

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

In the Matter of

FIRST NATIONAL BANK HOLDING
COMPANY
Scottsdale, Arizona

Docket No. 08-009-B-HC

Cease and Desist Order Issued
Upon Consent Pursuant to the
Federal Deposit Insurance Act,
as Amended

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) and First National Bank Holding Company, Scottsdale, Arizona (“FNBHC”), a registered bank holding company, have the common goal to restore and maintain the financial soundness of FNBHC;

WHEREAS, FNBHC owns and controls three insured depository institution subsidiaries, First National Bank of Arizona, Scottsdale, Arizona; First National Bank of Nevada, Reno, Nevada; and First Heritage Bank, N.A., Newport Beach, California (collectively “the Banks”), all of which are supervised by the Office of the Comptroller of the Currency (“OCC”), and owns and controls various nonbank subsidiaries;

WHEREAS, the Board of Governors and FNBHC have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, on June 2, 2008, the board of directors of FNBHC at a duly constituted meeting adopted a resolution authorizing and directing Raymond A. Lamb, Chairman, to enter into this Order on behalf of FNBHC, and consenting to compliance by FNBHC and its

institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)), with each and every provision of this Order and waiving any and all rights that FNBHC may have pursuant to section 8 of the FDI Act (12 U.S.C. § 1818) to: (i) a hearing for the purpose of taking evidence on any matters set forth in this Order; (ii) judicial review of this Order; (iii) contest the issuance of this Order by the Board of Governors pursuant to section 8 of the FDI Act; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provisions hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED that, pursuant to sections 8(b)(1) and (3) of the FDI Act, FNBHC and its institution-affiliated parties shall cease and desist and take affirmative action as follows:

Source of Strength

1. FNBHC shall serve as a source of financial strength to the Banks pursuant to section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), including, but not limited to, by providing and complying with any guarantee required by the OCC under section 38 of the FDI Act (12 U.S.C. § 1831o).

Capital Plan

2. Within 10 days of this Order, FNBHC shall submit to the Federal Reserve Bank of San Francisco (the “Reserve Bank”) an acceptable written plan to maintain a sufficient capital position at the consolidated organization. The plan shall, at a minimum, address, consider, and include:

(a) The consolidated organization’s current and future capital requirements, 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, Apps. A and D);

(b) the adequacy of capital at each of the Banks, taking into account the volume of classified credits, concentrations of credit, adequacy of loss reserves, current and projected asset growth, and projected retained earnings;

(c) the source and timing of additional funds to fulfill the consolidated organization's and each of the Bank's future capital requirements;

(d) OCC requests for additional capital at any of the Banks or the requirements of any supervisory action imposed on any of the Banks by the OCC;

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that FNBHC serve as a source of strength to the Banks; and

(f) procedures for FNBHC to notify the Reserve Bank, in writing, no more than 30 days after the end of any quarter in which FNBHC's consolidated capital ratios or any of the Banks' capital ratios (total risk-based, Tier 1 risk-based, or leverage) fall below the plan's minimum ratios and to submit to the Reserve Bank an acceptable written plan that details the steps FNBHC will take to increase its and each of the Banks' capital ratios above the plan's minimum within 30 days of such calendar quarter-end date.

Dividends

3. (a) FNBHC shall not directly or indirectly take dividends or any other form of payment representing a reduction in capital from any of the Banks without the prior written approval of the Reserve Bank.

(b) FNBHC shall not declare or pay any dividends unless such declaration or payment is consistent with the Board of Governors' Policy Statement on the Payment of Cash

Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323). During the term of this Order, FNBHC shall also not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”).

(c) FNBHC and its nonbank subsidiaries shall not make any distributions of interest, principal or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director (*see*, Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure, Appendix A of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A, section II.A.1.c.iv)).

(d) All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, but not be limited to, current and projected information on consolidated earnings; cash flow, capital, asset quality and loan loss reserve needs of the Banks; identification of the sources of funds for the proposed payment or distribution; and, to the extent that the proposed payment or distribution will be made with dividends paid by the Banks, whether the OCC has approved the dividend payment to FNBHC. The Reserve Bank and the Director will determine whether to approve the request to pay dividends or make distributions pursuant to Federal Reserve policy, including, but not limited to, the proposed payment’s impact on FNBHC’s continued ability to serve as a source of financial strength to the Banks.

Debt and Stock Redemption

4. (a) FNBHC shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. 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) FNBHC shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Affiliate Transactions

5. (a) FNBHC shall take all necessary actions to ensure that the Banks comply with sections 23A and 23B of the Federal Reserve Act (12 U.S.C. §§ 371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223) in all transactions between the Banks and their affiliates, including FNBHC.

(b) Within 30 days of this Order, FNBHC shall submit to the Reserve Bank an acceptable written policy regarding transactions between FNBHC and the Banks, including, but not limited to, allocation of expenses.

(c) FNBHC shall not increase any service or management fees of any nature assessed to the Banks by FNBHC without the prior written approval of the Reserve Bank. Any request for prior approval pursuant to this paragraph shall be accompanied by documentation adequate to provide the Reserve Bank with the details of each fee proposed to be paid by the Banks and a description of the benefits to be derived by the Banks by the payment of the fee, the type of services to be rendered, and the identity of the person or persons who will supply the services or advice covered by the fee.

Compensation

6. FNBHC shall not, directly or indirectly, increase any salaries, bonuses, or directors' fees, or make any other payments, including, but not limited to payment of indebtedness, to or on behalf of any of FNBHC's directors or executive officers without the prior written approval of the Reserve Bank.

Additional Directors

7. FNBHC shall take all available actions as are necessary to increase the number of outside directors to include a minimum of one new outside director with banking experience. For purposes of this Order, the term "outside director" is defined as an individual who is not an employee or executive officer of FNBHC, the Banks, or nonbank subsidiaries of FNBHC; who owns less than 10 percent of the outstanding voting stock of FNBHC; and who is not related in any manner to any shareholder who owns 10 percent or more of the outstanding voting stock of FNBHC or any related interest of such a shareholder.

Approval, Implementation, and Progress Reports

8. (a) FNBHC shall submit the plan and policy that are acceptable to the Reserve Bank within the applicable time period set forth in paragraphs 2 and 5(b) of this Order.

(b) Within 10 days of approval by the Reserve Bank, FNBHC shall adopt the approved plan and policy. Upon adoption, FNBHC shall implement the approved plan and policy, and thereafter fully comply with them.

(c) During the term of this Order, the approved plan and policy shall not be amended or rescinded without the prior written approval of the Reserve Bank.

9. Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure FNBHC's compliance with the provisions of this Order and the results thereof. The Reserve Bank may, in writing, discontinue the requirements for progress reports or modify the reporting schedule.

Communications

10. All communications regarding this Order shall be sent to:

- (a) Mr. Joe A. Lozano
Examining Officer
Community Institutions Group
Banking Supervision & Regulation
Federal Reserve Bank of San Francisco
101 Market Street, Mail Stop 920
San Francisco, California 94105

- (b) Mr. Joel H. Gottesman
Chief Administrative Officer and General Counsel
First National Bank Holding Company
17600 North Perimeter Drive
Scottsdale, Arizona 85225

Miscellaneous

11. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to FNBHC to comply with any provision of this Order.

12. The provisions of this Order shall be binding upon FNBHC and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

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

14. The provisions of this Order shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other action affecting FNBHC or any of its current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors of the Federal Reserve System, effective this 16th day of June, 2008.

FIRST NATIONAL BANK HOLDING
COMPANY

BOARD OF GOVERNORS OF
THE FEDERAL RESERVE SYSTEM

By: /s/ Raymond A. Lamb
Raymond A. Lamb
Chairman of the Board of Directors

By: /s/ Jennifer J. Johnson
Jennifer J. Johnson
Secretary of the Board