

#2014-098

Also Terminates OTS Order CN 09-45

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

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|--------------------------|---|---------------|
| In the Matter of: |) | |
| High Desert Bank |) | AA-EC-2014-22 |
| Bend, Oregon |) | |

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”), through his authorized representative, has supervisory authority over High Desert Bank, Bend, Oregon (“Bank”);

WHEREAS, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a “Stipulation and Consent to the Issuance of a Consent Order” (“Stipulation”), dated July 16, 2014, that is accepted by the Comptroller, through his duly authorized representative; and

WHEREAS, by this Stipulation, which is incorporated by reference, the Bank has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

NOW, THEREFORE, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

COMPLIANCE COMMITTEE

(1) Within ten (10) days of the date of this Order, the Board shall appoint and maintain an active Compliance Committee of at least three (3) directors, of which at least two (2) shall not be employees, former employees, or controlling shareholders of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1) and 12 C.F.R. § 223.2), or a

family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be immediately submitted in writing to the Director for Special Supervision (“Director”). The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s adherence to the provisions of this Order.

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

(3) Within thirty (30) days of the date of this Order, and by the end of every month thereafter or within such other time period as the Director requires in writing, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each Article of this Order, Bank personnel responsible for implementing the corrective actions, and the timeframes for completion;
- (b) actions taken to comply with each Article of this Order; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee’s report, with any additional comments by the Board, to the Director within ten (10) days of receiving such report.

ARTICLE II

BOARD TO ENSURE EFFECTIVE AND QUALIFIED MANAGEMENT

(1) By November 30, 2014, the Board shall ensure that the Bank has effective and qualified management in place for all senior executive officer positions to carry out the Board’s policies, take the necessary steps to implement corporate governance and decision-making processes to correct the Bank’s deficiencies in management, leadership, and Board oversight as described in the most recent Report of Examination (“ROE”), and take the necessary steps to

ensure compliance with applicable laws, rules, and regulations and compliance with the Order.

By November 30, 2014, the Board shall ensure the following:

- (a) that capable senior executive officers are in place to perform present and anticipated duties, factoring in each officer's past actual performance, experience, and qualifications, compared to their position description, duties and responsibilities, with particular emphasis on their proposed responsibilities to execute the Strategic Plan required by Article III of this Order, achieve and maintain the minimum capital ratios required by Article IV of this Order, and correct the concerns raised in the most recent ROE;
- (b) the identification of future senior executive management staffing requirements of each area of the Bank;
- (c) that clear lines of responsibility and authority exist for each member of senior executive management, including but not limited to, the Chairman of the Board, Chief Executive Officer ("CEO"), President, Chief Credit Officer ("CCO"), and Chief Financial Officer ("CFO");
- (d) that a management employment and succession program is in place to promote the retention and continuity of capable management;
- (e) that sufficient Bank policies, processes, personnel, and control systems are in place to effectively implement and adhere to all provisions of this Order;
- (f) that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order;

- (g) that an adequate process is in place to evaluate, at least annually, the Bank's overall internal operations, staffing, Board and management oversight and information systems, policies, procedures, and other risk management systems with time sensitive strategies to address any deficiencies;
- (h) that a sufficient process is in place to ensure that management appropriately responds to any audit, compliance, and/or regulatory criticisms; and
- (i) that the Board receives and reviews sufficient information from management (including scope, frequency, timing and content) regarding the operation of the Bank and compliance with this Order to enable them to provide oversight and fulfill their fiduciary duties and other responsibilities under law and as outlined in the OCC's "The Directors Book" and "Duties and Responsibilities of Directors" booklet (Section 501) of the *Comptroller's Handbook*.

(2) The Board shall perform and prepare an annual written performance appraisal for the Bank's President, CEO, and Chairman of the Board. The Board shall ensure that an annual written performance appraisal is performed and prepared for all other Bank senior executive officers. Each annual written performance appraisal shall evaluate the performance of each senior executive officer according to the position's description and responsibilities. If necessary and as appropriate, the Board shall engage a qualified independent third party to assist the Board in preparing the written performance appraisals. Each annual written performance appraisal also must evaluate the following as it applies to each senior executive officer:

- (a) compliance with objectives established by the Board;
- (b) compliance with Board approved policies and procedures;
- (c) compliance with Board approved strategic and capital plans;
- (d) development and implementation of action plans to remedy issues raised in ROEs or audit reports and compliance therewith; and
- (e) compliance with laws, regulations, regulatory guidance, and the Order.

(3) The Board shall ensure that the Bank addresses any deficiencies identified pursuant to paragraph two (2) of this Article.

ARTICLE III

STRATEGIC PLAN

(1) Within ninety (90) days of the date of this Order, the Board shall prepare and forward to the Director for his review, pursuant to paragraph (3) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a two (2) year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) the strategic goals and objectives to be accomplished, including key financial indicators and risk tolerances;
- (c) an assessment of the Bank's strengths, weaknesses, opportunities and threats that impact strategic goals and objectives;

- (d) an identification and prioritization of initiatives and opportunities, including timeframes that take into account the requirements of this Order;
- (e) a risk profile that evaluates credit, interest rate, liquidity, price, operational, compliance, strategic and reputation risks in relationship to capital;
- (f) a description of the Bank's targeted market(s), competitive factors in its identified target market(s), and a description of control systems to mitigate risks in the Bank's market(s);
- (g) an assessment of the Bank's present and planned products and services on or off balance sheet;
- (h) the identification of appropriate risk management systems to identify, measure, monitor, and control risks (including but not limited to policies and procedures over the credit, investment, funding, pricing, operational, and accounting functions that are consistent with safe and sound banking practices) within the Bank's present and planned products and services;
- (i) the identification of marketing strategies, marketing partners and funding strategies;
- (j) financial projections which shall be consistent with the Capital Plan required by Article IV;
- (k) assigned responsibilities and accountability for the strategic planning process; and
- (l) a description of systems and metrics designed to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) If the Board's Strategic Plan under paragraph (1) of this Article includes a proposed sale or merger of the Bank, the Strategic Plan shall, at a minimum, address the steps that will be taken and the associated timeline to ensure that within ninety (90) days after the receipt of the Director's written determination of no supervisory objection to the Strategic Plan, a definitive agreement for the sale or merger is executed.

(3) Prior to adoption by the Board, a copy of the Strategic Plan and any subsequent amendments or revisions thereto shall be submitted to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the Strategic Plan and any amendments or revisions thereto.

(4) The Bank may not initiate any action that deviates significantly from the Strategic Plan (that has received a no supervisory objection from the Director and that has been adopted by the Board) without a written determination of no supervisory objection from the Director. The Board must give the Director at least thirty (30) days advance written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems ("MIS"), internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan. For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's products and services, marketing strategies, marketing partners, underwriting practices and standards, credit administration, collection strategies or

operations, fee structure or pricing, accounting processes and practices, or funding strategies, any of which, alone or in the aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel or operations that may have a material impact on the Bank's operations or financial performance.

(5) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan that includes a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes.

(6) The Board shall review and update the Strategic Plan at least annually, no later than January 31 each year, and more frequently if necessary or if requested by the Director in writing, to cover the next two (2) year period.

(7) Until the Strategic Plan required under this Article has received a written determination of no supervisory objection from the Director, the Bank shall not significantly deviate from the products, services, asset composition and/or size, funding sources, structure, operations, policies, procedures, and/or market(s) of the Bank that existed before this Consent Order without first obtaining the Director's prior written determination of no supervisory objection to such significant deviation. Any request to the Director for prior written determination of no supervisory objection to a significant deviation must be submitted to the Director at least thirty (30) days in advance of the significant deviation, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, MIS, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change.

ARTICLE IV

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by October 31, 2014, and thereafter maintain the following capital ratios (as defined in 12 C.F.R. Parts 3 and 167, as applicable):

(a) Total risk-based capital ratio equal to or greater than twelve percent (12%); and

(b) Tier 1 capital to adjusted total assets ratio (“leverage ratio”) equal to or greater than eight percent (8%).

(2) The requirement in this Order 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. §1831*o* and 12 C.F.R. Parts 6 and 165, pursuant to 12 C.F.R. § 6.4.

(3) Within ninety (90) days of the date of this Order, the Board shall develop and implement an effective internal capital planning process to assess the Bank’s capital adequacy in relation to its overall risks and to ensure maintenance of appropriate capital levels, which shall in no event be less than the requirements of paragraph one (1) of this Article. The capital planning process shall be consistent with OCC Bulletin 2012-16, Guidance for Evaluating Capital Planning and Adequacy (June 7, 2012), and shall ensure the integrity, objectivity, and consistency of the process through adequate governance. The Board shall document the initial capital planning process and thereafter review and document the capital planning process at least annually or more frequently if requested by the Director in writing.

(4) Within ninety (90) days of the date of this Order, the Board shall forward to the Director for his review, pursuant to paragraph seven (7) of this Article, a written Capital Plan for

the Bank, consistent with the Strategic Plan required by Article III, covering at least a two (2) year period. The written Capital Plan shall, at a minimum:

- (a) include specific plans for the achievement and maintenance of adequate capital, which shall in no event be less than the requirements of paragraph one (1) of this Article;
- (b) identify and evaluate all material risks;
- (c) determine the Bank's capital needs in relation to material risks and strategic direction;
- (d) identify and establish a strategy to maintain capital adequacy and strengthen capital if necessary and establish a contingency or back-up capital plan commensurate with the Bank's overall risk and complexity;
- (e) include detailed quarterly financial projections which shall be consistent with the Strategic Plan required by Article III; and
- (f) include specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Order that will have an impact on the Bank's capital.

(5) If the Bank's written Capital Plan outlines a sale or merger of the Bank, the written Capital Plan shall address the steps that will be taken and the associated timeline to ensure that within ninety (90) days after the receipt of the Director's written determination of no supervisory objection to the written Capital Plan, a definitive agreement for the sale or merger is executed.

(6) The Bank may declare or pay a dividend or make a capital distribution only:

- (a) when the Bank is in compliance with its approved written Capital Plan and

would remain in compliance with its approved written Capital Plan immediately following the declaration or payment of any dividend or capital distribution; and

- (b) following the approval of the Director pursuant to 12 C.F.R. Part 163, Subpart E.

(7) Prior to adoption by the Board, a copy of the Bank's written Capital Plan shall be submitted to the Director for prior written determination of no supervisory objection. The Board shall review and update the Bank's written Capital Plan at least annually, no later than January 31 each year, and more frequently if requested by the Director in writing. Revisions to the Bank's written Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure adherence to the written Capital Plan and any amendments or revisions thereto.

(8) At least quarterly, the Board shall review financial reports and earnings analyses that evaluate the Bank's performance against the goals and objectives established in the written Capital Plan, as well as the Bank's written explanation of significant differences between the actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. This review shall include a description of the actions the Board will require the Bank to take to address any deficiencies. At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the written Capital Plan, which shall include a description of the actions the Board will require the Bank to take to address any deficiencies, which shall be documented in the Board meeting

minutes.

(9) If the Bank fails to maintain capital ratios required by paragraph one (1) of this Article, fails to submit a Capital Plan as required by paragraph four (4) of this Article, or fails to implement a Capital Plan to which the Director has provided a written determination of no supervisory objection, then the Bank may, in the Director's sole discretion, be deemed undercapitalized for purposes of this Order. The Bank shall take such corrective measures as the OCC may direct in writing from among the provisions applicable to undercapitalized depository institutions under 12 U.S.C. § 1831o(e) and 12 C.F.R. Parts 6 and 165. For purposes of this requirement, an action "necessary to carry out the purpose of this section" under 12 U.S.C. § 1831o(e)(5) shall include restoration of the Bank's capital to the minimum ratios required by this Order, and any other action deemed advisable by the OCC to address the Bank's capital deficiency or the safety and soundness of its operations.

ARTICLE V

LOAN PORTFOLIO MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Board shall adopt, and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program and corresponding policies and procedures shall be consistent with the "Loan Portfolio Management" booklet of the *Comptroller's Handbook*. The program shall include, but not be limited to, the following minimum requirements:

- (a) a revised written loan policy that is tailored to fit the Bank's needs;
- (b) procedures to ensure conformance with sound loan underwriting and approval requirements;

- (c) 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 information and ensuring perfected collateral documentation;
- (d) procedures to ensure satisfactory credit and collateral documentation;
- (e) procedures to track and analyze policy exceptions;
- (f) procedures to ensure the implementation of timely, complete, and accurate internal loan portfolio MIS; and
- (g) a Board-approved Home Owners Loan Act (“HOLA”) Plan, with appropriate timeframes and actions that describes how the Bank will achieve and maintain compliance with the HOLA limitations.

(2) The Board shall ensure that all Bank lenders or any other personnel performing credit analyses receive loan policy training at least annually and are adequately trained in cash flow analysis, particularly analysis using information on a global cash flow basis, evaluation of contingent liabilities, and verification of liquidity. The Board shall ensure that processes and procedures are in place to ensure that additional training is provided as needed.

ARTICLE VI

CONCENTRATIONS OF CREDIT

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to written policies and procedures to identify, measure, monitor and control concentrations of credit that are consistent with the guidance set forth in OCC Bulletin 2006-46, Interagency Guidance on CRE Concentration Risk Management (Dec. 6, 2006) and the “Concentrations of Credit” booklet of the *Comptroller’s Handbook*. The program shall include,

but not be limited to, the following minimum requirements:

- (a) a review of the balance sheet to identify any concentrations of credit;
- (b) a written analysis of any concentration of credit identified above in order to identify and assess the inherent credit, liquidity, and interest rate risk;
- (c) policies and procedures to control and monitor concentrations of credit;
and
- (d) an action plan approved by the Board to reduce the risk of any concentration deemed imprudent in the above analysis.

(2) For purposes of this Article, a concentration of credit is as defined in the “Concentrations of Credit” booklet of the *Comptroller’s Handbook*.

(3) The Board shall ensure that future concentrations of credit are subjected to the analysis required by subparagraph (1)(b) and that the analysis demonstrate that the concentration will not subject the Bank to undue credit, liquidity, or interest rate risk.

ARTICLE VII

PROBLEM ASSET MANAGEMENT

(1) Within ninety (90) days of the date of this Order, the Board shall adopt and the Bank, subject to Board review and ongoing monitoring, shall immediately implement and thereafter ensure Bank adherence to a revised Problem Asset Reduction Plan (“PARP”). The PARP shall be designed to eliminate the basis of criticism of assets criticized in the most recent ROE, in any subsequent ROE, by any internal or external loan review, or in any list provided to management by OCC examiners during any examination as “doubtful,” “substandard,” or “special mention,” and shall include, at a minimum:

- (a) targets for the level of criticized assets as a percentage of Tier 1 capital

plus the Allowance for Loan and Lease Losses (“ALLL”) and the timeframes for each such target;

- (b) a description of the methods for reducing the level of criticized assets to the established targets;
- (c) sufficient staff with the qualifications, skills, and experience to effectively manage and resolve problem assets;
- (d) adequate MIS to measure the status of problem assets; and
- (e) the development of Asset Workout Plans (“AWPs”) identifying all credit relationships and other assets totaling in aggregate one hundred fifty thousand dollars (\$150,000) or more, criticized as “doubtful,” “substandard,” or “special mention.” The AWPs must be updated and submitted to the Board, or a committee thereof, monthly and to the Director quarterly.

(2) Each AWP shall cover an entire credit relationship and include, at a minimum, analysis and documentation of the following:

- (a) the origination date and any renewal or extension dates, amount, purpose of the loan, and the originating and current loan officer(s);
- (b) the expected primary and secondary sources of repayment, and an analysis of the adequacy of the repayment source;
- (c) the appraised value of supporting collateral and the position of the Bank’s lien on such collateral, where applicable, as well as other necessary documentation to support the current collateral valuation;
- (d) an analysis of current and complete credit information, including global

- cash flow analysis where loans are to be repaid from operations;
- (e) results of an impairment analysis as required under Accounting Standards Codification (“ASC”) 310-10;
 - (f) accurate risk ratings consistent with the classification standards contained in the “Rating Credit Risk” booklet of the *Comptroller’s Handbook*;
 - (g) appropriate accrual status pursuant to the FFIEC Instructions for the Preparation of Consolidated Reports of Condition and Income;
 - (h) significant developments, including a discussion of changes since the prior AWP, if any; and
 - (i) the proposed action to eliminate the basis of criticism and the timeframe for its accomplishment, including, if appropriate, an exit strategy.

(3) The Bank shall not extend credit, directly or indirectly, including renewals, modifications, or extensions, to borrowers whose loans or other extensions of credit are subject to a AWP, or are criticized in any ROE, in any internal or external loan review, or in any list provided to management by OCC examiners during any examination, unless and until a majority of the Board or a designated committee thereof, determines in writing that each of the following conditions is met:

- (a) the extension of additional credit is necessary to promote the best interests of the Bank;
- (b) the Bank has performed a written credit and collateral analysis as required by paragraphs (2)(c) and (2)(d) of this Article and, if necessary, the proposed action referred to in paragraph (2)(i) of this Article is revised, as appropriate;

- (c) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of additional credit; and
- (d) a copy of the findings and approval of the Board or designated committee thereof shall be maintained in the credit file of the affected borrower.

(4) At least quarterly, the Board or a designated committee thereof, shall review and evaluate the effectiveness of the PARP and the AWP's. The Board's review shall include an assessment of the Bank's compliance with the PARP and the AWP's. Written documentation of the factors considered and conclusions reached by the Board in determining the Bank's compliance and progress reducing the level of problem assets shall be maintained.

ARTICLE VIII

COMPENSATION PROGRAM

(1) Within forty-five (45) days, the Board shall identify an independent third party to perform a review and evaluation of the Bank's compensation program for all Bank officers and directors. Prior to engaging the independent third party, the Board shall submit the name and qualifications of the independent third party, and a copy of the proposed contract with the independent third party, to the Director for prior written determination of no supervisory objection. The independent third party must complete and submit a written report to the Board within sixty (60) days of the Board's receipt of the Director's written determination of no supervisory objection. Immediately following completion, the Bank shall submit the results of the independent third party's review and evaluation to the Director. At a minimum, and in writing, the independent third party shall review and evaluate the reasonableness of all compensation, whether direct or indirect, for each officer and director, including individual components (e.g., base salary, incentive compensation, fees, etc.) and other benefits (e.g.,

insurance, retirement, leave, travel allowances or reimbursement for travel expenses, etc.) to ensure that compensation for each officer and director, at a minimum:

- (a) is market-based, reasonable, and proportionate to the services rendered;
- (b) considers the condition of the Bank;
- (c) complies with OCC Bulletin 2010-24;
- (d) is consistent with the Strategic Plan required by Article III of this Order;
and
- (e) complies with 12 C.F.R. Part 170.

(2) Within ten (10) days of the receipt of the independent third party's report, the Board shall develop a written plan to address the findings and recommendations noted in the independent third party's report. Thereafter, the Board shall implement and ensure adherence to the written plan.

(3) The Board shall review its compensation practices annually and ensure that they comply with Section III of Appendix A to 12 C.F.R. Part 170.

(4) All documentation supporting the payment of any salary, consulting fee, expense reimbursement or other type of compensation, whether direct or indirect, to a Bank officer or director shall be preserved in the Bank.

ARTICLE IX

MORTGAGE LENDING OPERATIONS

(1) Within sixty (60) days of the date of this Order, the Board shall adopt, and the Bank, subject to Board review and ongoing monitoring, shall implement and thereafter ensure adherence to a written risk management and oversight program, including prudent, effective policies, procedures, and controls, to govern the Bank's mortgage lending operations. For

purposes of this Article, “mortgage lending” includes, but is not limited to, loan originations, purchases and sales of loans, and acting as a mortgage broker or agent.

(2) The written program shall be consistent with the “Mortgage Banking” booklet of the *Comptroller’s Handbook* and shall be adequate to ensure compliance with all applicable laws, rules, and regulations. The written program shall include, at a minimum:

- (a) comprehensive mortgage lending policies and procedures, including both pre-funding and post-funding policies and procedures;
- (b) a quality control program that ensures adequate and timely reviews of the Bank’s mortgage lending operations and activities, including those conducted by and through the Bank’s loan production office and its related operations. The quality control program shall include, at a minimum, monthly testing of a sample of loans, and shall be adequate to ensure that all forms, processing procedures, and underwriting and closing procedures employed by the Bank comply with all applicable laws, rules, and regulations, Bank policies, and requirements for third parties associated with the Bank’s mortgage lending operations;
- (c) procedures for evaluating the financial condition and background of third parties associated with the Bank’s mortgage lending operations, including criteria for their initial approval and annual recertification/approval. These procedures shall address contractual requirements, potential conflicts of interest, underwriting criteria, compliance with laws and regulations, specific representations and warranties, and recourse provisions, and shall include an annual financial review of third parties associated with the

Bank's mortgage lending operations;

- (d) monitoring procedures to ensure that third parties associated with the Bank's mortgage lending operations comply with any applicable contracts or agreements;
- (e) internal audit and risk assessment processes for reviewing and testing mortgage lending operations to ensure compliance with Bank policies and procedures, and all applicable laws, rules and regulations;
- (f) comprehensive MIS that include, at a minimum:
 - (i) requiring accurate and timely reports to be completed and presented to the Bank's Board, detailing the findings from the reviews performed pursuant to subparagraphs (b), (c), (d), and (e);
 - (ii) providing accurate, up-to-date information on all areas of mortgage lending operations;
 - (iii) identifying and evaluating operating results to support the preparation of accurate financial statements;
 - (iv) facilitating monitoring of primary sources of risk; and
 - (v) establishing and maintaining systems for monitoring compliance with laws, regulations, and third party requirements; and
- (g) a comprehensive training program, commensurate with job duties, for all appropriate personnel to ensure compliance with all applicable laws, rules, and regulations. The training program shall include, at a minimum:
 - (i) training for new personnel completed within thirty (30) days after joining the Bank; and

- (ii) ongoing training provided at least annually or upon significant changes to applicable laws and regulations.

ARTICLE X

INTEREST RATE RISK POLICY

(1) Within ninety (90) days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet of the *Comptroller's Handbook*. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile, including back-testing procedures;
- (d) employment of competent personnel to manage interest rate risk;
- (e) prudent limits on the nature and amount of interest rate risk that can be taken; and
- (f) periodic review of the Bank's adherence to the policy.

ARTICLE XI

ENGAGEMENT OF THIRD PARTIES

(1) The Bank shall not renew or enter into new contracts or engagements with a third party company, entity, or person to perform internal audit, interest rate risk management, loan

review, liquidity risk management, information technology, or financial services for, or on behalf of, the Bank unless the engagements are in compliance with OCC Bulletin 2013-29, Third-Party Relationships: Risk Management Guidance (Oct. 30, 2013).

(2) The Bank must routinely monitor and document its review of the performance and activities of each third party, including ensuring that committed goods and services are received, that the third party is in compliance with the written contract, and that the third party remains a viable provider of services. The Board shall immediately take appropriate action if the third party is not complying with the written contract or engagement and shall maintain documentation of any such action.

ARTICLE XII

THIRD PARTY CONTRACTS INVOLVING SALE, MERGER, OR RECAPITALIZATION

(1) The Bank shall not enter into any contract with a third party to assist in the sale, merger, or recapitalization of the Bank that requires the payment of anything other than expenses prior to such sale, merger, or recapitalization, or that requires the Bank to pay, directly or indirectly, the cost of performing due diligence, or other services related to the transaction, unless the Bank first receives the Director's written determination of no supervisory objection.

(2) Any request for the Director's written determination of no supervisory objection shall include:

- (a) the Board's written analysis of why the proposed contract is in the best interests of the Bank;
- (b) a description of the due diligence credit review, fairness opinion or any other services to be performed by the third party, including a copy of the proposed contract or engagement;

- (c) a description of the Bank's due diligence process for agreeing to the services to be performed by a potential purchaser or merger partner; and
- (d) a determination by the Board that:
 - (i) the activities to be performed by the third party as part of the sale or merger requirements are fair and reasonable to the Bank;
 - (ii) the parties are able to perform under the contract or commitment;
 - (iii) the fees the Bank is required to pay to the third party are reasonable for the services provided; and
 - (iv) the contract is in the best interests of the Bank.

(3) Following any written determination of no supervisory objection by the Director, the Board shall regularly monitor the contractor or service provider's performance to ensure that the contractor or service provider is complying with the written contract or engagement. The Board shall immediately take appropriate action if the contractor or service provider is not complying with the written contract or engagement and shall maintain documentation of any such items.

ARTICLE XIII

OTHER PROVISIONS

(1) Although the Bank is by this Order required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Director, the Board has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United

States of America to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) Each citation or referenced guidance included in this Order includes any subsequent guidance that replaces, supersedes, amends, or revises the cited law, regulation, or guidance.

(4) The provisions of this Order are effective upon issuance by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller, through his authorized representative.

(5) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(6) If the Bank requires a waiver or suspension of any provision or an extension of any timeframe within this Order, the Board shall submit a written request to the Director asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail, with relevant supporting documentation, the special facts and circumstances that support the waiver or suspension of any provision or an extension of a timeframe within this Order.

(7) The Director's decision concerning a request submitted pursuant to paragraph six (6) of this Article is final and not subject to further review.

(8) In each instance in this Order in which the Board or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) ensure that the Bank has sufficient processes, management, personnel, and control systems to ensure implementation of and adherence to this Order, and that Bank management and personnel have sufficient training and authority to execute their duties under this Order;
- (b) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Order;
- (c) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Order;
- (d) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (e) require corrective action be taken in a timely manner for any non-compliance with such actions.

(9) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

(10) The Office of Thrift Supervision (“OTS”) issued a Cease and Desist Order to the Bank on December 29, 2009, OTS Order No. CN 09-45. This Order replaces OTS Order No. CN 09-45 in its entirety and, therefore, OTS Order No. CN 09-45 is hereby terminated. Provided however, no provision in this Order shall bar or otherwise limit any enforcement action the OCC may choose to initiate, in its discretion, against the Bank or its institution-affiliated parties for any failure to comply with the OTS Order No. CN 09-45 while it was effective.

(11) All reports or plans which the Bank or Board has agreed to submit to the Director

pursuant to this Order shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision
Comptroller of the Currency
400 7th St., S.W., Suite 3E-218
Mail Stop 8E-12
Washington, DC 20219

with a copy to:
Seattle Field Office
Comptroller of the Currency
101 Stewart St., Suite 1010
Seattle, WA 98101-2419

(12) The terms of this Order, 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.

IT IS SO ORDERED, this 16th day of July, 2014.

/s/

James R. Moore
Director for Special Supervision

7/16/2014

Date

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

| | | |
|--------------------------|---|---------------|
| In the Matter of: |) | |
| High Desert Bank |) | AA-EC-2014-22 |
| Bend, Oregon |) | |

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against High Desert Bank, Bend, Oregon (“Bank”) pursuant to 12 U.S.C. § 1818(b) through the issuance of a Notice of Charges for unsafe or unsound banking practices, including those relating to capital levels, asset quality, and earnings; and

WHEREAS, the Bank, in the interest of compliance and cooperation, consents to the issuance of a Consent Order, dated July 16, 2014 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order (“Stipulation”).

NOW THEREFORE, in consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

JURISDICTION

(1) The Bank is a federal savings association examined by the Comptroller pursuant to the Homeowners’ Loan Act of 1933, as amended 12 U.S.C. § 1461 *et. seq.*

(2) The Bank is an “insured depository institution” within the meaning of 12

U.S.C. §§ 1813(c) and 1818(b).

(3) The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

ARTICLE II

AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, hereby consents and agrees to the issuance of the Order by the Comptroller.

(2) The Bank further agrees that said Order shall be deemed an “order issued with the consent of the depository institution” as defined in 12 U.S.C. § 1818(h)(2), and consents and agrees that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818.

(3) 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, 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.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Order and/or execute the Order.

(5) The Bank also expressly acknowledges that no officer or employee of the OCC 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.

(6) The terms and provisions of the Stipulation and the Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

Nothing in this Stipulation or the Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Order.

ARTICLE III

WAIVERS

- (1) The Bank, by signing this Stipulation, hereby waives:
 - (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
 - (b) any and all procedural rights available in connection with the issuance of the Order;
 - (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(b) and (h), 12 C.F.R. Part 109;
 - (d) all rights to seek any type of administrative or judicial review of the Order;
 - (e) any and all rights to challenge or contest the validity of the Order;
and
 - (f) any and all claims for fees, costs, or expenses against the Comptroller, or any of his agents or employees, related in any way to this enforcement matter or this Order, whether arising under common law or the terms of any statute, including, but not limited

to the Equal Access to Justice Act, 5 U.S.C. § 504 and 28 U.S.C. § 2412.

ARTICLE IV

CLOSING PROVISIONS

(1) The provisions of this Stipulation and Order shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, he deems it appropriate to do so to fulfill the responsibilities placed upon him by the several laws of the United States of America.

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

/s/

James R. Moore
Director for Special Supervision

7/16/2014

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.

/s/

Stephen J. Ferber

7/8/2014

Date

/s/

Alexander E. Hamilton

7/8/2014

Date

/s/

Randolph L. Miller

7/8/2014

Date

/s/

Bradford J. Miller

7/11/2014

Date

/s/

Russell A. Schaub

7/11/2014

Date