

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

In the Matter of

PACIFIC STATE BANK  
Stockton, California

Docket No. 10-129-PCA-SM

Prompt Corrective Action  
Directive Issued Pursuant to  
Section 38 of the Federal Deposit  
Insurance Act, as Amended

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) has determined that:

(A) As of April 30, 2010, Pacific State Bank, Stockton, California (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, is significantly undercapitalized, as defined in section 208.43(b)(4) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(4)), for purposes of section 38 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1831*o*).

(B) Pursuant to sections 38(f)(2) and (3) of the FDI Act (12 U.S.C. §§1831*o*(f)(2) and (3)), section 208.45(b) of Regulation H of the Board of Governors (12 C.F.R. § 208.45(b)), and section 263.202(a)(2) of the Rules of Practice for Hearings of the Board of Governors (the “Rules of Practice”) (12 C.F.R. § 263.202(a)(2)), the Bank must immediately take certain actions in order to carry out the purposes of section 38 of the FDI Act, due to the Bank’s weakened capital position.

Accordingly, pursuant to section 208.45(b) of Regulation H of the Board of Governors and section 263.202(a)(2) of the Rules of Practice, the Board of Governors issues this Directive and immediately directs the Bank and its institution-affiliated parties, as defined in section 3(u) of the FDI Act (12 U.S.C. § 1813(u)), to comply fully with the following:

1. The Bank shall no later than 30 days of the date of this Directive (or such additional time as the Board of Governors may permit), in conjunction with the Bank's parent bank holding company, Pacific State Bancorp:

(a) Increase the Bank's equity through the sale of shares or contributions to surplus in an amount sufficient to make the Bank adequately capitalized as defined in section 208.43(b)(2) of Regulation H of the Board of Governors (12 C.F.R. § 208.43(b)(2));

(b) enter into and close a contract to be acquired by a depository institution holding company or combine with another insured depository institution, closing under which contract is conditioned only on the receipt of necessary regulatory approvals, the continued accuracy of customary representations and warranties, and the performance of customary pre-closing covenants; or

(c) take other necessary measures to make the Bank adequately capitalized.

2. The Bank shall comply fully with the provisions of section 38(d)(1) of the FDI Act (12 U.S.C. § 1831o(d)(1)) restricting the making of any capital distributions, including, but not limited to, the payment of dividends.

3. (a) The Bank shall not, without the prior written approval of the Federal Reserve Bank of San Francisco (the "Reserve Bank") and the fulfillment of one of the requirements set forth

in paragraph 1, solicit and accept new deposit accounts or renew any time deposit bearing an interest rate that exceeds the prevailing effective rates on deposits of comparable amounts and maturities in the Bank's market area.

(b) Within 30 days of this Directive, the Bank shall submit an acceptable plan and timetable to the Reserve Bank for conforming the rates of interest paid on all existing non-time deposit accounts to the prevailing effective rates on deposits of comparable amounts in the Bank's market area. The plan shall detail the current composition of the applicable deposits by rate and provide a specific date for conforming all deposit rates to the statutory restriction.

4. (a) The Bank shall comply fully with the provisions of section 38(f)(2)(B)(i) of the FDI Act (12 U.S.C. § 1831o(f)(2)(B)(i)) requiring that all transactions between the Bank and any affiliate comply with section 23A of the Federal Reserve Act (12 U.S.C. § 371c).

(b) For the purposes of this Directive, the terms (i) "transaction" shall include, but not be limited to, the transfer, sale or purchase of any asset, including cash, or the direct or indirect payment of any expense or obligation of, the payment of a management or service fee of any nature to, or any extension of credit to an affiliate; (ii) "extension of credit" shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. § 215.3); and (iii) "affiliate" shall be defined as set forth in subparagraph (b)(1) of section 23A of the Federal Reserve Act (12 U.S.C. § 371c(b)(1)) and section 223.2 of Regulation W of the Board of Governors (12 C.F.R. § 223.2).

5. The Bank shall comply fully with the provisions of sections 38(f)(4)(A)(i) and (ii) of the FDI Act (12 U.S.C. §§ 1831o(f)(4)(A)(i) and (ii)) restricting the payment of bonuses to senior executive officers and increases in compensation of such officers.

6. The Bank shall comply fully with the provisions of sections 38(e)(3) and (4) of the FDI Act (12 U.S.C. §§ 1831o(e)(3) and (4)) restricting asset growth, acquisitions, branching, and new lines of business.

7. All communications regarding this Directive shall be sent to:

(a) Mr. Joe A. Lozano  
Examining Officer  
Banking Supervision & Regulation  
Federal Reserve Bank of San Francisco  
101 Market Street  
Mail Stop 920  
San Francisco, California 94105

(b) Mr. Harold Hand  
Chairman of the Board of Directors  
Pacific State Bank  
1899 West March Lane  
Stockton, California 95207

8. Notwithstanding any provision of this Directive, the Reserve Bank may, in its sole discretion, grant written extensions of time to the Bank to comply with any provision of this Directive.

9. The provisions of this Directive shall be binding upon the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

10. Each provision of this Directive shall remain effective and enforceable until stayed, modified, terminated or suspended in writing by the Board of Governors.

11. The provisions of this Directive shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state department or agency from

taking any other action affecting the Bank or any of its current or former institution-affiliated parties and their successors or assigns.

12. (a) The Directive does not supersede the Written Agreement by and among Pacific State Bancorp, the Bank, and the California Department of Financial Institutions (the “CDFI”), dated February 18, 2010.

(b) Notwithstanding any provision of this Directive, the Bank shall comply with any other supervisory action issued by the Board of Governors, the Reserve Bank, the CDFI, or the Federal Deposit Insurance Corporation.

13. The Bank may, pursuant to section 263.202(a)(2) of the Rules of Practice, submit to the Board of Governors a written appeal of this Directive. Any written appeal of this Directive must be received by Jennifer J. Johnson, Secretary of the Board, Board of Governors of the Federal Reserve System, 20th & C Streets, N.W., Washington, D.C. 20551, within 14 calendar days of service of this Directive. Failure to file a written appeal within the time specified herein shall constitute a waiver by the Bank of the opportunity to file a written appeal of this Directive.

14. As set forth in section 263.205 of the Board of Governors' Rules of Practice for Hearings (12 C.F.R. § 263.205), this Directive is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

By order of the Board of Governors of the Federal Reserve System, effective this 20<sup>th</sup> day of July, 2010.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By: /s/ Jennifer J. Johnson  
Jennifer J. Johnson  
Secretary of the Board