

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of)
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NEVADA BANK AND TRUST COMPANY)
CALIENTE, NEVADA)

(INSURED STATE NONMEMBER BANK))
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_____)

ORDER TO
CEASE AND DESIST

Docket No. FDIC-08-007b

Nevada Bank and Trust Company, Caliente, Nevada ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1) and Nevada Revised Statutes, § 658.115, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and with the Nevada Financial Institutions Division ("NFID"), by and through its counsel, dated January 24, 2008, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the NFID.

The FDIC and the NFID considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed

violations of law and/or regulations. The FDIC and the NFID, pursuant to Nevada Revised Statutes, § 658.115, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns cease and desist from the following unsafe and unsound banking practices and violations of law and/or regulation:

- (a) operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;
- (b) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;
- (c) operating with inadequate capital in relation to the kind and quality of assets held by the Bank;
- (d) operating with a large volume of poor quality loans;
- (e) engaging in unsatisfactory lending and collection practices; and
- (f) operating in apparent violations of Parts 323 and 365 of the FDIC's Rules and Regulations, and in apparent contraventions of Appendix A of Part 365 and Appendix B of Part 364.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

- 1. 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

a chief executive officer with proven ability in managing a Bank of comparable size, and experience in upgrading a low quality loan portfolio, improving earnings, and other matters needing particular attention. Management shall also include a senior lending officer with significant appropriate lending, collection, and loan supervision . Each member of management shall be provided appropriate written authority from the Bank's board of directors 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 Deputy Commissioner, Financial Institutions Division for the State of Nevada ("Deputy Commissioner") in writing when it proposes to add any individual to the Bank's board of directors or employ any individual as a senior executive officer. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed.

(d) Within 120 days after the effective date of this ORDER, the Bank's board of directors shall obtain an independent study of the management and personnel structure of the Bank to determine whether additional personnel are needed for the safe and profitable operation

of the Bank. Such a study shall include, at a minimum, a review of the duties, responsibilities, qualifications, and remuneration of the Bank officers and branch managers. The Bank shall formulate a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Deputy Commissioner as determined at subsequent examinations.

2. (a) Within 60 days from the effective date of this ORDER, the board of directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval 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. 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; operating policies; and individual committee actions. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) The board of directors shall, at a minimum:

(i) implement an effective loan review and grading system and ensure that loan approvals are fully documented;

(ii) Implement an effective management information system to monitor loan file documentation and compliance with loan covenants;

(iii) Assess the lending culture and improve loan officer accountability; and

(iv) Implement an effective external loan review program, which includes assessing loan underwriting, credit quality, loan policy compliance, internal grading, management information systems, and internal controls.

3. (a) The Bank shall maintain Tier 1 capital at no less than eight percent of the Bank's total assets throughout the life of this ORDER.

(b) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Subparagraph 3 (a) 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 Deputy Commissioner as determined at subsequent examinations and/or visitations.

(c) For the purposes of this ORDER, the terms "Tier 1 capital" and "total assets" shall have, the meanings ascribed to them in Part 325 of the FDIC Rules and Regulations, 12 C.F.R. §§ 325.2(v) and 325.2(x).

4. The Bank shall have and thereafter maintain an adequate allowance for loan and lease losses. In addition, the board of directors shall develop, revise, adopt and implement a comprehensive policy for determining the adequacy of the allowance for loan and lease losses. The policy shall comply with the final joint guidance on Allowance for Loan and Lease Losses: Revised Policy Statement and Frequently Asked Questions.

5. (a) Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall address the FDIC's Part 365, Real Estate Lending Standards and the final joint agency Guidance on Concentrations in Commercial Real Estate Lending, Sound risk Management Practices. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policies and their implementation shall be in a form and manner acceptable to the Regional Director and the Deputy Commissioner as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank's loan policy and practices, required by this paragraph, at a minimum, shall include the following:

(i) provisions, consistent with FDIC instructions for the preparation of Reports of Condition and Income, under which the accrual of interest income is discontinued and previously accrued interest is reversed on delinquent loans;

(ii) provisions which require complete loan documentation, realistic repayment terms and current credit information adequate to support the outstanding indebtedness of the borrower. Such documentation shall include current financial information, profit and loss statements or copies of tax returns and cash flow projections;

(iii) provisions which incorporate limitations on the amount that can be loaned in relation to established collateral values;

(iv) provisions which specify the circumstances and conditions under which real estate appraisals must be conducted by an independent third party;

(v) provisions which establish standards for unsecured credit;

(vi) provisions which establish officer lending limits;

(vii) provisions that directors first determine that the lending staff has the expertise necessary to properly supervise construction loans and that adequate procedures are in place to monitor any construction involved before funds are disbursed;

(viii) the board of directors shall adopt procedures whereby officer compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in minutes of a board of directors meeting at which all members are present and the vote of each is noted;

(ix) provisions that establish loan portfolio diversification standards and commercial real estate concentration limit by property type and characteristic;

(x) provisions that address standards for the use of interest reserves and developing a procedure to monitor interest reserves;

(xi) provisions which incorporate limitations on the amount that can be loaned in relation to established collateral values;

(xii) provisions that address the purchase of loan participations, which include standards for pre-purchase due diligence and ongoing monitoring and reporting;

(xiii) provisions which address credit and loan administration duties, responsibilities and reporting requirements;

(xiv) provisions which address standards for credit analysis and loan clearance memorandums; and

(xv) provisions which address loan officer responsibilities and reporting requirements;

(c) Within 120 days after the effective date of this ORDER, the board of directors shall obtain an independent study of the lending staff, which should include all individuals involved in the lending and credit administration functions to determine whether the staff has the expertise necessary to properly perform his or her duties including underwriting and monitoring assigned loans, and specifically, the ability to underwrite and supervise construction loans and whether additional staff is necessary for safe and prudent lending. The Bank shall formulate a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Deputy Commissioner as determined at subsequent examinations and/or visitations.

(d) The Bank shall cease originating loans for commercial construction and speculative, non-owner occupied residential construction until the results of the study, and adequate policies and procedures are implemented.

(e) The Bank shall develop written action plans on all borrowers with total borrowings, including unfunded loan commitments exceeding \$300,000 listed on the Items Subject to Adverse Classification and Items Listed for Special Mention in the Report of Examination dated August 13, 2007, in order to reduce the level of assets classified "Substandard" and address the credit administration deficiencies.

6. Within 60 days of the effective date of this ORDER, the Bank shall correct all technical exceptions found in the FDIC's Report of Examination dated August 13, 2007.

7. Within 90 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law which are more fully set out in the FDIC's Report of Examination dated August 13, 2007. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

8. The board of directors shall develop and implement an effective information security program to safeguard customer information in compliance with the standards set forth under Part 364, Appendix B of the FDIC Rules and Regulations. The board of directors should complete an enterprise wide risk assessment to adequately address the following:

(a) Identify reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alternation, or destruction of customer information or customer information systems;

(b) Assess the likelihood and potential damage of these threats, taking into consideration the sensitivity of customer information; and

(c) Assess the sufficiency of policy, procedures, and customer information systems in place to control risks.

9. The board of directors shall develop, based on an enterprise wide risk assessment, an information technology audit program that addresses all risk areas of the bank, including an appropriate audit frequency.

10. The board of directors shall obtain a comprehensive independent audit of the IT operations of the bank. The audit scope should be based on the risk assessment and detect technology-related risks and ensure a proper control environment. Management should establish tracking and implementation procedures for the findings and recommendations of the audit.

11. The board of directors shall adopt an adequate business continuity plan. This plan shall set forth alternate strategies to assure continuity of mission critical operations in the event of a disruption of the current system or banking locations. Moreover, the plan shall address coordination and procedures between the bank, its branches, and its backup site, should a disruption occur.

12. The board of directors shall test the business continuity plan. The results of this test shall be provided to the board of directors for review.

13. The board of directors shall implement adequate controls for electronic fund transfers based on the complexity and risk posed by these transactions. Adequate controls should consider segregation of duties, dual controls, account reconciliation and review, and approved software controls and configurations that reduce the overall risk of electronic fund transfers.

14. The board of directors shall adopt an adequate incident response plan and formulate comprehensive customer notices.

15. The board of directors shall review and limit user access rights to correspond with each individual user's job responsibilities and implement procedures to provide for an ongoing periodic review of user access levels.

16. The board of directors shall implement a process for reviewing exception reports. The process should identify the types of exception reports that are available from the system, the specific reports that will be requested, the frequency that reports are to be reviewed, and designate the independent party that will be involved in reviewing these reports on an ongoing basis.

17. The board of directors shall train all employees on the information security program.

18. The board of directors shall formulate, adopt, and submit to the Regional Director for review written procedures addressing all technology-related functions.

19. The board of directors shall complete an enterprise wide risk assessment to adequately address the following:

- (a) Identify all information assets that include customer information; and
- (b) Identify reasonably foreseeable internal and external threats that could result in unauthorized disclosure, misuse, alteration, or destruction of customer information or customer information systems.

20. Within 30 days of the end of the first quarter following the effective date of this ORDER, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Deputy 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 Report of Condition and the Bank's Report of

Income. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Deputy Commissioner have released the Bank in writing from making further reports.

21. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Accounting and Securities Section, Washington, D.C. 20429, at least fifteen (15) days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

This ORDER will become effective upon its issuance by the FDIC. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time

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as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the NFID.

Dated at San Francisco, California,
this 24th day of January, 2008.

Dated at Las Vegas, Nevada,
this 24th day of January, 2008.

Stan Ivie
Regional Director
Division of Supervision and
Consumer Protection
San Francisco Region
Federal Deposit Insurance Corporation

Steven W. Kondrup
Deputy Commissioner
Nevada Financial Institutions Division
Department of Business and Industry