

## **SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made this October 7, 2010 (Effective Date), by and through the Board of Directors (Board) of Fullerton Community Bank, FSB, Fullerton, California, OTS Docket No. 01618 (Association), and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Western Region (Regional Director);

**WHEREAS**, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

**WHEREAS**, the Association is subject to examination, regulation and supervision by the OTS; and

**WHEREAS**, based on its examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices resulting in inadequate asset quality, earnings, liquidity planning, and capital levels at the Association; and

**WHEREAS**, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices identified by the OTS report of examination as of March 29, 2010 (2010 ROE), the Association and the OTS have mutually agreed to enter into this Agreement; and

**WHEREAS**, on September 29, 2010, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement;

**NOW THEREFORE**, in consideration of the above premises, it is agreed as follows:

**Capital.**

1. Effective immediately, the Association shall have and maintain a Tier 1 (Core) Capital Ratio equal to or greater than eight percent (8%) after the funding of an adequate Allowance for Loan and Lease Losses (ALLL) and a Total Risk-Based Capital Ratio equal to or greater than twelve percent (12%).<sup>1</sup>

2. By November 1, 2010, the Association shall submit a written plan for the remainder of 2010 through December 31, 2012 to achieve and maintain the Association's capital at the levels prescribed in Paragraph 1 (Capital Plan) that is acceptable to the Regional Director. At a minimum, the Capital Plan shall:

- (a) identify the specific sources of additional capital and the timeframes and methods by which additional capital will be raised, including specific target dates and corresponding capital levels;
- (b) detail the Association's capital preservation and enhancement strategies with specific narrative goals; and
- (c) address all corrective actions set forth in the 2010 ROE relating to capital.

3. Upon receipt of written notification from the Regional Director that the Capital Plan is acceptable, the Association shall implement and adhere to the Capital Plan. A copy of the Capital Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within five (5) days after the Board meeting.

4. Effective immediately and until such time as the Association meets the capital requirements set forth in Paragraph 1, the Board shall review the Association's capital raising

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<sup>1</sup> The requirement in Paragraph 1 to have 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)(1)(iv).

efforts and the Association's compliance with the Capital Plan no later than thirty (30) days after the end of each calendar month. The Board shall ensure that its review is fully detailed in the appropriate monthly Board meeting minutes. A copy of the Board meeting minutes, including any reports, documents, or information reviewed by the Board, shall be provided to the Regional Director within five (5) days after the Board meeting.

5. Within fifteen (15) days after: (a) the Association fails to meet the capital requirements prescribed in Paragraph 1; (b) the Association fails to comply with the Capital Plan prescribed in Paragraph 2; or (c) any written request from the Regional Director, the Association shall submit a written Contingency Plan that is acceptable to the Regional Director.

6. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the 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 dissolution by filing an appropriate application with the OTS in conformity with applicable laws, regulations and regulatory guidance.

7. Upon receipt of written notification from the Regional Director, the Association shall implement and adhere to the Contingency Plan immediately. The Association shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the first (1<sup>st</sup>) and fifteenth (15<sup>th</sup>) of each month following implementation of the Contingency Plan.

**Business Plan.**

8. By November 1, 2010, the Association shall submit an updated comprehensive business plan for the remainder of 2010 through December 31, 2012 (Business Plan) that is acceptable to

the Regional Director and addresses all corrective actions in the 2010 ROE relating to the Association's Business Plan. At a minimum, the Business Plan shall conform to applicable laws, regulations and regulatory guidance and include:

- (a) plans to improve the Association's core earnings, reduce expenses, maintain appropriate levels of liquidity, and achieve profitability on a consistent basis throughout the term of the Business Plan; and
- (b) strategies for ensuring that the Association has the financial and personnel resources necessary to implement and adhere to the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, and comply with this Agreement.

9. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement and adhere to the Business Plan. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within five (5) days after the Board meeting.

10. Any material modifications<sup>2</sup> to the Business Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least thirty (30) days prior to implementation.

11. Within forty-five (45) days after the end of each quarter, after implementation of the Business Plan, the Board shall review quarterly variance reports on the Association's compliance with the Business Plan (Business Plan Variance Reports). The Business Plan Variance Reports shall:

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<sup>2</sup> A modification shall be considered material under this Section of the Agreement if the Association plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail to meet target amounts established in the Business Plan by more than ten percent (10%).

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken to address identified variances.

12. A copy of the Business Plan Variance Reports and Board meeting minutes shall be provided to the Regional Director within five (5) days after the Board meeting.

**Classified Asset Reduction Plan.**

13. By November 1, 2010, the Association shall submit to the Regional Director an updated written comprehensive Classified Asset Reduction Plan that is acceptable to the Regional Director. The Classified Asset Reduction Plan, at a minimum, shall:

- (a) include targets for the level of classified assets as a percentage of Tier 1 (Core) Capital and ALLL and timeframes for each such target;
- (b) include a description of the manner of, and methods for, reducing the Association's level of classified assets to the target set therein;
- (c) include a description of all underlying assumptions and projections and documentation supporting such assumptions and projections; and
- (d) address all corrective actions set forth in the 2010 ROE relating to classified assets.

14. Upon receipt of written notification from the Regional Director that the Classified Asset Reduction Plan is acceptable, the Association shall implement and adhere to the Classified Asset Reduction Plan.

15. Any modifications to the Classified Asset Reduction Plan must receive the prior written non-objection of the Regional Director. The Association shall submit proposed modifications to the Regional Director at least thirty (30) days prior to implementation.

16. Within forty-five (45) days after the end of each quarter, after the implementation of the Classified Asset Reduction Plan, the Board shall review quarterly variance reports on the Association's compliance with the Classified Asset Reduction Plan (Classified Asset Reduction Variance Reports). The Classified Asset Reduction Variance Reports shall:

- (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Classified Asset Reduction Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken to address identified variances.

17. A copy of the Classified Asset Reduction Variance Reports shall be provided to the Regional Director within five (5) days after the Board meeting.

**Concentrations of Credit.**

18. Within sixty (60) days, the Association shall submit an updated written program for identifying, monitoring, and controlling risks associated with concentrations of credit (Concentration of Risk Policy) that is acceptable to the Regional Director and addresses all corrective actions set forth in the 2010 ROE relating to concentrations of credit. The Concentration of Risk Policy shall comply with all applicable laws, regulations and regulatory guidance and shall:

- (a) establish comprehensive concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL, and document the appropriateness of such limits based on the Association's risk profile;
- (b) establish stratification categories of the Association's concentrations of credit, including commercial real estate loans, and establish enhanced risk analysis, monitoring, and management for each stratification category;
- (c) contain specific review procedures and reporting requirements, including written reports to the Board, designed to identify, monitor, and control the risks associated with concentrations of credit; and
- (d) contain a written action plan, including specific time frames, for bringing the Association into compliance with its concentration of credit limits.

19. Upon receipt of written notification from the Regional Director that the Concentration of Risk Policy is acceptable, the Association shall implement and adhere to the Concentration of Risk Policy. The Board's review of the Concentration of Risk Policy shall be documented in the Board meeting minutes. A copy of the Concentration of Risk Policy shall be provided to the Regional Director within five (5) days of adoption by the Board. Any request to modify the Concentration of Risk Policy 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.

**Internal Asset Review and Classification.**

20. Within sixty (60) days, the Association shall submit a revised written internal asset review and classification program (IAR Program) that is acceptable to the Regional Director,

addresses all corrective actions set forth in the 2010 ROE relating to internal asset review and classification, and complies with all applicable laws, regulations and regulatory guidance.

21. Upon receipt of written notification from the Regional Director that the IAR Program is acceptable, the Association shall implement and adhere to the IAR Program. The Board's review of the IAR Program shall be documented in the Board meeting minutes. A copy of the IAR Program shall be provided to the Regional Director within five (5) days of adoption by the Board.

**Brokered Deposits.**

22. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b).

**Directorate and Management Changes.**

23. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>3</sup> set forth in 12 C.F.R. Part 563, Subpart H.

**Dividends and Other Capital Distributions.**

24. Effective immediately, the Association shall not declare or pay 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 in accordance with applicable regulations and regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

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<sup>3</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.



### **Employment Contracts and Compensation Arrangements.**

25. Effective immediately, the Association shall not enter into, renew, extend or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

### **Golden Parachute and Indemnification Payments.**

26. 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 and, as to indemnification payments, 12 C.F.R. § 545.121.

### **Growth.**

27. 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.

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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(l).

### **Third-Party Contracts.**

28. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association<sup>6</sup> 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 (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (b) received written notice of non-objection from the Regional Director.

### **Transactions with Affiliates.**

29. 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.

### **Board Oversight of Compliance with Agreement.**

30. Effective immediately, the Board shall monitor and coordinate the Association's compliance with the provisions of this Agreement and the completion of all corrective actions required in the 2010 ROE. The Board shall review and adopt all policies and procedures required by this Agreement prior to submission to the OTS.

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<sup>6</sup> A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

31. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Association shall prepare a written compliance progress report for the Board (Compliance Tracking Report). The Compliance Tracking Report shall, at a minimum:

- (a) separately list each corrective action required by this Agreement and the 2010 ROE;
- (b) identify the required or anticipated completion date for each corrective action; and
- (c) discuss the current status of each corrective action, including the action(s) taken or to be taken to comply with each corrective action.

32. Within forty-five (45) days at the end of each quarter, beginning with the quarter ending December 31, 2010, the Board shall review the Compliance Tracking Report and all reports required to be prepared by this Agreement. Following its review, the Board shall adopt a resolution: (a) certifying that each director has reviewed the Compliance Tracking Report and all required reports; and (b) documenting any corrective actions adopted by the Board. A copy of the Compliance Tracking Report and the Board resolution shall be provided to the Regional Director within five (5) days after the Board meeting.

33. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Agreement.

**Effective Date.**

34. This Agreement is effective on the Effective Date as shown on the first page.

**Duration.**

35. This Agreement 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.**

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

**Submissions and Notices.**

37. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

38. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement 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:  
Philip A. Gerbick, Regional Director  
Attn: Timothy J. Lane, Assistant Director  
Office of Thrift Supervision  
1551 North Tustin Avenue, Suite 1050  
Santa Ana, CA 92705-8661  
Facsimile: (714) 796-4710
  
- (b) To the Association:  
Thomas E. Meyer, Chairman and Chief Executive Officer  
Fullerton Community Bank, FSB  
200 W. Commonwealth Avenue  
Fullerton, CA 92832-1811

**No Violations Authorized.**

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

**OTS Authority Not Affected.**

40. Nothing in this Agreement 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.**

41. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 40 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.**

42. The laws of the United States of America shall govern the construction and validity of this Agreement.

43. If any provision of this Agreement 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.

44. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

45. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

46. The terms of this Agreement 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.

**Enforceability of Agreement.**

47. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

**Signature of Directors/Board Resolution.**

48. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

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**WHEREFORE**, the OTS, acting by and through its Regional Director, and the Board of the Association hereby execute this Agreement.

Accepted by:

**FULLERTON COMMUNITY BANK, FSB  
Fullerton, California**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
Thomas E. Meyer, Chairman

By: \_\_\_\_\_ /s/  
Philip A. Gerbick  
Regional Director  
Western Region

Date: See Effective Date on page 1

\_\_\_\_\_/s/  
James P. Birdwell, Jr., Director

\_\_\_\_\_/s/  
Miguel A. Pulido, Director

\_\_\_\_\_/s/  
Barbara Gregory, Director

\_\_\_\_\_/s/  
Linda G. Meyer, Director

\_\_\_\_\_/s/  
Hugh M. Saddington, Director

\_\_\_\_\_/s/  
Stewart L. Shanfield, Director