FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

NEW MEXICO FINANCIAL INSTITUTIONS DIVISION
SANTA FE, NEW MEXICO

In the Matter of	ORDER TO CEASE AND DESIST
MESILLA VALLEY BANK LAS CRUCES, NEW MEXICO	FDIC 06-168b FID 2006-02
(Insured State Nonmember Bank)	

The MESILLA VALLEY BANK, LAS CRUCES, NEW MEXICO ("Bank"), through its board of directors, having been advised of its right to the issuance and service of 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) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b) and Article 1, Section 34 of Chapter 58 of the New Mexico Statutes, N.M. Stat. Ann. § 58-1-34 (Matthew Bender, 1978), 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 a representative of the New Mexico Financial Institutions Division ("State") dated December 7, 2006, 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 State.

The FDIC and the State considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. The FDIC and the State, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

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

(a) Operating the Bank without a qualified senior lending officer;

(b) Operating the Bank with an excessive level of adversely classified loans or assets or delinquent loans;

(c) Refinancing credits to borrowers in weak financial positions without improving collateral margins or establishing structured repayment programs;

(d) Engaging in hazardous lending practices, including, but not limited to;

(1) Renewing or extending credit without adequate and appropriate supporting documentation.

(2) Failing to obtain proper loan documentation.

(3) Failing to obtain adequate collateral.

(4) Failing to establish and enforce adequate loan repayment programs.

(5) Failing to obtain current and complete financial information.

(e) Creating concentrations of credit;

(f) Operating the Bank with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

(g) Operating the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe and unsound banking practices and violations of laws or regulations; and,

(h) Operating the Bank in violation of applicable Federal and State laws and regulations.

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

(1) (a) Within 60 days after the effective date of this ORDER, the Bank shall have and retain qualified management. At a minimum, such management shall include: a chief executive officer with a demonstrated ability in managing a bank of comparable size and shall have prior experience in upgrading a low quality loan portfolio; and a president with a demonstrated ability in managing a bank of comparable size and shall have prior experience in upgrading a low quality loan portfolio. Such persons shall be provided the necessary written authority to implement the provisions of this ORDER. 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, earnings, and management effectiveness.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director and the Director in writing of any changes in any of the Bank’s directors or Senior Executive Officers. For purposes of this ORDER, “Senior Executive Officer” is defined as in Section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b). Prior to the addition of any individual to the board of directors 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 - 303.103.

(2) (a) Within 30 days after the effective date of this ORDER, the Bank’s loan review committee shall review the Bank’s loan portfolio and identify and categorize problem credits. After the initial review the committee shall meet monthly and the committee shall file a report with the Bank’s board of directors, which shall be reviewed by the Bank’s board of directors at each board meeting. This report shall, at a minimum, include the following information:

(i) An assessment of the overall quality of the loan portfolio;

(ii) An identification, by type and amount, of each problem or delinquent loan;

(iii) An identification of all loans not in conformance with the Bank’s lending policy; and,

(iv) An identification of all loans to officers, directors, principal shareholders and/or their related interests.

(b) The loan review committee shall:

(i) Ensure that all lending personnel are adhering to established lending procedures and that the loan review committee is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

(ii) Ensure that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and cash flow projections; such documents shall be maintained throughout the term of the loan;

(iii) Review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" in the Report of Examination;

(iv) Ensure proper usage of the Bank's loan grading system and the internal loan watch list;

(v) Require a written plan to lessen the risk position in each line of credit identified as a problem credit on the Bank's internal loan watch list;

(vi) Address concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;

(vii) Ensure that proper collection efforts are initiated in a timely manner;

(viii) Ensure that the Bank recognizes loss through charge-offs in a timely manner;

(ix) Ensure that there are no extensions of a maturity date, advancement of additional credit or renewal of a loan to a borrower whose obligations to the Bank were classified “Substandard,” “Doubtful,” or “Loss,” whether in whole or in part, as of March 31, 2006, or by the FDIC or State authority in a subsequent Report of Examination, without the full collection in cash of accrued and unpaid interest, unless the loans are well secured and/or are supported by current and complete financial information, and the renewal or extension has first been approved in writing by a majority of the Bank’s board of directors;

(x) Ensure that limitations on the maximum volume of loans in relation to total assets is reviewed; and

(xi) Establish monitoring procedures to ensure compliance with FDIC's regulation on appraisals, 12 C.F.R. Part 323.

(c) At least 50 percent of the members of the loan review committee shall be Independent Directors. For purposes of this ORDER, a person who is an Independent Director shall be any individual:

(i) Who is not an officer of the Bank, any subsidiary of the Bank, or any of its affiliated organizations;

(ii) Who does not own more than 5 percent of the outstanding shares of the Bank;

(iii) Who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, and who does not otherwise share a common financial interest with such officer, director or shareholder; and

(iv) Who is not indebted to the Bank directly or indirectly by blood, marriage or common financial interest, including the indebtedness of any entity in which the individual has a substantial financial interest, in an amount exceeding 5 percent of the Bank’s total Tier 1 Capital and Allowance for Loan and Lease Losses; or

(v) Who is deemed to be an Independent Director for purposes of this ORDER by the Regional Director and the Director.

(3) (a) Within 30 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Director for review and comment a written plan to reduce each of the loan concentrations of credit identified in the Report of Examination as of March 31, 2006 to not more than 25 percent of the Bank’s total Tier 1 Capital. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each concentration; and

(ii) Provisions for the submission of monthly written progress reports to the Bank’s board of directors for review and notation in minutes of the meetings of the board of directors.

(b) For purposes of the plan, “reduce” means to:

(i) Charge-off;

(ii) Collect; or

(iii) Increase Tier 1 Capital.

(c) After the Regional Director and the Director have responded to the plan, the Bank's board of directors shall adopt the plan as amended or modified by the Regional Director and the Director. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

(4) While this ORDER is in effect, the Bank shall not extend or renew, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, unless the Bank's board of directors has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Bank's board of directors' meeting.

(5) (a) Within 30 days after the effective date of this ORDER, the Bank shall correct , to the extent possible, the technical exceptions listed in the Report of Examination as of March 31, 2006.

(b) Within 30 days after the effective date of this

ORDER, the Bank shall implement a system of monitoring loan documentation exceptions on an ongoing basis and implement procedures designed to reduce the occurrence of such exceptions in the future.

(6) (a) Within 30 days after the effective date of this ORDER, the Bank shall submit a written plan to the Regional Director and the Director to reduce the remaining assets classified Doubtful and Substandard as of March 31, 2006. The plan shall address each asset so classified with a balance of $150,000 or greater and provide the following:

(i) The name under which the asset is carried on the books of the Bank;

(ii) Type of asset;

(iii) Actions to be taken in order to reduce the classified asset; and

(iv) Timeframes for accomplishing the proposed actions.

The plan shall also require, at a minimum:

(i) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and

(ii) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

The plan shall be formulated so that, on, or before February 28, 2007, the Bank shall achieve a reduction in the volume of the adversely classified assets reflected in the March 31, 2006 Report of Examination, to a level not to exceed 80 percent of Tier 1 Capital plus the Allowance for Loan and Lease Losses as determined as of February 28, 2007. The plan may include a provision for increasing capital where necessary to achieve the prescribed ratio.

(b) The Bank shall present the plan to the Regional Director and the Director for review. Within 30 days after the Regional Director and the Director respond, the plan, including any requested modifications or amendments, shall be adopted by the Bank's board of directors. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(c) For purposes of the plan, the reduction of the level of adversely classified assets as of March 31, 2006, to a specified percentage of Tier 1 Capital plus the Allowance for Loan and Lease Losses may be accomplished by:

(i) Charge-off;

(ii) Collection;

(iii) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or

(iv) Increase of Tier 1 Capital.

(d) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future examination conducted by the FDIC or the State.

(7) Within 60 days from the effective date of this ORDER, the Bank must use Financial Accounting Standards Board Statements Numbers 5 and 114 for determining the Bank’s allowance for loan and lease losses reserve adequacy. Provisions for loan losses must be based on the inherent risk in the Bank’s loan portfolio. The directorate’s decisions, relative to determining the adequacy of the allowance, shall be documented in the bank’s official board minutes.

(8) (a) Within 60 days after the effective date of this ORDER, the Bank shall formulate and adopt a comprehensive strategic plan. The plan required by this paragraph shall include an assessment of the Bank’s current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written strategic plan shall address, at a minimum:

(i) Goals for reducing problem loans;

(ii) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;

(iii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;

(iv) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the strategic plan to the Regional Director and the Director for review and comment. After consideration of all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the strategic plan.

(d) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors shall evaluate the Bank's performance in relation to the strategic plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the board of directors' meeting at which such evaluation is undertaken.

(9) (a) Within 30 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the Report of Examination.

(b) Within 30 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.

(10) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Director written progress reports, signed by each member of the Bank's board of directors, detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Director have released, in writing, the Bank from making further reports.

(11) After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders: (1) in conjunction with the Bank's next shareholder communication, and also (2) 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 Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The effective date of this ORDER shall be ten (10) days after its issuance. This ORDER shall be binding upon the Bank, its successors and assigns, and all institution-affiliated parties of the Bank. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, superseded, or set aside by the FDIC and the Director.

Pursuant to delegated authority.

Dated: December 7, 2006.

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

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William J. Verant
Director
New Mexico Financial Institutions Division