FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

CALIFORNIA DEPARTMENT OF FINANCIAL PROTECTION AND INNOVATION

SACRAMENTO, CALIFORNIA

In the Matter of MONTEREY COUNTY BANK MONTEREY, CALIFORNIA (INSURED STATE NONMEMBER BANK)	CONSENT ORDER FDIC-21-0078b

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Monterey County Bank, Monterey, California ("Bank") under Section 3(q) of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. § 1813(q)(3). The California Department of Financial Protection and Innovation ("CDFPI") is the appropriate State banking agency for the Bank under Division 1 and Division 1.1 of the California Financial Code.

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a Stipulation to the Issuance of a Consent Order ("Stipulation"), dated November 3, 2021, that is accepted by the FDIC and the CDFPI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to management, capital, asset quality, liquidity and funds management, and violations of law, to the issuance of this Consent Order ("Order") by the FDIC and the CDFPI pursuant to Section 8(b)(1) of the FDI Act, and Section 580 of the California Financial Code ("CFC").

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b), and Section 580 of the CFC, Cal. Fin. Code § 580, have been satisfied, the FDIC and the CDFPI hereby order that:

1. Qualified Management

The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the following:

(i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile;

(ii) a chief financial officer with proven ability in all aspects of financial management; and

(iii) a senior lending officer with significant lending, collection, and loan supervision experience and experience in maintaining a satisfactory quality loan portfolio. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

(b) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this Order;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Commissioner of the CDFPI ("Commissioner"), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition or replacement of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of Section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104 and any requirement of the State of California for prior notification and approval. The notification must be received at least 30 days before the addition, replacement, employment or change of responsibilities is intended to become effective. The Regional Director and the Commissioner shall have the power under the authority of this Order to disapprove the addition, replacement, employment or change of responsibilities of any proposed senior executive officer or director.

(d) The requirement to submit information and the prior disapproval provisions of this paragraph are based upon the authority of 12 U.S.C. § 1818(b) and do not require the Regional Director and the Commissioner to complete their review and act on any such information or authority within 30 days, or any other timeframe. The Bank shall not add, employ, or change the responsibilities of any proposed director or senior executive officer until such time as the Regional Director and the Commissioner have completed their review.

2. <u>Independent Directors</u>

(a) The Board shall continue to maintain a composition of independent directors that exceeds 50 percent of the Board.

(b) For purposes of this Order, an independent director shall be any individual who is not an officer of the Bank, any subsidiary, or any of its affiliated organizations; who does not own more than 10 percent of the outstanding shares of the Bank; who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 10 percent of the Bank's outstanding shares and does not otherwise have a common financial interest with such officer, director or shareholder; who is not indebted to the Bank directly or indirectly, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 10 percent of the Bank's total Tier 1 capital and allowance for loan and lease losses; or who is deemed to be an independent director for purposes of this Order by the Regional Director and the Commissioner.

3. Board Participation

The Board shall continue to maintain its participation in the affairs of the Bank, and shall continue to assume full responsibility for the approval and implementation of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size.

(a) This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; liquidity and funds management activities; operating policies; status reports on the resolution of each problem asset; and individual committee actions.

(b) The Board shall continue to maintain detailed and accurate Board minutes. At a minimum, the Board minutes shall fully document any and all reviews and approvals put before the Board, and shall include voting details such as the names of each director who voted for such reviews and approvals, and the names of any and all dissenting directors or directors who abstained from voting on such reviews and approvals. Further, the Board minutes shall properly record any and all votes that reflect a conflict of interest for any director, noting whether the conflicted director abstained from voting. The Board shall maintain its minutes on Bank premises; executive committee minutes are part of the Board minutes and shall be maintained with the Board minutes.

(c) The contents of any Board and committee meeting minutes shall be made available in their entirety to the Regional Director and/or Commissioner upon request. The form, content, and level of detail contained in the Board minutes shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

4. Minimum Capital Requirements

(a) By March 31, 2022, the Bank shall increase and thereafter maintain its Tier 1 capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds 9 percent.

(b) The Bank shall maintain its total risk-based capital ratio in such an amount as to equal or exceed 12 percent.

(c) The Bank shall maintain its tangible shareholders' equity in such an amount to ensure that the ratio of tangible shareholders' equity to total tangible assets equals or exceeds 7.5 percent.

(d) The Bank shall maintain a capital contingency plan in the event that the Bank has failed to maintain the minimum capital ratios required by subparagraph 4(a), 4(b) and 4(c). The contingency plan shall address other strategic alternatives, including but not limited to the sale of control or merger of the Bank. The Bank shall implement the contingency plan upon written notice from the Regional Director and the Commissioner.

(e) The level of capital to be maintained during the life of this Order shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations, and the establishment of adequate reserves for all other real estate owned ("OREO"). Any increase in Tier 1 capital necessary to meet the requirements of this paragraph may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(f) If all or part of the increase in capital required by this Order is accomplished by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with all applicable State and Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration, Disclosure and Securities Unit, 550 17th St. N.W., Washington, D.C. 20429, for review and to the Commissioner to obtain any and all necessary securities permits or other approvals. Any changes requested by the FDIC shall be made prior to dissemination. If the increase in capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Commissioner for prior approval.

(g) Subject to obtaining all required prior authorizations, permits or other approvals from the Commissioner, the Bank shall promptly revise or supplement the offering materials it is using in connection with the offer and sale of its securities to fully and fairly disclose every material change or development regarding the Bank and its operation, including every planned change that would be material, that occurs during the offering of the securities. The Bank shall provide the revised offering materials or supplement, along with a notice that the subscriber may rescind its subscription, to each subscriber that has submitted a subscription for the Bank's securities before receiving the revised offering materials or supplement for at least ten (10) days before accepting the subscriber's subscription.

(h) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(i) For the purposes of this Order, the terms "leverage ratio," "Tier 1 capital," and "total risk-based capital ratio" shall have, the meanings ascribed to them in Part 324 of the FDIC's Rules and Regulations, 12 C.F.R. Part 324. The term "total tangible assets" means total assets less disallowed intangible assets. The term "disallowed intangible assets" means "Total Intangible Assets" currently shown in Reports of Condition and Income Schedule RC-M as "item 2.d." (or the equivalent reference in the future) less the amount shown for "Mortgage

Servicing Assets" in Schedule RC-M as "item 2.a." (or the equivalent item reference in the future).

5. Dividend Restrictions

The Bank shall not pay cash dividends or make any other payments for the benefit of its holding company and its shareholders without the prior written consent of the Regional Director and the Commissioner.

6. Liquidity and Funds Management

The Bank shall continue to ensure that its liquidity and funds management practices and policy address the Bank's liquidity needs and do not rely on non-core funding sources. The Bank's liquidity and funds management practices and policy shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

7. Brokered and High Rate Deposits Restrictions

During the life of this Order, the Bank shall continue to comply with the provisions of Sections 337.6 and 337.7 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 337.6 and 337.7.

8. Reduction of Adversely Classified Assets

(a) Within 180 days from the effective date of this Order, the Bank shall have reduced the assets classified "Doubtful" and "Substandard" listed in the joint report of examination dated May 3, 2021 ("ROE") that have not previously been charged off to not more than 75 percent of Tier 1 capital plus the allowance for loan and lease losses ("ALLL").

(b) Within 360 days from the effective date of this Order, the Bank shall have reduced the assets classified "Doubtful" and "Substandard" in the ROE that have not previously been charged off to not more than 50 percent of Tier 1 capital plus the ALLL.

(c) The requirements of this paragraph are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in this paragraph the word "reduce" means:

(i) to collect;

(ii) to charge-off; or

(iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the FDIC and the CDFPI.

9. <u>Restrictions on Advances to Adversely Classified Borrowers</u>

(a) As of the effective date of this Order, the Bank shall continue to not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" and is uncollected. This paragraph shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Accounting Standards Codification (ASC) Subtopic 310-40, "Receivables—Troubled Debt Restructuring by Creditors."

(b) As of the effective date of this Order, the Bank shall continue to not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Doubtful" or "Substandard" without the prior approval of a majority of the Board or loan committee of the Bank. The Board and loan committee shall not approve any extension of credit or additional credit to such borrowers without first collecting in cash all past due interest.

10. <u>Allowance for Loan and Lease Losses Policy</u>

The Board shall continue to maintain comprehensive policies and practices for determining the adequacy of the ALLL. For the purpose of this determination, an appropriate ALLL shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the ALLL at least once each calendar quarter. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The Bank's policies and practices for determining the adequacy of the Bank's ALLL and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

11. <u>Lending Policy</u>

The Bank shall continue to maintain written lending and collection policies to provide effective guidance and control over the Bank's lending function. Such policies shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

12. <u>Profit Plan and Budget</u>

(a) The Bank shall continue to maintain a written plan addressing retention of profits, reducing overhead expenses, and setting forth a comprehensive budget covering a rolling period of 3 years beginning 2022 to 2024. The plan required by this Paragraph shall contain formal goals, strategies and benchmarks which are consistent with sound banking practices to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. It shall also contain a thorough description of the operating assumptions that form the basis for, and adequately support, each major component of the plan. Such plan and its implementation shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

13. Transactions with Holding Company

The Bank shall continue to adhere to its written policy governing transactions between the Bank and its holding company. Such adherence shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

14. Sensitivity to Market Risk

(a) By March 31, 2022, the Board shall reduce the Bank's interest rate risk ("IRR") exposure to a level that is appropriately supported by the Bank's current levels of earnings and capital. Such adherence shall be satisfactory to the Regional Director and the Commissioner as determined at subsequent examinations and/or visitations.

(b) Within 60 days from the effective date of this Order, the Board shall improve the Bank's compliance with established investment policies, enhance reporting of policy exceptions to the Board, and improve documentation of IRR discussions. Quarterly asset-liability committee reports should clearly state whether the Bank is in compliance with all internal policy limits.

(c) Within 60 days from the effective date of this Order, the Board shall amend the Bank's asset-liability management policy to include a requirement for annual IRR audits and an annual sensitivity analysis of key model assumptions.

15. Correction of Apparent Violations of Law

The Bank shall eliminate and/or correct all apparent violations of law, as more fully set forth in the ROE. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

16. Filing of Accurate Call Reports

During the life of this Order, the Bank shall file with the FDIC Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a consequence of any FDIC or CDFPI examination or visitation of the Bank.

17. Quarterly Progress Reports

Within 45 days of the end of the first quarter following the effective date of this Order, and within 45 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank's Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Regional Director and the Commissioner have released the Bank in writing from making further reports.

18. Copy of Order to Holding Company

Within 30 days from the effective date of this Order, the Board must either provide a copy of this Order, or an accurate and complete description of all material aspects of this Order, to its parent holding company.

19. Regulatory Approval for New Offices

During the life of this Order, the Bank shall not establish any new branches or other offices of the Bank without the prior written consent of the Regional Director and the Commissioner.

20. Advance Notices to Regulators for Public Announcements

The Bank shall notify the Regional Director and the Commissioner no less than one business day in advance of making a planned public announcement or notification regarding changes in the Bank's financial condition, executive management or Board.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the CDFPI, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the CDFPI.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the CDFPI.

Violation of any provisions of this Order, will be deemed to be conducting business in an unsafe or unsound manner, and will subject the Bank to further regulatory enforcement action.

Issued pursuant to delegated authority

Dated this 8th day of November, 2021.

/s/	/s/
Paul W. Worthing Deputy Regional Director Division of Risk Management Supervision Federal Deposit Insurance Corporation	Aaron Prosperi Deputy Commissioner Banking Division California Department of Financial Protection and Innovation