

UNITED STATES OF AMERICA
BEFORE
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

COLORADO DIVISION OF BANKING
DENVER, COLORADO

In the Matter of)	
)	
AMERIBANC HOLDINGS, INC.)	Docket Nos. 04-018-B-HC
Durango, Colorado)	04-018-B-SM
)	
and)	Cease and Desist Order Issued Upon
)	Consent Pursuant to the Federal
THE BANK OF DURANGO)	Deposit Insurance Act, as Amended
Durango, Colorado)	
)	

WHEREAS, in recognition of their common goal to restore and maintain the financial condition and safe and sound operation of Ameribanc Holdings, Inc., Durango, Colorado (“Ameribanc”), a registered bank holding company, and its subsidiary bank, the Bank of Durango, Durango, Colorado (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, the Board of Governors of the Federal Reserve System (the “Board of Governors”), the Colorado Division of Banking (the “Division”), Ameribanc, and the Bank have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, on November 1st, 2004, the boards of directors of Ameribanc and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Richard J. Watts to enter into this Order on behalf of Ameribanc and the Bank, and consenting to compliance with each and every applicable provision of this Order by Ameribanc, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and

8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. 1813(u) and 1818(b)(3)), and waiving any and all rights that Ameribanc and the Bank may have pursuant to section 8 of the FDI Act (12 U.S.C. 1818) to: (i) a hearing for the purpose of taking evidence on any matters set forth in this Order; (ii) judicial review of this Order; (iii) contest the issuance of this Order by the Board of Governors pursuant to section 8 of the FDI Act; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED that, pursuant to sections 8(b)(1) and (3) of the FDI Act, Ameribanc, the Bank, and their institution-affiliated parties shall cease and desist and take affirmative action as follows:

Management and Board Oversight

1. (a) The Bank’s board of directors shall complete its engagement of an independent consultant to conduct a management review of: (i) the current structure of the Bank’s board of directors; (ii) the functions and performance of the Bank’s officers and senior management; and (iii) the staffing needs of the Bank, and to prepare a written report of findings and recommendations (the “Management Report”). The primary purpose of the management review shall be to aid in the development of a board of directors and management structure suitable to the Bank’s needs that is adequately staffed by qualified and trained personnel. The management review shall, at a minimum, address, consider, and include:

- (i) The identification of the type and number of officer positions needed to manage and properly supervise the affairs of the Bank;
- (ii) formal job descriptions, detailing duties and responsibilities, for all Bank employees;

- (iii) an evaluation of each officer to determine whether the individual possesses the ability, experience, and other qualifications required to competently perform present and anticipated duties; and
- (iv) an assessment of the current structure and composition of the board of directors and a determination of the structure and composition needed to adequately supervise the affairs of the Bank.

(b) The Bank shall forward a copy of the Management Report to the Reserve Bank and the Division at the same time the Management Report is provided to the Bank.

(c) Within 30 days of the receipt of the Management Report, the Bank's board of directors shall submit a written management plan to the Reserve Bank and the Division that fully addresses the findings and recommendations in the Management Report and describes the specific actions that the Bank's board of directors proposes to take in order to strengthen the Bank's management, including steps to recruit, hire or appoint additional or replacement personnel with the requisite ability, experience, and other qualifications required to perform competently their assigned duties.

(d) In appointing any new officers or directors, Ameribanc and the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors.

(e) Ameribanc and the Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. 1828) and Part 359 of the Federal Deposit Insurance Corporation's ("FDIC") regulations (12 C.F.R. Part 359).

2. Within 45 days of the Bank's receipt of the Management Report, the Bank's board of directors shall submit to the Reserve Bank and the Division a written plan to strengthen

board oversight of the management and operations of the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The actions that the board of directors will take to improve the Bank's condition and maintain effective control over and supervision of the Bank's senior management and major operations and activities;
- (b) the responsibility of the Bank's board of directors to implement policies and procedures that are commensurate with the Bank's size and complexity and to monitor management's adherence to approved plans, programs, policies and procedures, and applicable laws and regulations;
- (c) a description of the information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the operations and management of the Bank;
- (d) improvements to management information systems and reporting procedures to ensure the accuracy of data provided to management and the board of directors including, but not limited to, risk-based capital, liquidity, and interest rate sensitivity; and
- (e) a plan to ensure the orderly succession of management.

Capital Plan

3. Within 90 days of this Order, Ameribanc and the Bank shall submit to the Reserve Bank and the Division an acceptable joint written plan to achieve and maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measures and Tier 1 Leverage Measures, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);
- (b) the volume of adversely classified assets;
- (c) the adequacy of the Bank's loan loss reserve and loan review program;
- (d) any planned asset growth;
- (e) the anticipated level of retained earnings;
- (f) the anticipated and contingent liquidity needs;

- (g) the source and timing of additional funds to fulfill the future capital and loan loss reserve needs of the Bank; and
- (h) the requirement of section 225.4(a) of Regulation Y of the Board of Governors that Ameribanc serve as a source of strength to the Bank.

4. (a) Ameribanc and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors, and the Division.

(b) Ameribanc shall not take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) All requests for prior approval shall be received by the Reserve Bank and the Division at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings, cash flow, capital, asset quality, and loan loss reserve needs of the Bank.

5. Ameribanc shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

6. Ameribanc shall not redeem any stock without the prior written approval of the Reserve Bank.

Credit Risk Management

7. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division acceptable revised written loan policies and procedures that are appropriate to the

Bank's size, loan products, and market strategies and that, at a minimum, address, consider, and include:

- (a) A description of the detailed information to be provided to the Bank's board of directors and the loan committee to ensure that informed lending decisions are based on current and accurate credit risk information;
- (b) compliance with the standards for appraisals set out in the Interagency Statement on Independent Appraisal and Evaluation Functions, dated October 27, 2003, and the requirements of Subpart G of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart G), made applicable to state member banks by section 208.50 of Regulation H of the Board of Governors (12 C.F.R. 208.50), and the Board of Governors' Guidelines for Real Estate Appraisal Policies and Review Procedures;
- (c) policies to improve loan servicing and documentation for U.S. government guaranteed loans, including, but not limited to (i) verifying that loan proceeds are only used for authorized purposes; (ii) ensuring borrowers' compliance with loan covenants and applicable laws and regulations; (iii) determining the financial conditions of borrowers; and (iv) ensuring that the Bank is adequately servicing borrowers' collateral; and
- (d) deficiencies and recommendations noted in the joint examination of the Bank conducted by the Division and the Reserve Bank that commenced on June 1, 2004 (the "Report of Examination").

8. Within 60 days of this Order, the Bank shall take all steps necessary to correct documentation and credit information deficiencies and loan policy exceptions listed in the Report of Examination, including, but not limited to, obtaining accurate and current financial statements and appraisals. During the term of this Order, the Bank shall maintain current and complete documentation on all loans consistent with its approved loan policies. In all cases where the Bank is unable to obtain documentation or credit information, the Bank shall document the actions taken to secure the information and the reason the information could not be obtained and shall maintain such documentation for subsequent supervisory review.

9. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division acceptable revised written procedures for independent review of the loan portfolio, which shall, at a minimum, address, consider, and include procedures to accurately assess levels of credit risk to provide for the timely recognition of nonperforming and other problem credits, and shall address all loan review program deficiencies described in the Report of Examination.

Asset Improvement

10. (a) Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, improved documentation, or other means on each loan or other asset and any related credits in excess of \$100,000, including other real estate owned, that was past due as to principal or interest more than 90 days as of the date of this Order, is on the Bank's watch list, or that was adversely classified or listed as special mention in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000 becomes past due as to principal and interest for more than 90 days, is adversely classified internally by the Bank, or is adversely classified or listed for special mention in any subsequent report of examination or visitation of the Bank, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days of the next calendar quarter following the due date for submission of the initial asset improvement plans, and within 30 days of the end of each calendar quarter thereafter, the Bank shall submit to the Reserve Bank and the Division a written progress report to update the asset improvement plan, which shall include, at a minimum, the carrying

value of the loan or other asset, changes in the nature and value of supporting collateral, and a copy of the Bank's current internal watch list.

Allowance for Loan and Lease Losses

11. (a) The Bank shall maintain, through charges to current operating income, an adequate valuation reserve for loan losses. The adequacy of the reserve shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 21, 1993 and July 2, 2001, and examiners' criticisms noted in the Report of Examination.

(b) Within 30 days of this Order, the Bank shall submit a description of the reserve methodology to the Reserve Bank and the Division. Thereafter, at a minimum on a calendar quarterly basis, the Bank shall conduct an assessment of its loan loss reserve and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Division the quarterly assessment, including the methodology used in determining the amount of loan loss reserve for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

Strategic Plan and Budget

12. (a) Within 90 days of this Order, Ameribanc and the Bank shall jointly submit to the Reserve Bank and the Division a written strategic business plan and budget for calendar year 2005. The plan, at a minimum, shall provide for or describe:

- (i) The major areas in and means by which the board of directors will seek to improve the Bank's operating performance;

- (ii) management, lending, and earnings objectives appropriate to the Bank's condition, and specific strategies for achieving such objectives;
- (iii) a realistic and comprehensive budget;
- (iv) a description of the operating assumptions that form the basis for, and adequately support, major projected income and expense components and provisions needed to establish and maintain an adequate loan loss reserve; and
- (v) a budget review process incorporating the use of pro forma income statements in the analysis of budgeted versus actual income and expenses.

(b) A business plan and budget for each calendar year subsequent to 2005 shall be submitted to the Reserve Bank and the Division at least one month prior to the beginning of that calendar year. The plan and budget shall be included in the minutes of the board of directors meetings and maintained for subsequent regulatory review.

(c) During the term of this Order, the Bank shall submit to the Reserve Bank and the Division quarterly reports of the variance of actual income and expenses from budgetary projections, including a narrative explanation of any significant variances.

Asset/Liability Management and Liquidity

13. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division acceptable written revised policies and procedures designed to improve management of the Bank's liquidity and sensitivity to market risk.

(a) The revised policies and procedures regarding liquidity shall, at a minimum, address, consider, and include: (i) appropriate measures to accurately monitor the Bank's liquidity position; (ii) appropriate standards for volume, mix, and maturity of the Bank's loans, investments, deposits, and alternative funding sources; (iii) specific liquidity targets and

parameters; (iv) the maintenance of sufficient liquidity to meet contractual obligations and unanticipated demands; and (v) specific recommendations in the Report of Examination.

(b) The revised policies and procedures regarding sensitivity to market risk shall, at a minimum, address, consider, and include: (i) an automated measurement tool that utilizes rate shock tests to demonstrate the effects of fluctuating interest rates on the Bank's balance sheet and income statement and is capable of calculating "earnings at risk" and "economic value of capital"; (ii) appropriate parameters governing the economic risk to the Bank's earnings and capital due to changes in interest rates; and (iii) specific recommendations in the Report of Examination.

Brokered Deposits

14. The Bank shall not accept any brokered deposits except in compliance with the provisions of section 29 of the FDI Act (12 U.S.C. 1831f). The Bank shall notify the Reserve Bank and the Division, in writing, in the event that the Bank requests any waiver from the FDIC of the restrictions imposed by section 29, and shall notify the Reserve Bank and the Division of the FDIC's disposition of any request for such a waiver.

Audit

15. (a) The Bank shall retain on an annual basis an independent public accounting firm acceptable to the Reserve Bank and the Division to conduct an annual full scope external audit in accordance with generally accepted auditing standards.

(b) The Bank shall submit a written internal audit plan for 2005 and for each subsequent calendar year to the Bank's board of directors, or an appropriate committee thereof, no later than November 30 of the preceding year. The written audit plan shall detail the scope, nature, and schedule of all audit work to be conducted in all areas for the year. The plan shall

cover all operational areas and shall require that any deviation from the audit plan be immediately reported, in writing, to the board of directors.

(c) All plans required by this paragraph shall be approved by the Bank's board of directors, or an appropriate committee thereof, and retained and made available for subsequent regulatory review.

Internal Controls and Forensic Audit

16. (a) The Bank shall complete the engagement of an independent consultant to (i) conduct a review of the Bank's internal controls and prepare a report of findings and recommendations for strengthening internal control processes, and (ii) conduct a review of transactions between the Bank and any institution-affiliated parties and prepare a report describing the transactions and any deficiencies related thereto in detail.

(b) The Bank shall provide copies of the reports required by paragraph 16(a) to the Reserve Bank and the Division at the same time that the Bank receives the reports.

(c) Within 30 days after receipt of the reports, the Bank shall submit an acceptable written plan to the Reserve Bank and the Division describing specific actions that the Bank's board of directors proposes to take to fully address the findings and recommendations of the internal controls and transactions reviews. The plan shall include corrective steps that ensure, at a minimum, the accurate preparation of the Bank's Consolidated Report of Condition and Income and that all records indicating how the report was prepared shall be maintained for subsequent regulatory review.

Compliance with Laws and Regulations

17. The Bank shall immediately take all necessary steps consistent with sound banking practices to correct all violations of laws and regulations set forth in the Report of

Examination and the forensic audit required by paragraph 16. In addition, the Bank's board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws, regulations, and all regulatory reporting requirements.

Suspicious Activity Reporting and OFAC Compliance

18. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division an acceptable revised written customer due diligence program. The program shall be designed to reasonably ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law and suspicious activities against or involving the Bank as required by the suspicious activity reporting provisions of Regulation H of the Board of Governors (12 C.F.R. 208.62).

19. Within 60 days of this Order, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to ensure compliance with the regulations of the U.S. Department of the Treasury's Office of Foreign Assets Control ("OFAC") (31 C.F.R. 500 et seq.), as well as any guidelines issued or administered by OFAC. The plan shall include, at a minimum, procedures to ensure that customer transactions are processed in accordance with OFAC requirements and in accordance with a regularly updated list of entities and individuals whose transactions or assets are required to be blocked, frozen or monitored.

Information Technology

20. (a) The Bank shall complete its engagement of an independent consultant to conduct an information security risk assessment that addresses items noted in the Report of Examination and to prepare a report with findings and recommendations (the "IT Report") to enable the Bank to correct IT deficiencies, to meet all applicable requirements for protecting

nonpublic customer information, and to make appropriate adjustments to the Bank's information security safeguards.

(b) The Bank shall forward a copy of the IT Report to the Reserve Bank and the Division at same time it is provided to the Bank.

(c) Within 30 days of the Bank's receipt of the IT Report, the Bank shall submit to the Reserve Bank and the Division an acceptable written plan designed to improve the Bank's IT function, which shall, at a minimum, address, consider, and include:

- (i) The engagement or employment of an independent network consultant to provide support for the Bank's network and technical issues and IT training to staff;
- (ii) revised policies, procedures, and controls to address logical information security and contingency planning;
- (iii) procedures and controls to strengthen the effectiveness and integrity of the Bank's information security program including, but not limited to, physical security of the Bank's IT assets, segregation of duties, and password security;
- (iv) vendor risk management procedures that conform to the applicable guidelines established by the Board of Governors; and
- (v) the findings and recommendations in the IT Report and the Report of Examination.

Compliance with Order

21. (a) Within 15 days of this Order, the boards of directors of Ameribanc and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate Ameribanc's and the Bank's compliance with the provisions of this Order. The Compliance Committee shall be comprised of three or more outside directors who are not executive officers or principal shareholders of Ameribanc or the Bank, as defined in section 215.2 (e)(1) of Regulation O of the Board of Governors (12 C.F.R. 215.2(3)). At a minimum, the Compliance

Committee shall keep detailed minutes of each meeting, and shall report its findings to the boards of directors of Ameribanc and the Bank on a monthly basis.

(b) Within 30 days after the end of each calendar quarter (December 31, March 31, June 30, and September 30) following the date of this Order, the boards of directors of Ameribanc and the Bank shall submit to the Reserve Bank and the Division written progress reports detailing the form and manner of all actions taken to secure compliance with this Order and the results thereof. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Reserve Bank and the Division have, in writing, released Ameribanc and the Bank from making further reports.

Approval of Plans, Policies, Procedures, and the Program

22. The written plans, policies, procedures, and the program required by paragraphs 3, 7, 9, 10(a) and (b), 13, 16(c), 18, 19, and 20(c) of this Order shall be submitted to the Reserve Bank and the Division for review and approval. Acceptable plans, policies, procedures, and the program shall be submitted within the time periods set forth in this Order. The Bank and, where applicable, Ameribanc shall adopt the approved plans, policies, procedures, and the program within 10 days of approval by the Reserve Bank and the Division and then shall fully comply with them. During the term of this Order, the approved plans, policies, procedures, and the program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Division.

Communications

23. All communications regarding this Order shall be sent to:

- (a) Ms. Susan E. Zubradt
Vice President
Federal Reserve Bank of Kansas City
925 Grand Boulevard
Kansas City, Missouri 64198
- (b) Mr. Richard Fulkerson
Bank Commissioner
Colorado Division of Banking
1560 Broadway #1175
Denver, Colorado 80202-5144
- (c) Mr. Richard J. Watts
Chairman of the Boards of Directors
Ameribanc Holdings, Inc.
The Bank of Durango
125 Sawyer Drive
Durango, Colorado 81303

24. Notwithstanding any provision of this Order to the contrary, the Reserve Bank and the Division may, in their sole discretion, grant written extensions of time to Ameribanc and the Bank to comply with any provision of this Order.

25. The provisions of this Order shall be binding upon Ameribanc, the Bank, and all of their institution-affiliated parties, in their capacities as such, and their successors and assigns.

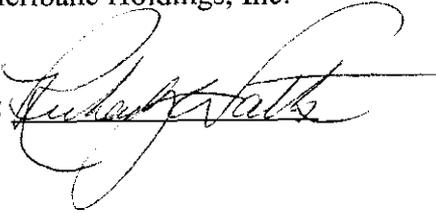
26. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank and the Division.

27. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Division, or any other federal or Division agency from

taking any other action affecting Ameribanc or the Bank or any of their current or former institution-affiliated parties.

By order of the Board of Governors of the Federal Reserve System and the Colorado Division of Banking effective this 18th day of November, 2004.

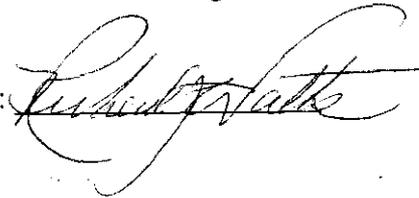
Ameribanc Holdings, Inc.

By: 

The Board of Governors of the Federal Reserve System

By: 
Jennifer J. Johnson
Secretary of the Board

The Bank of Durango

By: 

Colorado Division of Banking

By: 
Richard Fulkerson
Bank Commissioner