan shall be submitted to the Assistant Deputy Comptroller for review and approval.

(2) Within sixty (60) days, the Board shall review the capabilities of the Bank’s existing management to perform present and anticipated duties and the Board shall determine

whether management changes will be made, including the need for additions to or deletions from current management.

(3) For incumbent officers in the positions mentioned in Paragraph (1) of this Article, the Board shall within sixty (60) days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.

(4) If the Board determines that an officer will continue in his or her position but that the officer's depth of skills needs improvement, the Board will within fifteen (15) days develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured; and
- (d) a performance appraisal program for evaluating performance according to the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller for review and approval.

(5) If a position mentioned in Paragraph (1) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (1) of this Article becomes vacant, the Board shall within sixty (60) days of such vacancy appoint a capable person to the vacant position who shall be vested with

sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(6) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the "Changes in Directors and Senior Executive Officers" and "Background Investigations" booklets of the Comptroller's Licensing Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(7) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed new officer. However, the lack of disapproval of such individual shall not constitute an approval or endorsement of the proposed officer.

(8) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b)(6)(E) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

(9) The Board shall submit the information required in paragraph (6) of this Article for each of the two contract employees who are currently assisting the Chief Executive Officer manage the credit and financial areas of the Bank. Such submissions shall be subject to paragraphs (7) and (8) of this Article.

Article III

LENDING POLICY

(1) Within thirty (30) days, the Board shall review and revise the Bank's written loan policy to strengthen underwriting and reduce credit risk by:

- (a) establishing strict financial requirements for unsecured lending;
- (b) establishing strict criteria for collateral concentration limits and delinquency cross-age rules for accounts receivable lending;
- (c) establishing strict analytical standards for loans secured by blanket liens on business assets, including treating such loans as unsecured when they lack adequate documentation, or reasonable assessment, of collateral values;
- (d) requiring the exclusion of capital gains income when calculating personal debt coverage ratios for individuals;
- (e) requiring lending officers and staff to obtain all necessary credit and financial information prior to the booking of new credits; and
- (f) requiring lending officers and staff to obtain and review all credit and financial statement information necessary to monitor existing credits.

(2) Within sixty (60) days, the Board shall further review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to "Loan Portfolio Management" booklet of the Comptroller's Handbook. This policy shall incorporate, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;

- (b) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (c) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (d) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;
- (e) a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
- (f) measures to correct the deficiencies in the Bank's lending procedures noted in any ROE;
- (g) guidelines designed to improve Board oversight of the loan approval process, specifically with regard to credits exhibiting significant risk. At a minimum, the policy shall:
 - (i) establish dollar limits on extensions of credit to any one borrower, above which the prior approval of the Board, or a committee thereof, would be required; and
 - (ii) require that all credits which deviate from the Bank's normal course of business, including all credits which deviate from the Bank's written strategic plan, receive the prior approval of the Board, or a committee thereof.

- (h) guidelines consistent with Banking Circular 255, setting forth the criteria under which renewals of extensions of credit may be approved. At a minimum the policy shall:
 - (i) ensure that renewals are not made for the sole purpose of reducing the volume of loan delinquencies; and
 - (ii) provide guidelines and limitations on the capitalization of interest.
- (i) charge-off guidelines, by type of loan or other asset, including Other Real Estate Owned, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery; and
- (j) guidelines for periodic review of the Bank's adherence to the revised lending policy.

(3) The Board shall adopt and implement the revised loan policy, and thereafter ensure Bank adherence to such policy. Upon adoption by the Board, the policy shall be forwarded to the Assistant Deputy Comptroller for review.

Article IV

LOAN PORTFOLIO MANAGEMENT

(1) Within thirty (30) days, the Board shall immediately improve its Problem Loan Reports to ensure that they are factually accurate and contain sufficient descriptive information to properly assess the nature of the loan, the condition of the borrower, the existence and extent of the credit problem, and the Bank's efforts to improve the quality of the credit.

(2) Within thirty (30) days, the Board shall immediately adopt a policy and implement a process for identifying loans that should be placed on nonaccrual status. Your nonaccrual policy should contain the following requirements, at a minimum:

- (a) loans should be placed on nonaccrual when the full collection of interest and principal is highly questionable;
- (b) loans should be placed on nonaccrual in accordance with the criteria contained in the Call Report instructions; and
- (c) loans should be placed on nonaccrual when principal or interest is ninety (90) days or more past due unless it is well secured and in the process of collection. The policy should clearly define these terms and also provide details on the documentation required to support any decisions that loans are “well secured and in the process of collection,” and thus not placed on non-accrual.

The Comptroller’s Handbook entitled “Rating Credit Risk” provides additional guidance on nonaccrual loans. Your policy and process should ensure that these loans are placed on non-accrual status to ensure that the Bank files accurate Reports of Condition and operates in a safe and sound manner. Your policy and procedures should be submitted to the Assistant Deputy Comptroller for review and approval.

(3) Within thirty (30) days, the Board shall implement additional systems and controls to ensure that the Bank promptly recognizes and accurately grades problem loans in accordance with the guidance contained in the Comptroller’s Handbook entitled “Rating Credit Risk” dated April 2001. Such additional systems and controls shall include at a minimum:

- (a) detailed training for all lending officers and staff on recognizing and grading problem loans; and
- (b) follow-up procedures to ensure that lending officers and staff are promptly identifying and grading problem loans.

(4) The Board shall, within sixty (60) days, develop, implement, and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit and income information;
- (c) procedures to ensure conformance with loan approval requirements;
- (d) a system to track and analyze exceptions;
- (e) procedures to ensure conformance with Call Report instructions;
- (f) procedures to ensure the accuracy of internal management information systems; and
- (g) procedures to track and analyze concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios.

(5) Upon completion, the program shall be forwarded to the Assistant Deputy Comptroller for review.

(6) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of:

- (a) statistical records that will serve as a basis for identifying sources of problem loans and leases by industry, size, collateral, division, group, indirect dealer, and individual lending officer;
- (b) previously charged-off assets and their recovery potential;
- (c) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function;
- (d) adequacy of credit and collateral documentation; and
- (e) concentrations of credit.

(7) Beginning December 31, 2006, on a quarterly basis, management will provide the Board with written reports including, at a minimum, the following information:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent loans and leases;
- (c) credit and collateral documentation exceptions;
- (d) the identification and status of credit related violations of law, rule or regulation;
- (e) an analysis of concentrations of credit, significant economic factors, and general conditions and their impact on the credit quality of the Bank's loan and lease portfolios; and
- (f) the identification of loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

Article V

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall maintain the following capital levels (as defined in 12 C.F.R.

Part 3):

(a) Tier 1 capital at least equal to ten percent (10%) of risk-weighted assets;
and

(b) Tier 1 capital at least equal to eight percent (8%) of adjusted total assets.¹

(2) The requirement in this Agreement to meet and maintain a specific capital level means that the Bank may not be deemed to be “well capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6 pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

- (a) specific plans for the maintenance of adequate capital in light of the Bank’s increasing problem loans, rapid asset growth, reliance upon brokered deposits, and continuing weak earnings;
- (b) 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;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets.

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

(4) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for prior determination of no supervisory objection. Upon receiving a determination of no supervisory objection from 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.

(5) The Board shall restrict the Bank's loan growth each year to an amount that is no more than five percent (5%) of the Bank's average total assets for the preceeding year until the Bank achieves full compliance with the Agreement and such Agreement is terminated by the Comptroller.

Article VI

LIQUIDITY

(1) The Board shall immediately increase the liquidity of the Bank to a level that is sufficient to sustain the Bank's current operations and to withstand any anticipated or extraordinary demand against its funding base. Such actions may include, but are not necessarily limited to:

- (a) obtaining lines of credit from the Federal Reserve Bank;
- (b) obtaining lines of credit from correspondent banks;
- (c) recovering charged-off assets; and
- (d) injecting additional equity capital.

(2) The Bank shall immediately revise and reduce its liquidity policy limits for wholesale funding to a level that is in accordance with guidance from the Comptroller.

(3) The Bank shall immediately revise its liquidity contingency plan to specifically address alternate sources of liquidity to meet its funding needs in light of the Bank's "troubled condition" status and resulting restrictions on "brokered deposits" imposed by 12 C.F.R. § 337.6.

(4) The Board shall review the Bank's liquidity on a monthly basis. Such reviews shall consider:

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit;
- (d) an analysis of the continuing availability and volatility of present funding sources;
- (e) an analysis of the impact of decreased cash flow from the Bank's loan portfolio resulting from delinquent and non-performing loans;
- (f) an analysis of the impact of decreased cash flow from the sale of loans or loan participations; and
- (g) geographic disbursement of and risk from brokered deposits.

(5) The Board shall take appropriate action to ensure adequate sources of liquidity in relation to the Bank's needs. Monthly reports shall set forth liquidity requirements and sources and incorporate the Bank's revised contingency plan. Copies of these monthly reports shall be forwarded to the Assistant Deputy Comptroller on a quarterly basis for review.

Article VII

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, 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.

(5) This Agreement is intended to be, and shall be construed to be, a supervisory "written agreement entered into with the agency" as contemplated by 12 U.S.C. § 1818(b)(1),

and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

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

Signed

Brian J. Quade
Assistant Deputy Comptroller
San Francisco Field Office

12/22/2006

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	12/21/06
Kevin Gilday	Date
Signed	12/21/06
Donald Gootee	Date
Signed	12/21/06
Jerry Greer	Date
Signed	12/21/06
Gary Hong	Date
Gerald McIntyre	Date
Joseph Petkewich	Date
Signed	12/21/06
Thomas Ray	Date
Signed	
Martha Sanford	Date
Signed	12-21-06
O'Neal Sutton	Date
Lester Workman	Date
Signed	12/21/06
Samson Zarnegar	Date