

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

AND

STATE OF ARIZONA

DEPARTMENT OF FINANCIAL INSTITUTIONS

PHOENIX, ARIZONA

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In the Matter of	)	
	)	CONSENT ORDER
	)	
CENTRAL ARIZONA BANK	)	FDIC-09-673b
Casa Grande, Arizona	)	
	)	
(STATE CHARTERED	)	
INSURED NONMEMBER BANK)	)	

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The Central Arizona Bank, Casa Grande, 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, rule or regulation 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 UNDER Section 6-137(D) of the Arizona Revised Statutes ("ARS"), REGARDING HEARINGS BEFORE THE Department of Financial Institutions for the State of Arizona ("DFI"), and having waived those rights, entered into a STIPULATION TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with

representatives of the Federal Deposit Insurance Corporation ("FDIC"), and the DFI, dated January 25, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to earnings, management and capital or charges of violations of law, rule or regulation, the Bank consented to the issuance of this CONSENT ORDER ("ORDER") by the FDIC and the DFI.

The FDIC and DFI considered the matter and determined that each had reason to believe that the Bank has engaged in unsafe or unsound banking practices and violated laws, rules or regulations. The FDIC and DFI, therefore, accepted the STIPULATION.

Having also determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and Section 6-137(D) of the ARS have been satisfied, the FDIC and DFI **HEREBY ORDER** 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, take the affirmative action as follows:

MANAGEMENT

1. (a) Within 60 days from 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 proven ability in managing a bank of comparable size and experience in upgrading a low quality loan portfolio; a chief financial officer with demonstrated ability in all financial areas including, but not limited to, accounting, regulatory reporting, budgeting and planning, management of the investment function, liquidity management, and interest rate risk management; and a chief credit officer and/or an adequate number of other loan workout managers/specialists who have the experience to manage and oversee loan workouts and problem assets of the types and size in the Bank's loan portfolio. Management 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, rules, and regulations; and
- (iv) Restore all aspects of the Bank to a safe and sound condition, including capital adequacy, asset quality,

management effectiveness, earnings, liquidity, and sensitivity to interest rate risk.

(b) During the life of this ORDER, 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 request and obtain the written approval of the FDIC and DFI. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831i, and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

#### BOARD PARTICIPATION

2. (a) As of 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. 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; adoption or modification of

operating policies; individual committee reports; audit reports; internal control reviews including management's responses; and compliance with this ORDER. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

(b) 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.

#### CAPITAL PROVISIONS

3. (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 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 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 17th Street, N.W., Washington, D.C. 20429 and to the DFI, 2910 N. 44<sup>th</sup> Street, Suite 310, Phoenix, AZ 85018 for their 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.

SALE OR MERGER

4. (a) Within 30 days from the effective date of this ORDER, the Bank shall develop adopt and implement a plan to sell itself or merge itself into an insured depository institution that is not controlled by Capitol Bancorp Limited, or otherwise recapitalize the Bank so that the Bank is no longer controlled by Capitol Bancorp Limited.

(b) The plan required by this paragraph shall be acceptable to the Regional Director of the FDIC's Chicago Region ("Regional Director") and Superintendent of the DFI ("Superintendent").

LOSS CHARGE-OFF

5. As of the effective date of this Order, the Bank shall charge off from its books and records any asset

classified "Loss" in the September 14, 2009 Report of Examination ("ROE").

PROHIBITION OF ADDITIONAL LOANS TO CLASSIFIED BORROWERS

6. (a) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the ROE, so long as such credit remains uncollected.

(b) As of the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who is already obligated in any manner to the Bank on any extension of credit (including any portion thereof) that has been classified "Substandard", "Doubtful", or is listed for Special Mention in the ROE, and is uncollected unless the Bank's Board of Directors has adopted, prior to such extension of credit, a detailed written statement giving the reason why such extension of credit is in the best interest of the Bank. A copy of the statement shall be signed by each Director, and incorporated in the minutes of



the applicable Board of Directors' meeting. A copy of the statement shall be placed in the appropriate loan file.

REDUCTION OF DELINQUENCIES AND CLASSIFIED ASSETS

7. (a) Within 90 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 \$400,000 which is delinquent more than 90 days or classified "Substandard" or "Doubtful" in the ROE. The plan shall include, but not be limited to, provisions which:

- (i) Prohibit an extension of credit 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) 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

(iv) Provide 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) 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 and DFI.

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

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

#### LIQUIDITY MANAGEMENT

8. (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. 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 in the ROE.

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

#### DIVIDEND RESTRICTION

9. 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 and the Superintendent.

#### ALLOWANCE FOR LOAN AND LEASE LOSSES

10. (a) After the effective date of this ORDER, and prior to submission or publication of all Reports of Condition and Income required by the FDIC and DFI, 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. In addition, the Bank shall use a methodology for the review of the ALLL that is in compliance with industry accounting standards. 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.

(b) ALLL entries required by this paragraph shall be made prior to any capital determinations required by this ORDER.

#### PROFIT PLAN AND BUDGET

11. (a) Within 90 days from the effective date of this ORDER, the Bank shall adopt, implement, and adhere to a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar years 2010 and 2011. The plans 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. In addition, the written profit plan shall identify the major areas in, and means by which, earnings will be improved.

(b) 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.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect.

(d) Copies of the plans and budgets required by this paragraph shall be submitted to the Regional Director and the Superintendent.

#### STRATEGIC PLAN

12. (a) Within 90 days from the effective date of this ORDER, the Bank shall formulate, adopt, and implement a realistic, comprehensive strategic plan. The plan required by this paragraph shall contain an assessment of the Bank's current financial condition and market area. The written strategic plan shall address, at a minimum:

- (i) Strategies for pricing policies and asset/liability management; and

- (ii) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and
- (iii) Any other deficiencies described in the ROE.

(b) 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 actual 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.

(c) The strategic plan required by this ORDER shall be revised 30 days prior to the end of each calendar year during which this ORDER is in effect. Thereafter the Bank shall approve the revised plan, which approval shall be recorded in the minutes of a Board of Directors' meeting, and the Bank shall implement and adhere to the revised plan.

(d) Copies of the plan and revisions required by this paragraph shall be submitted to the Regional Director and the Superintendent.

INTEREST RATE RISK

13. (a) Within 60 days from the effective date of this ORDER, the Board shall review the Bank's Asset/Liability Management Policy for adequacy and shall make revisions that, at a minimum, address the exceptions noted on pages 8 and 15-16 of the ROE.

(b) A copy of the policy revisions and procedures required by this paragraph shall be submitted to the Regional Director and the Superintendent.

CONCENTRATIONS OF CREDIT

14. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate, adopt and implement a written plan to manage each of the concentrations of credit identified on page 30 of the ROE in a safe and sound manner. At a minimum, the plan must provide for written procedures for the ongoing measurement and monitoring of the concentrations of credit, and a limit on concentrations commensurate with the Bank's capital position, safe and sound banking practices, and the overall risk profile of the Bank.

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

CORRECTION OF VIOLATIONS

15. Within 30 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule, and regulations, specifically including those described on pages 18-19 of the ROE.

NOTIFICATION TO SHAREHOLDER

16. Following 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; or (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting.

PROGRESS REPORTS

17. (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 written progress reports signed by each member of the Bank's Board of Directors to the Regional Director and Superintendent, which shall detail 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 Superintendent, in writing, release the Bank from making further reports.

The effective date of this ORDER shall be the effective date issuance by the FDIC and DFI.

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 and DFI.

Pursuant to delegated authority.

Dated: February 8, 2010.

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

\_\_\_\_\_/s/\_\_\_\_\_  
Thomas Wood  
Superintendent  
Department of  
Financial Institutions  
for the State of Arizona