

SAN LUIS TRUST BANK AGREES TO ACTION PLAN WITH OTS

Agreement Builds Upon Aggressive Actions Taken to Strengthen Operations and Asset Quality

SAN LUIS OBISPO, Calif., November 2, 2009 – The San Luis Trust Bank (SNLS.OB) Board of Directors today announced they have entered into an agreement with the bank's primary regulator, the Office of Thrift Supervision (OTS), to adopt an action program designed to further enhance the strength and stability of the Bank's operations.

Bradley J. Lyon, President and CEO, noted that San Luis Trust Bank is part of nearly 40 percent of California banks now working under a regulatory agreement*. Lyon said the recent trend of increased regulatory involvement is designed to strengthen financial institutions. "In the past few weeks, we have made substantial progress in aggressively addressing many of the areas outlined in our regulatory agreement, including real estate-related issues within our portfolio. As a result, many of the prudent actions recommended by the OTS have already been completed, while others will be completed shortly. Nonetheless, we will continue working in close consultation with our regulators and executing on our strategic plan to help ensure the long-term strength and performance of San Luis Trust Bank."

The Bank reported a loss of \$580,000 for the 3rd quarter caused primarily by continued loan loss provisions and REO short sales. Lyon said while loan charge-offs have slowed and the level of market activity appears to be increasing, the Bank remains cautious and continues to build its capital reserves. Capital levels remain strong at \$27.8 million, the result of net earnings that exceeded \$21 million from 2001 through 2008. In addition, the Bank remains well positioned to take advantage of the continued low interest rate environment and should experience increasing interest margins well into 2010.

As part of the OTS agreement, the Bank consented to the issuance of an order, effective November 2, 2009, which formally outlines specific steps the Bank will undertake to further enhance the soundness of the Bank. These affirmative actions include conducting a comprehensive management assessment, developing and implementing a plan to maintain strong capital levels, and revising and expanding the Bank's long-term business plan and budget.

Lyon continued: "Although San Luis Trust, like many other institutions, has not been immune to the unprecedented challenges facing the economy and real estate markets, we continue to maintain strong capital levels, and our balance sheet to be well positioned for the current historic low interest rate environment. As we implement this action plan, everyone at San Luis Trust remains highly committed to providing the excellent service its customers have come to expect as we continue to focus on the needs of the local community."

* Attached to this press release or by accessing http://www.wib.org/publications_resources/article_library/2007-08/nov09_enforcement.html

For more information on San Luis Trust Bank, visit www.sanluistrustbank.com, or contact Brad Lyon, Chief Executive Officer, at blyon@sanluistrustbank.com.

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Regulatory Enforcement Actions Climb in WIB States

By Jeanine Catalano

Banks operating in western states are more than twice as likely to be issued a regulatory enforcement action compared with banks based in other parts of the country. This accelerating trend is placing heavy demands on bank directors. As demonstrated by the requirements in the enforcement actions, bank directors are being told improve their effectiveness, increase their oversight and ensure that the bank's management team is strong.

Our team reviewed 17 months of enforcement actions issued by the nation's four banking regulators from January 2008 to May 2009. Over that period the agencies issued 111 formal enforcement actions to institutions operating in the following states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, Oregon, Utah and Washington. Thirteen percent of the 859 banks received formal enforcement actions, compared with 5 percent of banks nationwide.

While these states include just 11% of the nation's banks, institutions operating in the region received 26% of the 431 total enforcement actions issued nationwide during the period.

What's more, the number of formal enforcement actions per month has increased sharply both nationally and within these states. In the three month period from March to May 2009, the number of formal enforcement actions tripled compared with the corresponding period in 2008.

As Table 1 shows, national banks and thrifts were disproportionately likely to receive formal enforcement actions. *(42% of enforcement actions went to only 24% of the national banks and thrifts, OCC and OTS.)*

Table 1

	Regulator			
	FDIC	OCC	FRB	OTS
Formal enforcement actions by primary regulator	53%	26%	5%	16%
% banks with primary regulator	65%	17%	11%	7%

Regulators Target Management and Directors

Within these states, California banks were issued the most enforcement actions over the period. Fifty-six California banks received formal enforcement actions, representing 50% of all formal enforcement actions involving banks in the 11 states. In a majority, the percentage of banks with an enforcement action reached the double digits.

Within these states, 50% of formal enforcement actions during the period required actions to address each of the following rating components: Capital, Asset Quality, Management, Earnings and Liquidity. Additionally, 14% of the enforcement actions included provisions addressing three of the components and 15% included provisions addressing four of the components. When four of the components were addressed, the component most frequently omitted was Earnings.

As shown in Table 2, the component most frequently addressed in formal enforcement actions in these states was Management, nationwide the most frequent component was Asset Quality.

Table 2

% of Enforcement Actions addressing	CAMEL Component				
	Capital	Asset Quality	Management	Earnings	Liquidity
In WIB states and Colorado	82%	79%	88%	50%	78%
Nationwide	78%	84%	78%	61%	68%

Given the large percentage of enforcement actions with management-related provisions in these states, we conducted a deeper dive into these requirements. First, we found these requirements generally fell into three categories: Board Improvement, Board Action and Management Improvement. Second, the requirements were generally not onerous or beyond what would be considered sound practices.

The Board Improvement requirements focus on adding independent board members, commissioning an independent review of the composition, structure and effectiveness of the board, increasing board participation, assuming responsibility for approving policies, and requiring a review of board committee compositions.

Board Action provisions commonly required improvements in corporate governance, actions to ensure competent management, and the development of a business or strategic plan. Management Improvement requirements included hiring new management, evaluating existing management, commissioning an independent study of management, and assessing the capabilities of one or more officers in light of examination findings. Compensation, the accuracy of books and records, the development of a written ethics policy, and audit function improvement were also addressed.

Director Action

Indeed, the rapid rise in enforcement actions places a heavy burden on the board's shoulders. Based on our analysis of the management provisions, we believe that directors must be vigilant and recommend they start with following actions:

- Develop a clear approach to evaluating board effectiveness at the next board meeting.
- Take a hard look at executive management qualifications. Determine if the team has the skills and experience needed. Consider enlisting outside help to provide critical distance and facilitate the process of reaching conclusions.
- Demonstrate active participation in developing and approving policies, strategies and goals. Pay particular attention to risk management policies and limits. Insist that management report bank performance relative to those limits.

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http://www.wib.org/publications_resources/article_library/2007-08/nov09_enforcement.html