

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of )  
 )  
 ) ORDER TO CEASE AND DESIST  
ARROWHEAD COMMUNITY BANK )  
GLENDALE, ARIZONA )  
 )  
(Insured State Nonmember Bank) )  
\_\_\_\_\_) FDIC-09-393b

Arrowhead Community Bank, Glendale, Arizona ("Bank"),  
having been advised of its right to a NOTICE OF CHARGES AND OF  
HEARING detailing the unsafe or unsound banking practices  
alleged to have been committed by the Bank, and of its right  
to a hearing on the charges under section 8(b) of the Federal  
Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b), and  
having waived those rights, entered into a STIPULATION AND  
CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST  
("CONSENT AGREEMENT") with a representative of the Federal  
Deposit Insurance Corporation ("FDIC") dated October 23, 2009,  
whereby, solely for the purpose of this proceeding and without  
admitting or denying the charges of unsafe or unsound banking  
practices, the Bank consented to the issuance of an ORDER TO  
CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices, and violations of law. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

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 or unsound banking practices:

- A. Engaging in hazardous lending and lax collection practices.
- B. Operating with an inadequate level of capital protection for the kind and quality of assets held.
- C. Operating with an excessive level of adversely classified assets, and other real estate owned.
- D. Operating with inadequate liquidity in light of the Bank's asset and liability mix.
- E. Operating in such a manner as to generate inadequate earnings.
- F. Operating with an inadequate allowance for loan and lease losses for the volume, kind, and quality of loans and leases held.
- G. Operating with management whose policies and

practices are detrimental to the Bank and jeopardize the safety of its deposits.

- H. Violating Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323.
- I. Operating with excessive concentrations of credit.

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

MANAGEMENT

1. Within 60 days from the effective date of this ORDER, the Bank shall retain qualified management. 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, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness,

CAPITAL

2. (a) Within 90 days from the effective date of this ORDER, the Bank shall have and maintain its level of Tier 1 capital as a percentage of its total assets ("capital ratio") at a minimum of 9.0 percent and its level of qualifying total capital as a percentage of risk-weighted assets ("total risk based capital ratio") at a minimum of 12.0 percent. For purposes of this ORDER, Tier 1 capital, qualifying total capital, total assets, and risk-weighted assets shall be calculated in accordance with Part 325 of the FDIC Rules and Regulations ("Part 325"), 12 C.F.R. Part 325.

(b) If, while this ORDER is in effect, the Bank increases capital by the sale of new securities, the board of directors of the Bank shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held by or controlled by them in favor of said plan. Should the implementation of the plan involve public distribution of Bank securities, including a distribution limited only to the Bank's existing shareholders, the Bank shall prepare detailed offering

materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the materials used in the sale of the securities shall be submitted to the FDIC Registration and Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429 for its review. Any changes requested to be made in the materials by the FDIC or the DFI shall be made prior to their dissemination.

(c) In complying with the provisions of this paragraph, the Bank shall provide to any subscriber and/or purchaser of Bank securities written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 calendar days of the date any material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber of the Bank's original offering materials.

DIVIDEND RESTRICTION

3. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director of the Chicago Region of the FDIC (Regional Director).

ALLOWANCE FOR LOAN AND LEASE LOSSES

4. (a) Within 30 days of the effective date of this ORDER the Bank shall increase its Allowance for Loan and Lease Losses ("ALLL") by \$2,000,000.

(b) Prior to submission or publication of all Reports of Condition and Income required by the FDIC after the effective date of this ORDER, the board of directors of the Bank shall review the adequacy of the Bank's ALLL, provide for an adequate ALLL, and accurately report the same. The minutes of the board meeting at which such review is undertaken shall indicate the findings of the review, the amount of increase in the ALLL recommended, if any, and the basis for determination of the amount of ALLL provided. In making these determinations, the board of directors shall consider the FFIEC Instructions for the Reports of Condition and Income and any analysis of the Bank's ALLL provided by the FDIC.

PROFIT PLAN AND BUDGET

5. (a) Within 90 days from the effective date of this ORDER, the Bank shall prepare a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2010. The plan required by this paragraph shall contain formal goals and strategies, consistent with sound banking practices, to reduce discretionary expenses and to improve the Bank's overall earnings, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The bank shall prepare, implement, and adhere to a written profit plan and budget for each calendar year for which this ORDER is in effect.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plans and budgets required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which such evaluation is undertaken.

## LIQUIDITY

6. (a) Within 60 days of the effective date of this ORDER, the Bank shall adopt a written contingency funding plan ("Liquidity Plan"). The Liquidity Plan shall identify sources of liquid assets to meet the Bank's contingency funding needs over time horizons of one month, two months, and three months and establish measurable goals to reduce reliance on non-core funding sources. At a minimum, the Liquidity Plan shall be prepared in conformance with the Liquidity Risk Management Guidance found at FIL-84-2008 and include provisions to address the issues identified on pages 6 and 7 of the Report of Examination dated May 26, 2009 ("Report").

(b) The plan required by this paragraph shall be submitted to the Regional Director. Within 30 days of receipt of any comments from the Regional Director the Bank shall incorporate any suggested changes and thereafter adopt, implement, and adhere to the plan.

## REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within 60 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to, a written plan to reduce the Bank's risk position in each asset in excess of \$500,000, which is delinquent more than

90 days or classified "Substandard" or "Doubtful" in the Report. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit any new extensions of credit for borrowers classified Substandard or Doubtful, including extensions for the payment of interest, unless the Board provides, in writing, a detailed explanation of why the extension is in the best interest of the Bank;
- (ii) Provide for review of the current financial condition of each delinquent or classified borrower, including a review of borrower cash flow and collateral value;
- (iii) Delineate areas of responsibility for loan officers;
- (iv) Establish dollar levels to which the Bank shall reduce delinquencies and classified assets within 6 and 12 months from the effective date of this ORDER;  
and
- (v) Provide for the submission of monthly written progress reports to the Bank's

(b) As used in this paragraph, "reduce" means to: (1) collect; (2) charge off; (3) sell; or (4) improve the quality of such assets so as to warrant removal of any adverse classification by the FDIC.

(c) The plan required by this paragraph shall be submitted to the Regional Director. Within 30 days of receipt of any comments from the Regional Director the Bank shall incorporate the suggested changes and thereafter adopt, implement, and adhere to the plan.

(d) While this ORDER remains in effect, the plan shall be revised to include assets which become delinquent more than 90 days after the effective date of this ORDER or are classified Substandard or Doubtful at any subsequent examinations.

#### CONCENTRATIONS OF CREDIT

8. (a) Within 60 days from the effective date of this Order, the Bank will formulate, adopt and implement a written plan to reduce the loan concentrations of credit identified on page 33 of the Report. 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) Provision for the submission of monthly written progress reports to the Bank's board of directors for review and notation in the minutes of the board of directors' meetings.

(b) A copy of the plan required by this paragraph shall be submitted to the Regional Director.

#### LOSS CHARGE-OFF

9. As of the effective date of this Order, the Bank shall charge off from its books and records any loan classified "Loss" in the Report.

#### LOAN UNDERWRITING AND CREDIT ADMINISTRATION

10. Within 90 days from the effective date of this ORDER, the Bank will implement a system to ensure that loan underwriting and credit administration deficiencies detailed in the Report are corrected. In addition, the Bank will obtain re-appraisals or re-evaluations of real estate collateral securing adversely classified and delinquent

loans, consistent with the collateral monitoring requirements of Appendix A to Part 365, Appendix A to Part 364, and the Interagency Policy Statement on Appraisal and Evaluation Guidelines.

#### SHAREHOLDER COMMUNICATION

11. Within 30 days from the effective date of this ORDER, the Bank shall send to its shareholder a copy of this ORDER: (1) in conjunction with the Bank's next shareholder communication; and (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

#### PROGRESS REPORTS

12. (a) Within 30 days from the effective date of this ORDER, the Bank's board of directors shall have in place a program that will provide for monitoring of the Bank's compliance with this ORDER.

(b) Within 30 days of the last day of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional 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 have, in writing, released the Bank from making further reports.

The effective date of this ORDER shall be 10 calendar days after its issuance by the FDIC.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

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

Pursuant to delegated authority.

Dated: November 10, 2009.

\_\_\_\_\_/s/\_\_\_\_\_  
M. Anthony Lowe  
Regional Director  
Chicago Regional Office  
Federal Deposit Insurance  
Corporation