FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

DEPARTMENT OF FINANCIAL INSTITUTIONS

PHOENIX, ARIZONA

In the Matter of TOWNE BANK OF ARIZONA MESA, ARIZONA (INSURED STATE NONMEMBER BANK)	ORDER TO CEASE AND DESIST Docket No. FDIC-07-225b

Towne Bank of Arizona, Mesa, Arizona ("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 Arizona Revised Statutes § 6-137B, 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 Superintendent, Department of Financial Institutions for the State of Arizona (the "Superintendent"), dated March 20, 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 Department of Financial Institutions for the State of Arizona (the "DFI").

The FDIC and the DFI 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 DFI, 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) engaging in unsatisfactory lending and collection practices;

(c) operating with a board of directors which has failed to provide adequate supervision over and direction to the active management of the Bank;

(d) operating with a large volume of poor quality loans;

(e) operating with inadequate provisions for liquidity; and

(f) operating in violation of Parts 323, 353, and 365.2 of FDIC's regulations.

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, experience in upgrading a low-quality loan portfolio, improving earnings, and running the day-to-day operations of a financial institution. Management shall also include a senior lending officer with significant appropriate lending, collection, and loan supervision experience and experience in upgrading a low quality loan portfolio. Management shall also include a chief financial officer with proven abilities in asset/liability management and in maintaining a bank’s books and records of comparable size, in accordance with GAAP principles and Call Report instructions. 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 Superintendent, 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.

2. (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 Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices. The Bank shall obtain and maintain adequate and current documentation for all new loans added to its loan portfolio and with respect to existing loans, shall obtain adequate and current documentation if the current loan provision permits the Bank to demand such documentation. Even if the current loan documentation does not permit the Bank to require such information, the Bank will nonetheless request such information from its loan customers. Such policies and their implementation shall be in a form and manner acceptable to the Regional Director and the Superintendent 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 that address standards for the use of interest reserves and developing a procedure to monitor interest reserves;

(iii) provisions that require complete loan documentation, supportable 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;

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

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

(vi) provisions that establish standards for unsecured credit;

(vii) provisions that establish officer lending limits;

(viii) provisions that require extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such persons, to be approved in advance by a majority of the entire board of directors in accordance with section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(b);

(ix) provisions that directors first determine that the lending staff, which should include all individuals involved in the lending and credit administration functions, 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; and

(x) provisions which address standards for credit analysis and credit summaries.

(c) 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.

3. (a) Within 15 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 such as selecting, monitoring, and evaluating competent management; establishing business strategies and policies; monitoring and assessing the progress of business operations; establishing and monitoring adherence to policies and procedures required by statute, regulation, and principles of safety and soundness; and for making business decisions on the basis of fully informed and meaningful deliberation. 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 loan committee that does not rely on email loan discussions or approval and meets in person on a regular basis; and

(iii) Assess the lending culture within the Bank and reduce or eliminate production pay compensation and improve loan officer accountability. The board of directors shall ensure that quantitative and qualitative criteria are established for the payment of production pay compensation and other bonuses and that any bonus be approved by the board of directors or its designee prior to being paid or otherwise expensed by the Bank.

4. Within 60 days from the effective date of this ORDER, the Bank shall develop a written plan, approved by its board of directors and acceptable to the Regional Director and the Superintendent for systematically reducing the total level of commercial real estate concentrations and the total level of construction, land development and other land loans as reported in Call Report FFIEC 031 and 041, Schedule RC-C – Loans and Lease Financing Receivables, Part I: Loans and Leases, item 1a Loans secured by real estate; Construction, land development and other land loans. In addition, the Bank shall develop appropriate policies and procedures consistent with the guidelines discussed in the December 12, 2006, final joint Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices issued by all the federal banking regulators.

5. 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 May 7, 2007.

6. Within 90 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Superintendent a written strategic plan through December 31, 2010, based upon key interest rate assumptions stated in the plan. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits. For each calendar quarter, the plan will also specify the anticipated average maturity and average yield on loans and securities; the average maturity and average cost of deposits; the level of earning assets as a percentage of total assets; and the ratio of net interest income to average earning assets. The plan shall be in a form and manner acceptable to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

7. Within 30 days from the effective date of this ORDER, the Bank shall develop or revise, adopt, and implement a written liquidity and funds management policy. Such policy and

its implementation shall be in a form and manner acceptable to the Regional Director and the Superintendent as determined at subsequent examinations and/or visitations.

8. Upon the effective date of this ORDER, the Bank shall not increase the amount of brokered deposits above the amount outstanding on that date. The Bank shall not accept, renew, or rollover brokered deposits without obtaining a brokered deposit waiver approved by the FDIC pursuant to Section 29 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831f.

Within ten days of the effective date of this ORDER, the Bank shall submit to the Regional Director and the Superintendent a written plan for reducing its reliance on brokered deposits up to 10 per cent of total deposits no later than December 31, 2010. The plan should contain details as to the current composition of brokered deposits by maturity and explain the means by which such deposits will be paid or rolled over. The Regional Director and the Superintendent shall have the right to reject the Bank's plan. On the tenth day of each month, the Bank shall provide a written progress report to the Regional Director and the Superintendent detailing the level, source, and use of brokered deposits with specific reference to progress under the Bank's plan. For purposes of this ORDER, brokered deposits are defined as described in section 337.6(a)(2) of the FDIC Rules and Regulations to include any deposits funded by third party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance.

9. Within 60 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 May 7, 2007. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations, including:

(a) Performing and documenting the review of all appraisals accepted to determine the appraisals conform to regulatory requirements;

(b) Timely filing all suspicious activity reports; and

(c) Having real estate lending policies that have prudent underwriting standards, including loan-to-value limits, that are clear and measurable.

10. Within 30 days of the end of the first quarter following the effective date of this ORDER, and within thirty days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Superintendent 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 Superintendent have released the Bank in writing from making further reports.

11. During the life of this ORDER, the Bank shall not increase its average assets by 20 per cent or more per annum without receiving the prior written approval of the Regional Director and the Superintendent.

12. The Bank shall not pay a discretionary bonus in addition to stipulated base salaries to or for the benefit of any executive officer of the Bank without providing written notice of such proposed action to the Regional Director and the Superintendent. The notification must be received no less than 30 days prior to the payment of the bonus. If the Bank were to propose to adopt a non-discretionary bonus plan or enter into an agreement with any executive officer which included a non-discretionary bonus potential, the Bank will provide written notification of

such plan or provisions to the Regional Director and the Superintendent at least 30 days prior to the adoption of such plan or inclusion of such provision.

13. 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 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 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 and the DFI. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the DFI.

Pursuant to delegated authority.

Dated at San Francisco, California,
this 28th day of March, 2008.

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

Dated at Phoenix, Arizona
this 28th day of March, 2008.

Felicia A. Rotellini
Superintendent
Department of Financial Institutions for the
State of Arizona