

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

_____ )	
In the Matter of )	Order No.: WN-09-035
)	
<b>SAN LUIS TRUST BANK, FSB</b> )	Effective Date: November 2, 2009
)	
San Luis Obispo, California )	
OTS Docket No. 15051 )	
_____ )	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, San Luis Trust Bank, FSB, San Luis Obispo, California, OTS Docket No. 15051 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

**WHEREAS**, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Western Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

**NOW, THEREFORE, IT IS ORDERED that:**

**Cease and Desist.**

1. The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in, counseling, or aiding and abetting all unsafe or unsound practices that resulted in deteriorating asset quality,

ineffective risk management practices, and inadequate oversight and supervision of the lending function at the Association.

**Capital.**

2. By December 31, 2009, the Association shall meet and maintain a Tier 1 Core Capital ratio of at least eight percent (8%) and a Total Risk-Based Capital ratio of at least twelve percent (12%).<sup>1</sup>

3. By October 30, 2009, the Association shall submit a written plan to address how the Association will meet and maintain the capital ratios set forth in Paragraph 2 of this Order (Capital Plan) to the Regional Director for review and comment. The Capital Plan shall, at a minimum:

- (a) take into consideration the requirements and restrictions imposed by this Order;
- (b) detail capital preservation and enhancement strategies with specific narrative goals, which shall result in new equity and a capital infusion;
- (c) consider and address the amount of additional capital that would be necessary to meet the capital requirements of Paragraph 2 of this Order under different forward-looking scenarios involving progressively stressed economic environments;
- (d) identify the specific sources of additional capital;
- (e) detail timeframes by which the additional capital will be raised and provide specific target month-end capital levels; and
- (f) provide for alternative methods to strengthen capital, should the primary sources identified under Subparagraph (d) above not be available.

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<sup>1</sup> The requirement in this Order to meet and maintain a specific capital level means that the Association may not be deemed to be “well-capitalized” for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 565, pursuant to 12 C.F.R. § 565.4(b)(i)(4).

4. Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Capital Plan required by the Regional Director. Thereafter, the Board shall adopt and the Association shall comply with the Capital Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Capital Plan adopted by the Board to the Regional Director.
5. On the first (1st) and fifteenth (15th) of each month, beginning with the month of November 2009, Senior Executive Officers<sup>2</sup> (Management) shall provide the Regional Director and the Board with written updates on the status of the administrative steps taken by the Association to comply with the Capital Plan (Capital Update).
6. Within thirty (30) days after the end of the month, beginning with the month of November 2009, Management shall also provide monthly variance reports to the Regional Director and the Board that describe the Association's compliance with the Capital Plan (Monthly Capital Plan Variance Reports). The Monthly Capital Plan Variance Reports shall:
  - (a) detail actual operating results versus projected results;
  - (b) include detailed explanations of any material deviations; and
  - (c) include a description of the specific corrective actions or measures that have been implemented or are proposed to address each material deviation.
7. The Board's review of the Capital Updates, the Monthly Capital Plan Variance Reports and its evaluation of the Association's compliance with the elements of the Capital Plan shall be thoroughly documented in the Board meeting minutes. The Association shall submit the Board meeting minutes to the Regional Director within five (5) days of the next Board meeting.

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<sup>2</sup> The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

8. Within fifteen (15) days of the date the Association does not meet the required Tier 1 Core Capital Ratio of eight percent (8%) or the Total Risk-Based Capital ratio of twelve percent (12%) following December 31, 2009, or that the Association is not in compliance with the Capital Plan implemented pursuant to Paragraph 3 of this Order, or from any request by the Regional Director for the submission of a Contingency Plan, the Board shall submit a Contingency Plan to the Regional Director for review and comment. The Contingency Plan shall detail the actions to be taken, with specific timeframes, to achieve one of the following results by the later of date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by another federally insured depository institution or holding company thereof; or (b) voluntary liquidation by filing an appropriate application with the OTS in conformity with federal laws and regulations. Within fifteen (15) days of the receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Contingency Plan required by the Regional Director. Thereafter, the Board shall adopt the Contingency Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Contingency Plan adopted by the Board to the Regional Director. The Association shall immediately implement the Contingency Plan when directed to do so by the Regional Director.

9. Once the Contingency Plan has been implemented, the Association shall provide written status reports to the Regional Director detailing the Association's actions taken and progress in executing the Contingency Plan by no later than the first (1st) and fifteenth (15th) of each month following the implementation of the Contingency Plan until such time as the Association has a Tier 1 Core Capital ratio of at least eight percent (8%) and a Total Risk-Based Capital ratio of at least twelve percent (12%) and is in compliance with its Capital Plan. The status reports shall

detail: any contacts with investment bankers, any parties doing due diligence, any offers relating to an acquisition or a merger, or the execution of binding letters of intent or purchase.

**Business Plan.**

10. By November 13, 2009, the Association shall submit a written comprehensive long-term Business Plan covering at least the remainder of 2009 through the end of calendar year 2012 to the Regional Director for review and comment. The Business Plan shall be based upon a comprehensive review of the Association's operations, including the risks and returns of each of its business lines, current and projected capital levels, available resources, and market conditions.

At a minimum, the Business Plan shall address or include the following matters or items:

- (a) a thorough discussion of the Association's existing and future operations and lines of business for the time period covered by the Business Plan;
- (b) a detailed analysis of the risks, including concentration risks, attendant to the activities projected in the Business Plan, together with a description of the steps to be taken to mitigate and reduce such risks to the Association to levels acceptable to the Regional Director;
- (c) defined strategies for capital preservation and enhancement commensurate with the risk profile of the Association and to meet and maintain the capital requirements of Paragraph 2; and
- (d) pro forma balance sheets, income statements and regulatory capital schedules for each quarter of the time period covered by the Business Plan.

11. Within fifteen days (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Business Plan required by the Regional Director.

Thereafter, the Board shall adopt and the Association shall comply with the Business Plan.

Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Business Plan adopted by the Board to the Regional Director.

12. Any request to modify the Business Plan shall be submitted to the Regional Director for review and written non-objection at least thirty (30) days prior to the proposed date to implement any such modification.

**Management Plan.**

13. By November 13, 2009, the Association shall submit a Management Plan to strengthen the Board and management of the Association to the Regional Director for review and comment. The primary purpose of the Management Plan is to provide for a Board and management structure suitable for the Association's needs and that the Association is adequately staffed by trained and qualified personnel that have experience commensurate with their respective duties and responsibilities, including, but not limited to, the ability to:

- (a) comply with the requirements of this Order and address matters identified in regulatory examinations in a timely and effective manner;
- (b) consistently operate the Association in a safe and sound manner;
- (c) comply with applicable laws, rules, and regulations; and
- (d) implement and adhere to the Capital Plan and Business Plan to restore the Association to a safe and sound condition.

14. The Management Plan shall, at a minimum:

- (a) provide for an appropriate control infrastructure for the Association;
- (b) define duties for officers and employees with policy-making or supervisory authority;
- (c) describe clear lines of authority for monitoring adherence to laws, rules and

regulations and internal policies and procedures, including those related to loan modifications and extensions, asset classifications and the calculation of appropriate allowance for loan and lease losses (ALLL); and

(d) provide timelines for proposed additions or changes to the Board or Senior Executive Officers of the Association.

15. Within fifteen days (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Management Plan required by the Regional Director. Thereafter, the Board shall adopt the Management Plan and the Association shall comply with the Management Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Management Plan adopted by the Board to the Regional Director.

16. In making any change of director or Senior Executive Officer, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

17. The Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director, officer, or employee of the Association unless it first: (a) provides a minimum of thirty (30) days advance written notice of a proposed transaction; and (b) receives a written notice of non-objection from the Regional Director. For purposes of this Paragraph, the term, "compensation," includes any salary, bonuses, commissions, severance payments, employment benefits, or similar remuneration.

**Internal Asset Review (IAR).**

18. By November 13, 2009, the Association shall submit to the Regional Director for review and comment a revised Internal Asset Review Policy (IAR Policy), consistent with the guidance set forth in 12 C.F.R. § 560.160 and Examination Handbook Section 260 to ensure the timely classifications of assets.

19. Within fifteen (15) days of receiving any comments from the Regional Director, the Board shall make the changes, if any, to the IAR Policy required by the Regional Director. Thereafter, the Board shall adopt and the Association shall comply with the IAR Policy. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the IAR Policy adopted by the Board to the Regional Director.

**Allowance for Loan and Lease Losses.**

20. By November 13, 2009, the Association shall submit to the Regional Director for review and comment a revised ALLL Policy to ensure that the Association appropriately identifies and reports ALLL. At a minimum, the ALLL Policy shall:

- (a) conform to generally accepted accounting principles and applicable regulatory requirements and guidance<sup>3</sup> and be appropriate for the size of the Association and the complexity of its loan portfolio; and
- (b) specifically incorporate an appropriate migration analysis to support loss factors for all Pass, Watch, Special Mention and adversely classified asset categories.

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<sup>3</sup> See 12 C.F.R. § 560.160; Section 261 of OTS Examination Handbook (Adequacy of Valuation Allowances); OTS CEO Letter No. 250: Interagency Policy Statement on the Allowance for Loan and Lease Losses And Questions and Answers on Accounting for Loan and Lease Losses (2006 ALLL Policy Statement); and OTS CEO Letter No. 304: ALLL - Observed Thrift Practices Including Sound Practices; and Statement of Financial Accounting Standards (SFAS) Nos. 5 and 114.

21. Within fifteen (15) days of receiving any comments from the Regional Director, the Board shall make the changes, if any, to the ALLL Policy required by the Regional Director. Thereafter, the Board shall adopt and the Association shall comply with the ALLL Policy. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the ALLL Policy adopted by the Board to the Regional Director.

**Loan Modifications.**

22. By November 13, 2009, the Association shall submit to the Regional Director for review and comment enhanced loan modification policies and procedures (Loan Modification Policy) to ensure that loan modifications are done prudently and in a safe and sound manner. At a minimum, the Loan Modification Policy shall provide that:

- (a) loan files adequately document the analysis of the current financial position of borrowers and guarantors, if any, and the ability to repay the modified loan;
- (b) loan files contain appraisals/evaluations that meet regulatory guidelines, including 12 C.F.R. Part 564 and Examination Handbook Section 208, and are performed by qualified appraisers/evaluators that have been approved by the Association; and
- (c) the Association is appropriately evaluating the relative financial merits of foreclosure versus modification alternatives, that the analysis of the alternatives, and the propriety of the chosen modification alternative is thoroughly documented in the file.

23. Within fifteen (15) days of receiving any comments from the Regional Director, the Board shall make the changes, if any, to the Loan Modification Policy required by the Regional Director. Thereafter, the Board shall adopt and the Association shall comply with the Loan Modification Policy. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Loan Modification Policy adopted by the Board to the

Regional Director.

**Liquidity Plan.**

24. By November 13, 2009, the Association shall submit a written comprehensive Liquidity Plan to the Regional Director for review and comment. The Liquidity Plan shall contain specific Board strategies for the Association to maintain adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base. At a minimum, the Liquidity Plan must include: (a) a cash flow analysis that includes reasonable assumptions, identifies anticipated funding needs and the sources of liquidity to meet those needs, considers the level and maturity of brokered deposits, and addresses potential contingent liabilities; and (b) identification of alternative funding sources to meet extraordinary demands, at a minimum, the selling of assets, obtaining lines of credits from correspondent institutions, recovering charged-off assets, or injecting additional equity capital. Further, the Liquidity Plan shall require provision of regular liquidity reports to the Board and the Regional Director in a frequency required by the Regional Director.

25. Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Liquidity Plan required by the Regional Director. Thereafter, the Board shall adopt and the Association shall comply with the Liquidity Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Liquidity Plan adopted by the Board to the Regional Director.

26. Any request to modify the Liquidity Plan shall be submitted to the Regional Director for review and written non-objection at least thirty (30) days prior to the proposed date to implement any such modification.

**Classified Asset Reduction Plan.**

27. By November 13, 2009, the Association shall submit to the Regional Director for review and comment a written comprehensive Classified Asset Reduction Plan that will return asset quality to a level acceptable to the Regional Director and within a time frame satisfactory to the Regional Director. At a minimum, the Classified Asset Reduction Plan shall include:

- (a) targets for the levels of classified assets as a percentage of Tier 1 Core Capital and ALLL and timeframes for each such target;
- (b) a description of the manner and methods for reducing the Association's level of classified assets to the targets set therein; and
- (c) all relevant assumptions and projections and documentation supporting such assumptions and projections.

28. Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Classified Asset Reduction Plan required by the Regional Director. Thereafter, the Board shall adopt and the Association shall comply with the Classified Asset Reduction Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the Classified Asset Reduction Plan adopted by the Board to the Regional Director.

29. Any request to modify the Classified Asset Reduction Plan shall be submitted to the Regional Director for review and written non-objection at least thirty (30) days prior to the proposed date to implement any such modification.

30. Within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending December 31, 2009, the Board shall review quarterly variance reports prepared by Management on the Association's compliance with the Classified Asset Reduction Plan (Quarterly Classified Asset Reduction Plan Variance Reports). The Quarterly Classified Asset Reduction Plan Variance Reports shall include actual operating results versus projected results, detailed explanations of the causes for not achieving the projected results of the Classified Asset Reduction Plan, and a specific description of the corrective actions or measures that have been implemented, proposed or are under consideration to achieve the projected results.

31. The Board shall provide the Regional Director with a copy of Management's Quarterly Classified Asset Reduction Plan Variance Reports and the Board meeting minutes detailing the Board's review of the Quarterly Classified Asset Reduction Plan Variance Reports, including the identification of any corrective actions adopted by the Board, and the Board's evaluation and assessment of Management and the Association's compliance with the Classified Asset Reduction Plan within ten (10) days after the date of the Board meeting at which the Board's review was conducted.

**Concentrations Risk Management Policy.**

32. By November 13, 2009, the Association shall adopt a Concentrations Risk Management Policy that provides for the assessment, monitoring, and control of the potential concentration risks for all assets other than conforming Single-Family Residential (SFR) loans and for all funding sources, including, but not limited to, brokered deposits, uninsured deposits, Federal Home Loan Bank advances, and other borrowings. The Concentrations Risk Management Policy, at a minimum, shall address:

- (a) the identification and quantification of the nature and level of risk presented by the concentrations;
- (b) specific policy limits by loan category, as a percentage of Tier 1 Core Capital plus ALLL to reflect the level of risk acceptable to the Board based on the Association's market position, historical experience, trade area, probable future loan and funding trends, staff capabilities, and technological resources;
- (c) the applicable guidelines, including OTS CEO Letter No. 245, entitled "Updated Director's Responsibility Guide and Guide to Management Reports";
- (d) the establishment of a portfolio management process to evaluate the overall exposure to economic risk factors and to develop strategic plans to mitigate concentration risk in the event of adverse market conditions;
- (e) appropriate management information systems and data collection to generate Board and Management oversight reports;
- (f) the requirement of stress tests or sensitivity analyses of the identified concentrations and portfolio segments with common risk characteristics, over specific time periods, to quantify the impact of changing economic scenarios on asset quality, earnings, and capital conditions, including, but not limited to, those affecting certain relevant industries or sectors on asset quality, earnings, and capital;
- (g) the development of a management information system that stratifies the Association's concentrations by key factors used in delineating risks and establishment of internal controls to monitor compliance with the concentration limits;
- (h) the Board's periodic review and approval of limits on the concentrations;

- (i) internal controls and internal audit processes sufficient to assess the adequacy of the Association's concentration risk management; and
- (j) a specific plan, with identified timeframes, to reduce the Association's existing exposure to commercial real estate loans.

33. Upon the adoption of the Concentrations Risk Management Policy by the Board, the Association shall comply with the Concentrations Risk Management Policy. Within five (5) days from the meeting at which it was adopted, the Board shall provide the Regional Director with a copy of the Concentrations Risk Management Policy adopted by the Board and a certified copy of the Board meeting minutes reflecting the Board's discussion and action.

**Tax Reporting.**

34. Effective immediately, the Board shall ensure that the Association appropriately records entries in its financial records that accurately reflect tax positions in accordance with Generally Accepted Accounting Principles.

**Severance Payments.**

35. Effective immediately, the Association shall not make any golden parachute payment<sup>4</sup> or prohibited indemnification payment<sup>5</sup> unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

**Third-Party Contracts.**

36. Effective immediately, the Association shall not enter into any arrangement or contract with a third party that is significant to the overall operation or financial condition of the Association or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty

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<sup>4</sup> The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

<sup>5</sup> The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(1).

(30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (c) received written notice of non-objection from the Regional Director.

**Transactions with Affiliates.**

37. Effective immediately, the Association shall not engage in any transaction with an affiliate unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which shall include the information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate for which notice is submitted pursuant to this Paragraph, complies with the requirements of 12 C.F.R. § 563.41 and Regulation W, 12 C.F.R. Part 223.

**Brokered Deposits Restriction.**

38. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b) and shall not: (a) accept, renew or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2); or (b) act as a deposit broker, as that term is defined at 12 C.F.R. § 337.6(a)(5).

**Growth Restriction.**

39. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written notice of non-objection of the Regional Director. The growth restrictions imposed by this Paragraph shall remain in effect until the Regional Director reviews and takes no objection to the Association's Business Plan adopted under Paragraph 11 of this Order.

**Dividend Restriction.**

40. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for written approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

**Effective Date, Incorporation of Stipulation.**

41. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

**Duration.**

42. This Order shall remain in effect until terminated, modified, or suspended by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

43. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

44. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

**Submissions and Notices.**

45. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

46. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Order shall be in writing and sent by first-class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by

messenger) addressed as follows:

(a) To the OTS:

C.K. Lee, Regional Director  
Office of Thrift Supervision, Western Region  
225 E. John Carpenter Freeway, Suite 500  
Irving, TX 75062-2326

With a copy to:

Tony Jardieu, Assistant Director  
Office of Thrift Supervision, Western Region  
225 E. John Carpenter Freeway, Suite 500  
Irving, TX 75062-2326

(b) To the Association:

John A. Ronca, Jr., Chairman  
San Luis Trust Bank, FSB  
1001 Marsh Street  
San Luis Obispo, CA 93401

**No Violations Authorized.**

47. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

**IT IS SO ORDERED.**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
C.K. Lee  
Regional Director, Western Region

Date: See Effective Date on page 1

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

_____	)	
In the Matter of	)	Order No.: WN-09-035
	)	
<b>SAN LUIS TRUST BANK, FSB</b>	)	Effective Date: November 2, 2009
	)	
San Luis Obispo, California	)	
OTS Docket No. 15051	)	
_____	)	

**STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST**

**WHEREAS**, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Western Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed San Luis Trust Bank, FSB, San Luis Obispo, California, OTS Docket No. 15051 (Association), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

**WHEREAS**, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

**WHEREAS**, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs

1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

**Jurisdiction.**

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).

2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

**OTS Findings of Fact.**

3. Based on its examination of the Association conducted as of April 27, 2009, the OTS finds that the Association has engaged in unsafe and unsound banking practices which have resulted in deteriorating asset quality, ineffective risk management practices, and inadequate oversight and supervision of the lending function at the Association.

**Consent.**

4. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

**Finality.**

5. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

**Waivers.**

6. The Association waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

**OTS Authority Not Affected.**

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

8. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.
10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.
11. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.
12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.
13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.
14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

**Signature of Directors/Board Resolution.**

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting.

**WHEREFORE**, the Association, by its directors, executes this Stipulation.

Accepted by:

**SAN LUIS TRUST BANK, FSB**  
**San Luis Obispo, California**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
John A. Ronca, Jr.  
Chairman

By: \_\_\_\_\_ /s/  
C.K. Lee  
Regional Director, Western Region

Date: See Effective Date on page 1

\_\_\_\_\_/s/  
James H. Avery, Director

\_\_\_\_\_/s/  
Jonathan M. Hastings, Director

\_\_\_\_\_/s/  
Daniel L. Helbert, Director

\_\_\_\_\_/s/  
Bradley J. Lyon, Director

\_\_\_\_\_/s/  
Kenneth Rosenblum, Director

\_\_\_\_\_/s/  
Bill Smith, Director