

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

STATE OF NEW JERSEY  
COMMISSIONER OF BANKING AND INSURANCE  
TRENTON, NEW JERSEY

_____	)	
Written Agreement by and among	)	
	)	
UNITY BANCORP, INC.	)	Docket No. 00-012-WA/RB-HC
Clinton, New Jersey	)	
	)	
FEDERAL RESERVE BANK OF NEW YORK	)	
New York, New York	)	
	)	
and	)	
	)	
COMMISSIONER OF BANKING AND	)	
INSURANCE OF THE STATE OF NEW JERSEY	)	
Trenton, New Jersey	)	
_____	)	

WHEREAS, in recognition of the common goal to restore and maintain the financial soundness of Unity Bancorp, Inc., Clinton, New Jersey (the "Holding Company"), a registered bank holding company, that owns and controls the Unity Bank, Clinton, New Jersey (the "Subsidiary Bank"), a state chartered nonmember bank, the Federal Reserve Bank of New York (the "Reserve Bank"), the Commissioner of Banking and Insurance of the State of New Jersey (the "Commissioner"), and the Holding Company have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on July 18, 2000, the board of directors of the Holding Company at a duly constituted meeting, adopted a resolution authorizing and directing Robert J. Van Volkenburgh, Chairman, to enter into this Agreement on behalf of the Holding Company, and consented to compliance by the Holding Company and its institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and (b)(3)) (the "FDI Act"), with each and every provision of this Agreement.

NOW, THEREFORE, the Reserve Bank, the Commissioner and the Holding Company agree as follows:

1. (a) The Holding Company shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors of the Federal Reserve System, and the Commissioner. Requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, current and projected information on consolidated earnings and cash flow, Holding Company and Subsidiary Bank capital levels, the asset quality and loan loss reserve needs of the Subsidiary Bank, and a comparison between actual monthly results and the projections set forth in the Holding Company's strategic plan.

(b) The Holding Company shall not take dividends or any other form of payment representing a reduction in capital from the Subsidiary Bank without the prior written approval of the Reserve Bank and the Commissioner.

2. (a) Within 45 days of this Agreement, the Holding Company shall submit to the Reserve Bank and the Commissioner an acceptable written plan to achieve and, thereafter, to maintain an adequate capital position for the Subsidiary Bank and the consolidated organization (the "Capital Plan."). The Capital Plan shall, at a minimum, address and consider: (i) the current and future capital requirements of the Subsidiary Bank and the consolidated organization, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D); (ii) the asset quality, condition, and risk profile of the Subsidiary Bank; (iii) the anticipated level of earnings; (iv) procedures for monitoring, on a monthly basis, the capital adequacy of the Subsidiary Bank and the consolidated organization; (v) actions to be taken and the source and timing of additional funds to fulfill the Holding Company's and the Subsidiary Bank's future capital requirements and to maintain the adequacy of the Subsidiary Bank's allowance for loan loss reserves; and (vi) the requirements of any capital restoration plan for the Subsidiary Bank submitted to the Federal Deposit Insurance Corporation (the "FDIC") pursuant to section 38 of the FDI Act (12 U.S.C. 1831(o)) or any supervisory action.

(b) The Holding Company shall take all actions necessary to perform its guarantee of any capital restoration plan.

3. (a) The Holding Company shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank and the Commissioner. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment and an analysis of the cash flow resources available to meet such debt repayment.

(b) The Holding Company shall not redeem any stock without the prior written approval of the Reserve Bank and the Commissioner.

4. (a) Within 30 days of this Agreement, the board of directors shall engage an outside consultant to conduct a review of all Holding Company personnel costs, including all salaries, bonuses (whether cash or otherwise), fees, and expense reimbursements paid to the Holding Company's officers, directors, and employees in excess of \$5,000 during 1999 and 2000. The purpose of the review is to ensure that all salaries, bonuses, fees, and expenses are:

- (i) justified based on the Holding Company's performance, financial condition, and future prospects;
- (ii) related to the services actually rendered to the Holding Company;
- (iii) paid in accordance with the duties, responsibilities, and obligations of the Holding Company's officers, directors, and employees;
- and (v) preapproved by the board of directors on a regular basis.

Within 90 days of this Agreement, the outside consultant shall prepare a written report of findings and recommendations to the board of directors.

(b) Within 30 days of receipt of the outside consultant's written report, the board of directors shall submit to the Reserve Bank and the Commissioner a copy of the report, along with any proposed written compensation policies and procedures that may be recommended as a result of the outside consultant's review.

(c) The Holding Company shall not, directly or indirectly, increase the salaries of, or pay or accrue any bonuses or fees to, or make any other payments, including, but not limited to, the reimbursement of expenses in excess of \$5,000, to or on behalf of any of the Holding Company's institution-affiliated parties or their related interests without the prior written approval of the Reserve Bank and the Commissioner.

(d) For the purposes of this Agreement, the term "related interest" shall be defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. 215.2 (n)).

5. (a) The Holding Company shall not, directly or indirectly, enter into, participate, or in any other manner engage in any financial transaction with any of the Holding Company's or the Subsidiary Bank's current or former institution-affiliated parties or their related interests without the prior written approval of the Reserve Bank and the Commissioner.

(b) For the purposes of this Agreement, the term "financial transaction" shall include, but is not limited to: any extension of credit (as defined in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3)), the payment of any outstanding indebtedness or

other obligation, the payment of money, the transfer, sale, or purchase of any asset, or any contract or payment for services.

(c) Any request for prior approval pursuant to this paragraph shall be accompanied by documentation adequate to provide the Reserve Bank and the Commissioner with the details of each proposed loan or payment, including a full description of the terms, the purpose(s), the amounts involved, the benefits to be derived by the Holding Company and such other matters that may be pertinent to the proposed loan or payment to assist the Reserve Bank and the Commissioner in their review of each proposal.

(d) The Holding Company shall notify the Reserve Bank and the Commissioner in writing at least 30 days prior to any proposed severance payment or other expenditure in excess of \$10,000. The notification shall be accompanied by documentation adequate to provide the Reserve Bank and the Commissioner with the details of each proposed payment, including a full description of the terms, the purpose(s), the amounts involved, the benefits to be derived by the Holding Company and such other matters that may be pertinent to the proposed payment.

6. The Holding Company shall not make any bid for, acquire, or enter into any agreement to acquire any bank or nonbank entity or expand its activities without the prior written approval of the Reserve Bank and the Commissioner.

7. Within 60 days of this Agreement, the board of directors shall conduct a review of all Holding Company transactions with the Subsidiary Bank from January 1, 1999 to the date of this Agreement to ensure that they were in compliance with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. 371c and 371c-1), and shall forward to the Reserve Bank and the Commissioner a written report that includes findings, conclusions, and a description of specific actions that the board of directors proposes to take to strengthen the Holding Company's program for ensuring such transactions comply with the law.

8. (a) The Holding Company and its board of directors shall take all actions that are necessary to ensure that the Subsidiary Bank complies fully with all formal or informal supervisory actions that have been imposed or which may be imposed by the FDIC or the Commissioner.

(b) The Holding Company shall submit to the Reserve Bank a copy of all written reports submitted by the Subsidiary Bank to the FDIC and the Commissioner pursuant to any formal or informal supervisory agreement or order entered into among the Subsidiary Bank, the FDIC, and the Commissioner.

9. (a) By no later than the 25th day of each month, the board of directors shall submit a written report to the Reserve Bank and the Commissioner that shall include:

(i) consolidated and parent-company only balance sheets for the end of the previous month; and

(ii) an analysis of consolidated and bank-only performance for the previous month, that includes Tier 1 leverage capital ratio; Tier 1 and Total risk-based capital ratios; return on average assets (annualized to date); net interest margin (annualized to date); and nonrecurring expenses and nonrecurring income to average assets (annualized to date).

(b) Within 30 days after the end of each calendar quarter (September 30, December 31, March 31 and June 30), the board of directors shall submit a written progress report to the Reserve Bank and the Commissioner that shall include: (i) a description of the actions taken to comply with each provision of this Agreement and the results of those actions; and (ii) a description of the Holding Company's progress in achieving the established goals and timelines of the Capital Plan and an explanation of any variances from these goals and timelines.

(c) Notwithstanding the provisions of paragraphs 9(a) and (b), the Holding Company shall immediately notify the Reserve Bank and the Commissioner of any material adverse developments affecting the Holding Company's condition, performance, or outlook.

10. The Capital Plan required by paragraph 2 hereof shall be submitted to the Reserve Bank and the Commissioner for review and approval within the time period set forth in this Agreement. The Holding Company shall adopt the approved Capital Plan within 10 days of approval by the Reserve Bank and the Commissioner and then shall fully comply with it. During the term of this Agreement, the Holding Company shall not amend or rescind the approved Capital Plan without the prior written approval of the Reserve Bank and the Commissioner.

11. All communications regarding this Agreement shall be sent to:

- (a) Ms. Nancy Bercovici  
Senior Vice President  
Federal Reserve Bank of New York  
33 Liberty Street  
New York, New York 10045
- (b) Ms. Karen L. Suter  
Commissioner  
Department of Banking and Insurance of the State of New Jersey  
P.O. Box 040  
Trenton, New Jersey 08625-0040
- (c) Mr. Robert J. Van Volkenburgh  
Chairman  
Unity Bancorp, Inc.  
64 Old Highway 22  
Clinton, New Jersey 08809

12. The provisions of this Agreement shall be binding on the Holding Company and each of its institution-affiliated parties in their capacities as such, and their successors and assigns.

13. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended by the Reserve Bank and the Commissioner.

14. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to the Holding Company to comply with any provision of this Agreement.

15. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Commissioner, or any other federal or state agency or department from taking any other action affecting the Holding Company, or any of its current or former institution-affiliated parties, or their successors, or assigns.

16. This Agreement is a "written agreement" for the purposes of section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of this 18 day of July, 2000.

Unity Bancorp, Inc.

By: 

Robert J. Van Volkenburgh  
Chairman

Federal Reserve Bank of New York

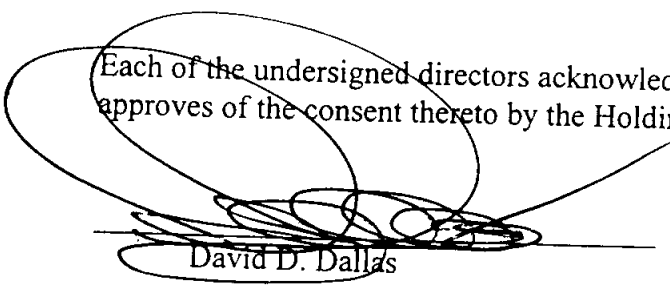
By: 

Nancy Bercovici  
Senior Vice President

Department of Banking and Insurance  
of the State of New Jersey

By: 

Karen L. Suter  
Commissioner

  
Each of the undersigned directors acknowledges having read the foregoing Agreement and approves of the consent thereto by the Holding Company.

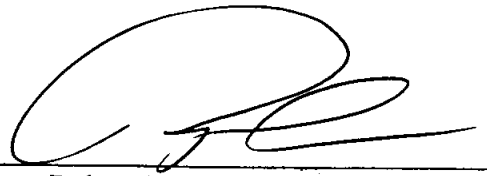
David D. Dallas

  
Peter P. De Tommaso



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Charles D. Loring  
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Robert J. Van Volkenburgh