

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of)	
)	
PISGAH COMMUNITY BANK)	CONSENT ORDER
Asheville, North Carolina)	FDIC-10-280b
)	
(STATE CHARTERED)	
INSURED NONMEMBER BANK))	

Pisgah Community Bank, Asheville, North Carolina ("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 TO THE ISSUANCE OF A CONSENT ORDER ("STIPULATION") with representatives of the Federal Deposit Insurance Corporation ("FDIC") and with the North Carolina Commissioner of Banks ("Commissioner"), dated April 29, 2010, whereby, solely for the purpose of this proceeding and without admitting or denying the charges of unsafe or unsound banking practices relating to capital adequacy, asset quality and management practices or violations of law, rule or regulation, the Bank consented

to the issuance of a CONSENT ORDER ("ORDER") by the FDIC and the Commissioner. The Commissioner may issue an order pursuant to N.C. Gen. Stat. section 53-107.1 (2005).

The FDIC and the Commissioner considered the matter and determined that the requirements for issuance of an Order under 12 U.S.C. § 1818(b) and N. C. Gen Stat. section 53-107.1 (2005) have been met. The FDIC and the Commissioner, therefore, accepted the STIPULATION and 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 affirmative action as follows:

MANAGEMENT

1. (a) Within 30 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 or president with proven ability in managing a bank of comparable size and experience in upgrading a low quality loan portfolio; and, a senior lending officer with an appropriate level of lending, collection, and loan supervision experience for the type and quality of the Bank's loan portfolio. Each member of management shall have the qualifications and experience commensurate with his or her duties and responsibilities at

the Bank. Each member of 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 asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market 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 Commissioner's written approval. For purposes of this ORDER, "senior executive officer" is defined as in section 32 of the Act ("section 32"), 12 U.S.C. § 1831(i), and section 303.101(b) of the FDIC Rules and Regulations, 12 C.F.R. § 303.101(b).

MANAGEMENT PLAN

2. (a) Within 30 days from the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director of the FDIC Chicago Regional Office ("Regional Director") and the Commissioner, who will develop a written analysis and assessment of the Bank's management needs ("Management Study") for the purpose of ensuring qualified management. The analysis should include reviews of the board of directors and positions of President, Senior Lending Officer, and Chief Operating officer.

(b) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the consultant for review.

(c) The Management Study shall be completed within 60 days from the effective date of this ORDER. The Management Study shall include, at a minimum:

(i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

(ii) Identification and establishment of such Bank committees as are needed to

provide guidance and oversight to
active management;

- (iii) Evaluation of all Bank directors,
officers and staff members to determine
whether these individuals possess the
ability, experience and other
qualifications required to perform
present and anticipated duties,
including adherence to the Bank's
established policies and practices, and
restoration and maintenance of the Bank
in a safe and sound condition;
- (iv) Evaluation of all Bank officer
compensation, including salaries,
director fees, and other benefits; and
- (v) A plan to recruit and hire any
additional or replacement personnel
with the requisite ability, experience
and other qualifications to fill those
board, officer or staff member
positions identified by this paragraph
of this ORDER.

(d) Within 30 days after receipt of the Management Study the Bank shall formulate a plan to implement the recommendations of the Management Study.

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

BOARD PARTICIPATION

3. (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 actions; 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 60 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

4. (a) Within 60 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 Commissioner, 316 W. Edenton Street, Raleigh, North Carolina, 27603, for their review. Any changes requested to be made in the materials by the FDIC 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.

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" during the March 1, 2010, joint Examination ("Examination").

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 extensions of credit (including any portion thereof) that has been charged off the books of the Bank or classified "Loss" in the list of adversely classified assets left with management during the Examination, 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 whose loan or other credit has been classified "Substandard" or "Doubtful" in the list of adversely

classified assets left with management during the Examination, and is uncollected unless the Bank's board of directors has adopted, prior to such extension of credit, a detailed written statement giving the reasons 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 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 \$250,000 which is more than 90 days delinquent or classified "Substandard" or "Doubtful" in the list of adversely classified assets left with management during the Examination. 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) 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 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 the Commissioner.

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

(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.

PROFIT PLAN AND BUDGET

8. (a) Within 60 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, shall contain a description of the operating assumptions that form the basis for major projected income and expense components, and 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 Commissioner.

LIQUIDITY PLAN

9. (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, include a plan to reduce reliance on noncore funding sources, and include provisions to address the issues identified during the examination.

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

DIVIDEND RESTRICTION

10. As of the effective date of this ORDER, the Bank shall not declare or pay any dividend without the prior written consent of the Regional Director and the Commissioner.

ALLOWANCE FOR LOAN AND LEASE LOSSES

11. (a) After the effective date of this ORDER, and prior to the submission of all Reports of Condition and Income required by the FDIC, the board of directors of the Bank shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("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 or the Commissioner.

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

CORRECTION OF VIOLATIONS OF LAW AND CONTRAVENTIONS OF
POLICY STATEMENTS

12. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, rule and regulation, and contraventions of policy statements in the list provided to management during the Examination.

SALE OR MERGER

13. (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 and the Commissioner.

PROGRESS REPORTS

14. 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 Commissioner 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.

NOTIFICATION TO SHAREHOLDER

15. 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.

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

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 the Commissioner.

Pursuant to delegated authority.

Dated: May 5, 2010.

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

