

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: WN-09-026
)	
)	
LA JOLLA BANK, FSB)	Effective Date: September 9, 2009
)	
Rancho Santa Fe, California)	
OTS Docket No. 08247)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, La Jolla Bank, FSB, Rancho Santa Fe, California, OTS Docket No. 08247 (Association), by and through its Board of Directors (Board) has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

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

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

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in or counseling or aiding and abetting the unsafe or unsound practices that resulted in inadequate asset quality, earnings, liquidity planning, and capital levels at the Association.

Capital.

2. By December 31, 2009, the Association shall meet and maintain a Tier 1 Core Capital ratio equal to or greater than eight percent (8%) and a Total Risk-Based Capital ratio equal to or greater than twelve percent (12%).¹

3. Within thirty (30) days, the Board shall submit a written Capital Plan to the Regional Director for review and comment. The Capital Plan shall address how the Association will meet and maintain the capital ratios set forth in Paragraph 2 of this Order. At a minimum, the Capital Plan shall:

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

4. Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Capital Plan required by the Regional Director. Thereafter, the Board shall adopt and the Association shall implement and comply with the

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

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

5. On the first (1st) and fifteenth (15th) of each month, following the month ending September 30, 2009, Senior Executive Officers (Management)² shall provide the Regional Director and the Board with written updates on the status of the steps taken by the Association to comply with the Capital Plan. After implementation of the Capital Plan, Management shall prepare monthly variance reports on the Association's compliance with the Capital Plan within thirty (30) days after the month ending September 30, 2009. Such variance reports shall: (a) detail actual operating results versus projected results; (b) include detailed explanations of any material deviations; and (c) include a description of the specific corrective actions or measures that have been implemented or are proposed to address each material deviation.

6. The Board's review of the monthly variance reports and evaluation of Management and the Association's compliance with the elements of the Capital Plan shall be thoroughly documented in the Board meeting minutes. The Association shall submit the Board meeting minutes to the Regional Director within five (5) days of the Board meeting.

7. Within fifteen (15) days of the date the Association does not meet the required Tier 1 Core Capital Ratio of eight percent (8%) or the Total Risk-Based Capital ratio of twelve percent (12%) following December 31, 2009, or that the Association is not in compliance with the Capital Plan implemented pursuant to Paragraph 3 of this Order, or from any request by the Regional Director for the submission of a Contingency Plan, the Board shall submit a Contingency Plan to the Regional Director for review and written notice of non-objection. 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 date of receipt of all required regulatory approvals or sixty

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

(60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by another federally insured depository institution or holding company thereof; or (b) voluntary liquidation by filing an appropriate application with OTS in conformity with federal laws and regulations. Within fifteen (15) days of the receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Contingency Plan required by the Regional Director. Thereafter, the Board shall adopt the Contingency Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the final Contingency Plan to the Regional Director. The Association shall immediately implement the Contingency Plan when directed to do so by the Regional Director.

8. Once the Contingency Plan has been implemented, the Association shall provide written status reports to the Regional Director detailing the Association's actions taken and progress in executing the Contingency Plan by no later than the first (1st) and fifteenth (15th) of each month following the implementation of the Contingency Plan until such time as the Association has a Tier 1 core capital ratio of at least eight percent (8%) and a total risk-based capital ratio of at least twelve percent (12%) and is in compliance with its Capital Plan. The status reports shall detail: any contacts with investment bankers, any parties doing due diligence, any offers relating to an acquisition or a merger, or the execution of binding letters of intent or purchase.

Business Plan.

9. Within thirty (30) days, the Board shall submit a written comprehensive business plan covering at least through December 31, 2012 (Business Plan) to the Regional Director for review and comment. The Business Plan shall, at a minimum, include: (a) a detailed narrative of the Board's plans and strategies to strengthen and improve the Association's operations, earnings and profitability; (b) a detailed discussion of the Association's current financial position and resources and the Board's plans and strategies for preserving and enhancing the Association's

financial resources to meet the Association's operational projections under the Business Plan, adequately support the Association's risk profile, meet and maintain the capital ratios set forth in Paragraph 2 of this Order, and satisfy the Association's liquidity needs; (c) quarterly pro forma financial projections (balance sheet and income statement) for each quarter covered by the Business Plan; and (d) all relevant assumptions and projections, as well as documentation supporting such assumptions and projections.

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

11. Any material modifications to the Business Plan shall be submitted to the Regional Director for review and written non-objection thirty (30) days prior to the proposed implementation date unless such time period is waived in writing by the Regional Director.

12. Within forty-five (45) days after the close of each calendar quarter beginning with the quarter ending December 31, 2009, the Board shall review quarterly variance reports prepared by Management on the Association's compliance with the approved Business Plan (Quarterly Business Plan Variance Reports). The Quarterly Business Plan Variance Reports shall include actual operating results versus projected results, detailed explanations of any material deviations from the Business Plan, and a specific description of the corrective actions or measures that have been implemented, proposed or are under consideration to correct any material deviation.

13. The Board shall provide the Regional Director with a copy of Management's Quarterly Business Plan Variance Reports and the Board meeting minutes detailing the Board's review of the Quarterly Business Plan Variance Reports, including the identification of any corrective

actions adopted by the Board, and the Board's evaluation and assessment of Management and the Association's compliance with the Business Plan within ten (10) days after the date of the Board meeting at which the Board's review was conducted.

Classified Asset Reduction Plan.

14. Within thirty (30) days, the Board shall review and approve a written comprehensive Classified Asset Reduction Plan that will return asset quality to a level acceptable to the Regional Director and within a time frame satisfactory to the Regional Director. At a minimum, the Classified Asset Reduction Plan shall include:

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

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

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

17. Within forty-five (45) days after the close of each calendar quarter beginning with the quarter ending December 31, 2009, the Board shall review quarterly variance reports prepared by Management on the Association's compliance with the approved Classified Asset Reduction Plan (Quarterly Classified Asset Reduction Plan Variance Reports). The Quarterly Classified Asset Reduction Plan Variance Reports shall include actual operating results versus projected results, detailed explanations of any material deviations from the Classified Asset Reduction Plan, and a specific description of the corrective actions or measures that have been implemented, proposed or are under consideration to correct any material deviation.

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

Management Study.

19. Within thirty (30) days, the Association shall identify and provide the Regional Director, for review and written non-objection, the name and resume of an experienced, independent third-party consultant to conduct a management study of the Association (Management Consultant).

At a minimum, the Management Consultant shall be retained to assess the adequacy of the Association's management resources and structure to support: (a) current and projected operations, and (b) risk management practices for the size and complexity of the Association.

The Management Consultant shall also review the Association's executive compensation program, including all bonus programs available to Association executives, to assess whether the

program promotes incentives consistent with the safe and sound operation of the Association.

The Association shall retain the Management Consultant within fifteen (15) days of receipt of the Regional Director's written non-objection.

20. Within thirty (30) days after the date of the Association's engagement of the Management Consultant, the Management Consultant shall deliver a final, written report (Management Report) containing the findings and recommendations of the Management Consultant to the Regional Director and the Board.

21. Within fifteen (15) days of receipt of the Management Report, the Board shall submit to the Regional Director for review and comment a written plan that addresses the findings and recommendations contained in the Management Report and describes the specific actions that the Association proposes to take to implement the recommendations of the Management Report (Management Plan). Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Management Plan required by the Regional Director. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the final Management Plan to the Regional Director.

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

Liquidity.

23. Within thirty (30) days, the Board shall submit a written comprehensive Liquidity Plan to the Regional Director for review and comment. The Liquidity Plan shall contain specific Board strategies for ensuring that the Association maintains adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base. At a minimum, the Liquidity Plan must include: (a) a cash flow analysis that includes reasonable assumptions,

identifies anticipated funding needs and the sources of liquidity to meet those needs, considers the level and maturity of brokered deposits, and addresses potential contingent liabilities; and (b) identification of alternative funding sources to meet extraordinary demands, at a minimum, the selling of assets, obtaining lines of credits from correspondent institutions, recovering charged-off assets, or injecting additional equity capital. Further, the Liquidity Plan shall require provision of regular liquidity reports to the Board and the Regional Director in a frequency required by the Regional Director.

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

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

Construction and Land Loans.

26. Effective immediately, the Association shall not make, purchase, or commit to make or purchase new construction or land loans except for legally binding commitments existing as of April 28, 2009. For each such loan for which the Association contends it has a legally binding commitment, the Association shall provide the Regional Director with an acceptable opinion of counsel supporting such conclusion for the review of the Regional Director at least thirty (30) days prior to the proposed funding date.

27. Effective immediately, the Association shall not refinance or make or commit to make renewals or modifications of existing construction or land loans that were originated in an

amount greater than or equal to three million dollars unless it first: (a) provides the Regional Director with a minimum of thirty (30) days advance notice of a proposed renewal or modification, including all documentation required to evaluate the proposal; and (b) receives a written notice of non-objection from the Regional Director.

28. Effective immediately, the Association shall not make, purchase, or commit to make or purchase any loan the proceeds of which will be paid over to or used for the benefit of any borrower on existing construction or land loans that were originated in an amount greater than or equal to three million dollars unless it first: (a) provides the Regional Director with a minimum of thirty (30) days advance notice of a proposed renewal or modification, including all documentation required to evaluate the proposal; and (b) receives a written notice of non-objection from the Regional Director.

29. Within sixty (60) days, the Board shall submit a written Concentration Plan to the Regional Director for review and comment. The Concentration Plan will detail how the Association will reduce its existing concentration in construction and land loans as a percentage of Tier 1 Capital plus ALLL to a level acceptable to the Regional Director within a time frame satisfactory to the Regional Director. At a minimum, the Concentration Plan shall include:

- (a) targets for the concentration of construction and land loans as a percentage of Tier 1 Capital plus ALLL and time frames for each such target;
- (b) a description of the manner and methods for reducing the Association's level of construction and land loans to the targets set therein, and
- (c) all relevant assumptions and projections and documentation supporting such assumptions and projections.

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

Director. Thereafter, the Board shall adopt and the Association shall implement and comply with the Concentration Plan. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the final Concentration Plan to the Regional Director.

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

32. Within forty-five (45) days after the close of each calendar quarter beginning with the quarter ending September 30, 2009, the Board shall review quarterly variance reports prepared by Management on the Association's compliance with the approved Concentration Plan (Quarterly Classified Concentration Plan Variance Reports). The Quarterly Classified Concentration Plan Variance Reports shall include actual operating results versus projected results, detailed explanations of any material deviations from the Concentration Plan, and a specific description of the corrective actions or measures that have been implemented, proposed or are under consideration to correct any material deviation.

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

Internal Asset Review (IAR).

34. Within fifteen (15) days, the Association shall identify and provide the Regional Director, for review and written non-objection, the name and resume of an experienced, independent third-party consultant to conduct a review of the Association's Internal Asset Review (IAR) structure

and the Association's internal asset review policies, procedures and practices and provide recommendations to the Association (IAR Consultant). The Association shall retain the IAR Consultant within fifteen (15) days of receipt of the Regional Director's non-objection.

35. Within forty-five (45) days after the date of the Association's engagement of the IAR Consultant, the IAR Consultant shall deliver a final, written report (IAR Report) containing the findings and recommendations of the IAR Consultant to the Regional Director and the Board.

36. Within fifteen (15) days of receipt of the IAR Report, the Board shall submit to the Regional Director for review and comment a written plan that addresses the findings and recommendations contained in the IAR Report and describes the specific actions that the Association proposes to take to implement the recommendations of the IAR Report. (IAR Plan). Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the IAR Plan required by the Regional Director. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the final IAR Plan to the Regional Director.

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

Loan Review.

38. Within fifteen (15) days, the Association shall identify and provide the Regional Director, for review and written non-objection, the name and resume of an experienced, independent third-party consultant to conduct an asset classification review of the Association's loan portfolios including commercial unsecured and partially secured loans, land loans, construction loans, commercial real estate, multifamily mortgage loans, non-owner occupied luxury home loans, and commercial/Small Business Administration loans, including reviews of appraisals as appropriate

(Loan Review Consultant). The review shall be conducted consistent with the guidance set forth in 12 C.F.R. § 560.160 and Section 260 of the OTS Examination Handbook. The Association shall retain the Loan Review Consultant within fifteen (15) days of receipt of the Regional Director's non-objection.

39. The asset classification review conducted by the Loan Review Consultant shall include the following:

- (a) one hundred percent (100%) of the commercial unsecured and partially secured loans;
- (b) seventy percent (70%) of the total dollar amount of the land loan portfolio starting from the largest loan relationship and moving progressively through the next largest loan relationship until the 70% coverage ratio is reached and then a random sample of the remaining land loans;
- (c) seventy percent (70%) of the total dollar amount of the construction loan portfolio starting from the largest loan relationship and moving progressively through the next largest loan relationship until the 70% coverage ratio is reached and then a random sample of the remaining construction loans; and
- (d) fifty percent (50%) of the total dollar amount of each of the remaining loan portfolio categories, including commercial real estate, multifamily mortgage loans, non-owner occupied luxury loans, and commercial/Small Business Administration loans, starting from the largest loan relationship in each category and moving through the next largest loan relationship until the 50% coverage ratio is reached for each category and then a random sample of the remaining loans in each category.

40. Within forty-five (45) days after the date of the Association's engagement of the Loan Review Consultant, the Loan Review Consultant shall deliver a final, written report (Asset

Classification Report) containing the findings and recommendations of the Loan Review Consultant to the Regional Director and the Board.

41. Within fifteen (15) days of receipt of the Asset Classification Report, the Board shall submit to the Regional Director for review and comment a written plan that addresses the findings and recommendations contained in the Asset Classification Report and describes the specific actions that the Association proposes to take to implement the recommendations of the Asset Classification Report (Asset Classification Plan). Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the Asset Classification Plan required by the Regional Director. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the final Asset Classification Plan to the Regional Director.

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

Allowance for Loan and Lease Losses.

43. Within fifteen (15) days, the Association shall identify and provide the Regional Director for review and non-objection, the name and resume of an experienced, independent third-party consultant to conduct a review of the Association's allowance for loan and lease losses (ALLL) to assess whether: (a) the Association's ALLL methodology is consistent with regulatory requirements and guidance, including, but not limited to 12 C.F.R. § 560.160; Section 260 of OTS Examination Handbook (Adequacy of Valuation Allowances); OTS CEO Letter No. 250: Interagency Policy Statement on the Allowance for Loan and Lease Losses And Questions and Answers on Accounting for Loan and Lease Losses (2006 ALLL Policy Statement); and OTS CEO Letter No. 304: ALLL - Observed Thrift Practices Including Sound Practices; and

Statement of Financial Accounting Standards (SFAS) Nos. 5 and 114; and (b) whether the Association's ALLL is adequate given the Association's risk profile and in light of the IAR Report and Asset Classification Report required by Paragraphs 35 and 40, respectively (ALLL Consultant). The Association shall retain the ALLL Consultant within fifteen (15) days of receipt of the Regional Director's non-objection.

44. Within forty-five (45) days after the date of the Association's engagement of the ALLL Consultant, the ALLL Consultant shall deliver a final, written report (ALLL Report) containing the findings and recommendations of the ALLL Consultant to the Regional Director and the Board.

45. Within fifteen (15) days of receipt of the ALLL Report, the Board shall submit to the Regional Director for review and comment a written plan that addresses the findings and recommendations contained in the ALLL Report and describes the specific actions that the Association proposes to take to implement the recommendations of the ALLL Report. (ALLL Plan). Within fifteen (15) days of receipt of any comments from the Regional Director, the Board shall make the changes, if any, to the ALLL Plan required by the Regional Director. Within five (5) days of the Board meeting at which it was adopted, the Association shall provide a copy of the final ALLL Plan to the Regional Director.

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

Loan Modifications.

47. Within thirty (30) days, the Association shall enhance loan modification policies and procedures to ensure that the:

- (a) files contain written modification requests by the borrowers and that the files adequately document the analysis of the updated financial position of borrowers and guarantors, if any, and the current status of the loan collateral;
- (b) Association is appropriately evaluating the relative financial merits of foreclosure versus modification alternatives, that the analysis of the alternatives, and the propriety of the chosen modification alternative is thoroughly documented in the file; and
- (c) Association has identified an individual responsible for monitoring and tracking exceptions to the Association's modification policies and procedures, and that reports are provided to the Board periodically of the performance of loans modified with policy exceptions.

Policies.

48. Effective immediately, the Association shall initiate a prioritized comprehensive review of all Association policies and procedures that relate to laws, rules, regulations and regulatory guidance to ensure that they are current and in compliance with applicable provisions. Such review shall be completed within one hundred and twenty (120) days. Thereafter, the Board shall adopt and the Association shall implement and comply with all such policies and procedures.

Internal Audit.

49. Within sixty (60) days, the Board shall assess the effectiveness of the internal audit process, including Audit Committee charter and membership as well as the qualifications of internal audit management.

50. At a minimum, the Board shall ensure that the Internal Audit Function:

- (a) operates in compliance with the guidelines of Section II.B. of Appendix A to the 12 C.F.R. Part 570 and Section 355 of the OTS Examination Handbook (Internal Audit);

- (b) is independent and reports directly to the Board or Board Audit Committee;
- (c) is appropriate to the size of the Association and the nature, scope and risk of its activities;
- (d) is adequately managed and supported with trained and qualified personnel;
- (e) is sufficient to detect irregularities and weaknesses in all areas of the Association's operations and determine the Association's compliance with applicable laws, regulations and with Association policies;
- (f) assesses the effectiveness of Association policies and procedures and other internal controls of the Association; and
- (g) reports regularly at least once a calendar quarter and in detail to the Board or Board Audit Committee.

51. The Board shall also review the internal audit process for Information Technology (IT) to assess its effectiveness and to identify necessary improvements to the process. At a minimum, such improvements shall include:

- (a) establishing a program to ensure that deficiencies cited by regulators, internal and external auditors, and other third parties are corrected within a reasonable time frame and that such corrections are appropriately documented; and
- (b) defining the IT universe, performing a risk assessment of the audit areas, and developing a risk focused audit plan. As part of that process, the Association must expand the IT audit scope beyond business resumption planning to ensure adequate coverage of other appropriate IT areas, including, but not limited to, vendor management, project management, IT governance, IT security administration, security incident response, data center operations, patch management, data backup, and change management.

Information Technology.

52. Within sixty (60) days, the Association shall establish a formal framework to improve oversight and management of the IT environment that, at a minimum, includes the following:

- (a) job descriptions that define incumbent IT responsibility, accountability and reporting relationships for the IT department;
- (b) an IT strategic plan that contains Association management's ongoing assessment of systems and operations, IT strategies, budgets, and action plans for achievement of business line requirements. The plan must be updated annually and aligned with the Association's overall business goals and objectives; and
- (c) establishment of individual employee responsibility for vendor management, business continuity planning and compliance with Gramm-Leach-Bliley Section 501(b) information security program requirements.

53. Within sixty (60) days, the Association shall address pending IT audit and regulatory findings with management action plans that include a description of the necessary resources and target dates for completion and that clearly delineate management accountability for resolving the issues within the established timeframes.

54. Within sixty (60) days, the Association shall prepare and implement a Business Continuity Plan providing contingency planning for both the recovery of critical systems and the resumption of key business unit functions. The Business Continuity Plan shall address the applicable guidelines in the FFIEC IT Business Continuity Booklet dated March 2008 and Section 341 (Information Technology) of the OTS Examination Handbook. The Business Continuity Plan shall also provide for testing and review of the Plan no less than annually.

Severance and Indemnification Payments.

55. Effective immediately, the Association shall not make any golden parachute payment³ or prohibited indemnification payment⁴ 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.

Directorate and Management Changes.

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

Compensation.

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

58. Effective immediately, the Association shall make no bonus payments or otherwise increase compensation of Directors or Senior Executive Officers unless it first: (a) provides a minimum of thirty (30) days advance written notice of any such proposed payment to the Regional Director, including all documentation relied upon to evaluate and support the proposed payment; and (b) receives a written notice of non-objection from the Regional Director.

³ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

⁴ The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

Third-Party Contracts.

59. Effective immediately, the Association shall not enter into any third-party contracts, except for contracts in the normal course of business, without the prior written non-objection of the Regional Director. To obtain such written notice of non-objection, the Association shall provide a thirty (30)-day advance written notice to the Regional Director of any such proposed contract. At a minimum, such notice shall set forth the Association's reasons for seeking the contract and include a copy of the proposed contract that is in accordance with Section 310 of the OTS Examination Handbook and the OTS Thrift Bulletin 82a.

Transactions with Affiliates.

60. Pursuant to 12 C.F.R. § 563.41(c)(4), the Association shall not engage in any transaction with any affiliate (other than exempt transactions under 12 C.F.R. Part 223) without the prior written non-objection of the Regional Director, except for transactions or agreements existing as of the date of this Order that are in compliance with 12 C.F.R. § 563.41 and 12 C.F.R. Part 223. The Association's written request, at a minimum, shall include: (a) a description of the proposed transaction; (b) copies of all pertinent transaction documents; and (c) a reasoned legal opinion, signed by counsel experienced in the application of transactions with affiliates rules, forming a conclusion about whether the proposed transaction comports with 12 U.S.C. §§ 371c and 371c-1, 12 C.F.R. Part 223, and 12 C.F.R. §§ 563.41, 563.170(c), 563.200, and 563.201.

Brokered Deposits Restriction.

61. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b)(2) and shall not, without obtaining the prior written approval of the Federal Deposit Insurance Corporation (FDIC) pursuant to 12 C.F.R. § 337.6(c): (a) accept, renew or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2); or (b) act as a deposit broker, as that term is defined at 12 C.F.R. § 337.6(a)(5).

Growth Restriction.

62. Effective immediately, the Association is subject to and shall comply with the requirements and provisions of OTS Regulatory Bulletin (RB) 3b. Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter, beginning with the quarter ending September 30, 2009, in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph shall remain in effect until OTS review and approval of the Association's Business Plan under Paragraph 9 of this Order.

Dividend Restriction.

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

Board Compliance Committee.

64. Within thirty (30) days, the Board shall appoint a committee (Regulatory Compliance Committee) comprised of three (3) or more non-employee directors to monitor and coordinate the Association's compliance with the provisions of this Order.

65. Within thirty (30) days and after the end of each calendar quarter, beginning with the quarter ending September 30, 2009, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Order and the results of all such actions. The Board's consideration of the Regulatory Compliance Committee's progress report for the period, including comments and questions

concerning the progress report and additional actions taken or directed by the Board, shall be reflected in the minutes of the Board meetings.

66. Within forty-five (45) days after the end of each calendar quarter beginning with the quarter ending September 30, 2009, a copy of the progress report for the quarter with any revisions or comments by the Board shall be provided to OTS.

67. 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.

68. 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.

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

Time Calculations.

70. 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.

71. 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.

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

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

(a) To the OTS:

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

With a copy to:

Timothy J. Lane, Assistant Director
Office of Thrift Supervision, Western Region
1551 North Tustin Avenue, Suite 1050
Santa Ana, CA 92705-8661

(b) To the Association:

Richard K. Colbourne, Chairman
La Jolla Bank, FSB
6134 La Granada
Rancho Santa Fe, CA 92067

No Violations Authorized.

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

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

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

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: WN-09-026
)	
LA JOLLA BANK, FSB,)	Effective Date: September 9, 2009
)	
Rancho Santa Fe, California)	
OTS Docket No. 08247)	
_____)	

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 La Jolla Bank, FSB, Rancho Santa Fe, California, OTS Docket No. 08247 (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); and

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

OTS Findings of Fact.

3. Based on its examination conducted as of December 29, 2008 of the Association, the OTS finds that the Association has engaged in unsafe and unsound banking practices which have resulted in inadequate asset quality, earnings, liquidity planning, and capital levels at the Association.

Consent.

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

Finality.

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

Waivers.

6. The Association waives the following:

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

OTS Authority Not Affected.

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

Other Governmental Actions Not Affected.

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

action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

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

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

Signature of Directors/Board Resolution.

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

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

Accepted by:

LA JOLLA BANK, FSB
Rancho Santa Fe, California

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Richard K. Colbourne
Chairman

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

Date: See Effective Date on page 1

_____/s/
Bruce L. Warren, Vice Chairman

_____/s/
Donald C. Allison, Director

_____/s/
M. Kenneth Bien, Director

_____/s/
Thomas E. Cisco, Director

_____/s/
Rick F. Hall, Director

_____/s/
Robert E. Jackson, Director

_____/s/
Tracey St. Amour, Director

_____/s/
Elsie Weston, Director