

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: WN-11-008
)	
)	
FRONTIER BANK, FSB)	Effective Date: March 7, 2011
)	
Palm Desert, California)	
OTS Docket No. 14979)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Frontier Bank, FSB, Palm Desert, California, OTS Docket No. 14979 (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, its institution-affiliated parties,¹ and its successors and assigns, shall cease and desist from any action (alone or with others) for or toward causing, bringing about,

¹ The term "institution-affiliated party" is defined at 12 U.S.C. § 1813(u).

participating in, counseling, or the aiding and abetting the unsafe or unsound banking practices that resulted in operating the Association with:

- (a) an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (b) an excessive level of adversely classified assets;
- (c) significant weaknesses in policies and procedures related to internal audit;
- (d) an inadequate compliance management program;
- (e) inadequate staffing and monitoring of training for its Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance program; and
- (f) weaknesses in credit administration.

Capital.

2. Within ninety (90) days of the Effective Date, 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%).²

3. Within thirty (30) days of the Effective Date, the Association shall submit a written plan to achieve and maintain the Association's capital at the levels prescribed in Paragraph 2 (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;

² The requirement in Paragraph 2 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).

- (b) detail the Association's capital preservation and enhancement strategies with specific narrative goals;
 - (c) include detailed quarterly financial projections, including Tier 1 (Core) and Total Risk-Based Capital Ratios, for the period beginning March 31, 2011 and ending March 31, 2013;
 - (d) address the Association's level of classified assets, ALLL, earnings, asset concentrations, liquidity needs, and trends in the foregoing areas; and
 - (e) address current and projected trends in real estate market conditions in the markets in which the Association lends.
4. 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.
5. Within fifteen (15) days after: (a) the Association fails to meet the capital requirements prescribed in Paragraph 2; (b) the Association fails to comply with the Capital Plan prescribed in Paragraph 3; 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 (1st) and fifteenth (15th) of each month following implementation of the Contingency Plan.

Business Plan.

8. By March 31, 2011, the Association shall submit an updated comprehensive business plan for the period beginning March 31, 2011 and ending March 31, 2013 (Business Plan) that is acceptable to the Regional Director and addresses all corrective actions in the Report of Examination dated September 19, 2010 (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;
- (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, and maintain compliance with the capital requirements set forth in this Cease and Desist Order;
- (c) quarterly pro forma financial projections (balance sheet, regulatory capital ratios, and income statement) for each quarter covered by the Business Plan; and

(d) identification of all relevant assumptions made in formulating the Business Plan and a requirement that documentation supporting such assumptions be retained by the Association.

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 modifications³ 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 forty-five (45) days prior to implementation.

11. Within thirty (30) 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:

- (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 Report shall be provided to the Regional Director within five (5) days of the Board's review of that Report.

³ A modification shall be considered material under this Section of the Order 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%).

Classified Assets.

13. By March 31, 2011, the Association shall submit a revised, detailed, written plan with specific strategies, targets and timeframes to reduce⁴ the Association's level of classified assets (Classified Asset Reduction Plan) that is acceptable to the Regional Director. The Classified Asset Reduction Plan, at a minimum, shall include:

- (a) quarterly targets for the level of classified assets as a percentage of Tier 1 (Core) capital plus ALLL;
- (b) a description of the methods for reducing the Association's level of classified assets to the established targets; and
- (c) all relevant assumptions and projections based on a best-case scenario, a worst-case scenario, and a most probable case scenario, and documentation supporting such assumptions and projections.

14. Within thirty (30) days, the Association shall submit its Classified Asset Reduction Plan to the Regional Director for review and comment. 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. A copy of the Classified Asset Reduction Plan shall be provided to the Regional Director within thirty (30) days of adoption by the Board.

15. Within thirty (30) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall:

⁴ For purposes of this Paragraph, "reduce" means to collect, sell, charge off, or improve the quality of an asset sufficient to warrant its removal from adverse criticism or classification.

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to 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 by the Association to address the identified variances.

16. A copy of the Quarterly Asset Report shall be provided to the Regional Director within five (5) days of the Board's review of that Report.

Internal Audit.

17. By March 31, 2011, the Association shall develop and adhere to an Internal Audit Program that is appropriate to the size of the Association and the nature and scope of its activities. Such Internal Audit Program shall at a minimum provide for:

- (a) adequate monitoring of the Association's system of internal controls;
 - (b) documentation of the audit schedule and its relation to the identified risks at the Association;
 - (c) operation of Internal Audit with complete independence from management with Internal Audit reporting directly to the Audit Committee;
 - (d) an adequate number of qualified personnel to promote the timely completion of audits;
 - (e) appropriate documentation of tests, audit findings and corrective actions;
 - (f) verification and review of management actions to complete corrective actions;
- and
- (g) documented review by the Association's Audit Committee of the effectiveness of the Internal Audit Program.

Consumer Compliance Program.

18. By March 31, 2011, the Association shall develop a compliance management action plan to ensure that its Compliance Program addresses all corrective actions set forth in the 2010 ROE relating to consumer compliance. The Association's Compliance Program shall comply with all applicable consumer and other compliance laws, regulations and regulatory guidance (Compliance Laws and Regulations)⁵ and be appropriate for the Association's size, complexity, product lines and business operations. At a minimum, the Compliance Program action plan shall provide for:

- (a) the retention of a qualified loan origination compliance manager;
- (b) prompt review and update of compliance policies and procedures to address regulatory changes;
- (c) establishing enhanced compliance monitoring procedures for single-family loan applications and originations, including the development of reports of monitoring results and error rates;
- (d) provision of reports of compliance monitoring and corrective actions to management and the Board;
- (e) establishing responsibility for corrective actions; and
- (f) verification and review by the Board of management actions to complete corrective actions.

⁵ The term "consumer and other compliance laws, regulations and regulatory guidance" includes all laws and regulations referenced in Section 1100 (Compliance Oversight Examination Program) of the OTS Examination Handbook.

Credit Administration.

19. By March 31, 2011, the Association shall update its Credit Administration polices and procedures to ensure that that each designated loan⁶ in its portfolio has adequate flood insurance over the life of the loan.

Bank Secrecy Act.

20. By March 31, 2011, the Association shall:

- (a) complete the installation of a BSA/AML automated software monitoring system;
- (b) provide training to staff to ensure the timely filing of suspicious activity reports; and
- (c) ensure that the BSA officer has duties and responsibilities that permit effective coordination and monitoring of day-to-day compliance with BSA compliance.

Matters Requiring Board Attention.

21. The Association shall complete all matters requiring Board attention in the (2010 ROE) by the dates sets forth in the 2010 ROE.

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 Officers⁷ set forth in 12 C.F.R. Part 563, Subpart H.

⁶ The term “designated loan” is defined at 12 C.F.R. § 572.2(e).

⁷ The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

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.

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 payment⁸ or prohibited indemnification payment⁹ unless, with respect to each such payment, the Association

⁸ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁹ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

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.

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 Association¹⁰ 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

¹⁰ 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.

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 Order.

30. Effective immediately, the Board shall monitor and coordinate the Association's compliance with the provisions of this Order 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 Order prior to submission to the OTS.

31. Within thirty (30) days after the end of each quarter, beginning with the quarter ending March 31, 2011, 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 Order 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 thirty (30) days at the end of each quarter, beginning with the quarter ending March 31, 2011, the Board shall review the Compliance Tracking Report and all reports required to be prepared by this Order. 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 forty-five (45) days after the quarter end.

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

Effective Date, Incorporation of Stipulation.

34. 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.

35. 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.

36. 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.

37. 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.

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

39. 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:
Philip A. Gerbick, Regional Director
Attn: Dale R. Blackburn, Assistant Director
Office of Thrift Supervision
101 Stewart Street, Suite 1010
Seattle, WA 98101-2419
Facsimile: (206) 829-2620

- (b) To the Association:
Clifford A. Miller, Chairman
Frontier Bank, FSB
74175 El Paseo
Palm Desert, CA 92260

No Violations Authorized.

40. 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/
Philip A. Gerbick
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-11-008
)	
FRONTIER BANK, FSB)	Effective Date: March 7, 2011
)	
Palm Desert, California)	
OTS Docket No. 14979)	
_____)	

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 Frontier Bank, FSB, Palm Desert, California, OTS Docket No. 14979 (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 Report of Examination dated September 19, 2010 of the Association, the OTS finds that the Association has engaged in unsafe or unsound banking practices and/or violations of law and regulation that resulted in the Association operating with:

- (a) an inadequate level of capital protection for the volume, type, and quality of assets held by the Association;
- (b) an excessive level of adversely classified assets;
- (c) significant weaknesses in policies and procedures related to internal audit;
- (d) an inadequate compliance management program;
- (e) inadequate staffing and monitoring of training for Bank Secrecy Act/Anti-Money Laundering compliance program; and
- (f) weaknesses in credit administration.

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. A copy of the Board Resolution authorizing execution of this Stipulation shall be delivered to the OTS, along with the executed original(s) of this Stipulation.

[Remainder of Page Intentionally Left Blank]

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

Accepted by:

FRONTIER BANK, FSB
Palm Desert, California

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Clifford A. Miller
Chairman

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

Date: See Effective Date on page 1

_____/s/
Raymond J. Gustini, Director

_____/s/
David K. Karnes, Director

_____/s/
Andrew S. Montgomery, Director

_____/s/
Paul A. Schosberg, Director

_____/s/
Alvin V. Shoemaker, Director

_____/s/
Sam P. Spinello, Director