



March 6, 2009

Special Inspector General - TARP
1500 Pennsylvania Ave., NW, Suite 1064
Washington, D.C. 20220

Delivery via e-mail: SIGTARP.response@do.treas.gov

Re: Your letter dated February 6, 2009

Ladies and Gentlemen:

As requested in your letter, the following information is provided regarding the use of TARP funds by Pacific Coast National Bancorp (the "Company") and compliance with the executive compensation requirements of the Emergency Economic Stabilization Act of 2008 ("EESA").

1. Use of TARP funds:

a. As stated in the Company's press release and related 8-K filing dated December 16, 2008 announcing the preliminary approval of the Company to receive \$4.12 million from the U.S. Department of the Treasury (the "Treasury") under the Capital Purchase Program, Michael S. Hahn, President and CEO, said "We have been actively growing our base of loans and deposits, and with this investment we now have additional ability to put even more capital to work and directly benefit the communities we serve while maintaining our status as a well capitalized bank."

Consistent with the disclosures made in our proxy statement dated December 15, 2008 soliciting approval from our shareholders to approve an amendment to our articles of incorporation to authorize us to issue preferred stock, Pacific Coast National Bancorp, the holding company for Pacific Coast National Bank (the "Bank"), deposited \$3.8 million of the \$4.12 million of TARP funds received through the Capital Purchase Program with the Bank as additional paid in capital. This amount is being used by the Bank to fund loan originations and increase its regulatory capital position. The amount retained by the Company was to ensure that sufficient funds would be available to pay initial dividends on the preferred stock issued to the Treasury since the Bank's accumulated deficit prohibits it from paying dividends to its holding company.

b. TARP funds have not been segregated from other institutional funds, either by the Bank or by the Company.

c. The Company deposited funds with the Bank as additional paid in capital as planned which increased the Bank's regulatory capital from adequately capitalized to well capitalized. The Bank, since the December 4, 2008 preliminary approval and through February 27, 2009, has originated a total of \$7.7 million in loans including \$1.1 million in SBA loans.

d. Effectively, there are no unutilized TARP funds.

2. Executive Compensation Requirements:

We have reviewed our compensation programs and practices to ensure adherence to the requirements applicable to TARP participants. Specifically, we have taken the following actions:

- Each of our senior executive officers ("SEOs") executed (i) the waiver required by Section 1.1(d)(v) of the Securities Purchase Agreement Standard Terms attached as Exhibit A to the Letter Agreement dated January 16, 2009 between the Company and Treasury and (ii) a Compensation Modification Agreement, the form of which is enclosed, acknowledging, among other things, that the executive compensation limits of the EESA and related Treasury regulations may require modification of their compensation plans, agreements and other arrangements to the extent these relate to the period during which Treasury holds any securities of the Company acquired through the TARP Capital Purchase Program. At this point, no such modifications are believed to be necessary;
- The Compensation Committee of our Board of Directors reviewed our incentive compensation arrangements with SEOs and determined that these arrangements do not encourage SEOs to take unnecessary or excessive risks. In this regard, the Bank has been relatively conservative in its loan underwriting practices and has not, in its opinion, incurred excessive risk to foster loan origination or financial results that would unduly impact executive compensation; and
- While to date no SEO has ever received compensation in an amount that would approach such limits, the Company's management has established controls and procedures to limit the deduction for remuneration for federal income tax purposes to not more than \$500,000 for each SEO.

Our response above regarding executive compensation does not address the requirements of the American Recovery and Reinvestment Act of 2009 (the "ARRA"). Once the Treasury's implementing regulations and standards under ARRA become available, our management, Compensation Committee and Board of Directors will review these regulations and standards to determine what further steps may be necessary or appropriate to ensure our compliance with

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them as well as to maintain our ability to attract and retain highly qualified executives and other key employees.

Very truly yours,

A handwritten signature in blue ink that reads "Terry Stalk".

Terry A. Stalk
Executive Vice President & Chief Financial Officer

I, Terry A. Stalk, certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

A handwritten signature in blue ink that reads "Terry Stalk", with a horizontal line drawn underneath the signature.

Terry A. Stalk

COMPENSATION MODIFICATION AGREEMENT

THIS AGREEMENT (“Agreement”), made this ____ day of January, 2009, by and between Pacific Coast National Bancorp, Pacific Coast National Bank, its wholly owned subsidiary (together, the “Corporation”), and _____, a senior executive officer of the Corporation (“Executive”).

WHEREAS, the Corporation has determined that it is in the best interests of the Corporation and its shareholders to participate in the Troubled Asset Relief Program Capital Purchase Program (“CPP”) of the United States Department of the Treasury (“UST”), pursuant to which the Corporation will issue to UST preferred stock (the “Preferred Stock”) in return for cash, along with a warrant to acquire additional shares of preferred stock (the “Warrant”); and

WHEREAS, in order for the Corporation to participate in the CPP, the Corporation and its senior executive officers who are subject to the Compensation Guidelines (as defined below) must comply with Section 111(b) of the Emergency Economic Stabilization Act of 2008 regarding executive compensation and corporate governance and the related UST interim final regulations (31 CFR Part 30) published in the Federal Register on October 20, 2008 (the “Compensation Guidelines”); and

WHEREAS, the Corporation is required to deliver a certificate to UST at the closing of the CPP transaction that it has complied with all the Compensation Guidelines; and

WHEREAS, the board of directors of the Corporation has authorized and directed the Compensation Committee to take any and all the actions required under the Compensation Guidelines in order to enable the Corporation to deliver that certificate and has authorized the execution of this Agreement on behalf of the Corporation; and

WHEREAS, in order to comply with the Compensation Guidelines for so long as UST holds securities of the Corporation acquired in the CPP, the Corporation, through the Compensation Committee, is required to review the Corporation’s compensation plans and policies with senior risk officers in order to identify and unilaterally eliminate any bonus plans or other incentive compensation arrangements for senior executive officers who are subject to the Compensation Guidelines that encourage such officers to take unnecessary and excessive risks that threaten the value of the financial institution; and

WHEREAS, in order to comply with the Compensation Guidelines for so long as UST holds securities of the Corporation acquired in the CPP, the Corporation, through the Compensation Committee, must adopt appropriate provisions for the recovery by the Corporation of any bonus or incentive compensation paid to a senior executive officer who is subject to the Compensation Guidelines based on financial statements or performance metric criteria later determined to be materially inaccurate; and

WHEREAS, in order to comply with the Compensation Guidelines as long for so UST holds securities of the Corporation acquired in the CPP, the Corporation is prohibited from making any golden parachute payment (as defined under the Compensation Guidelines) to any senior executive officer who is subject to the Compensation Guidelines; and

WHEREAS, the Corporation is required to deliver to UST in connection with the consummation of the CPP transaction a waiver from each of its senior executive officers who are subject to the Compensation Guidelines with respect to the changes in the Corporation's compensation plans, polices and practices as required by the Compensation Guidelines; and

WHEREAS, the Compensation Committee has asked Executive to execute the waiver in the form attached; and

WHEREAS, Executive believes the requirements imposed under the Compensation Guidelines in order for the Corporation to obtain government funds by participating in the CPP are reasonable and in the best interests of the Corporation and its shareholders and furthers the long-term best interests of the Corporation and its senior executive officers, including Executive.

NOW, THEREFORE, to allow the Corporation to participate in the CPP for the mutual benefit of the Corporation, its shareholders and Executive, and for other good and valuable consideration, the Corporation and Executive hereby agree as follows:

1. GENERAL MODIFICATION OF EMPLOYMENT, COMPENSATION AND BENEFIT AGREEMENTS, PLANS AND POLICIES: Until such time as UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, the Corporation and Executive agree that, notwithstanding any contract, plan, policy or agreement to the contrary, all employment, compensation and benefit agreements, plans and policies with respect to Executive shall be deemed modified to comply in all respects with Section 111(b) of EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date the Corporation issues the Preferred Stock and the Warrant to UST. The Corporation and Executive further agree that the Corporation shall not adopt any new benefit plan with respect to Executive that does not comply with Section 111(b) of EESA as implemented by any guidance or regulation thereunder that has been issued and is in effect as of the date the Corporation issues the Preferred Stock and the Warrant to UST. Executive agrees that the Corporation, through its Compensation Committee, has the sole discretion: (a) to determine whether and to what extent any bonus or incentive compensation with respect to Executive encourages Executive to take unnecessary and excessive risks that threaten the value of the financial institution, and (b) to eliminate any such compensation as long as UST holds securities of the Corporation acquired in the CPP.

2. RECOVERY OF INCENTIVE COMPENSATION: Until such time as UST ceases to own any debt or equity securities of the Corporation acquired pursuant to

the CPP, in the event Executive receives a bonus or any other incentive compensation from the Corporation based on financial statements or performance metric criteria later determined by the Corporation's Compensation Committee, in its sole discretion, to be materially inaccurate, Executive agrees to repay the Corporation, in cash and within 30 days of a written demand therefor, the amount of the bonus or incentive compensation received by Executive in excess of the amount that would have been paid to Executive had the inaccurate statements or criteria been accurate.

3. GOLDEN PARACHUTE PAYMENTS: Until such time as UST ceases to own any debt or equity securities of the Corporation acquired pursuant to the CPP, Executive agrees that: (a) Executive shall not be entitled to receive any golden parachute payment (as defined under the Compensation Guidelines) upon Executive's severance from employment (as defined under the Compensation Guidelines) and (b) that all applicable contracts and agreements between Executive and the Corporation are deemed to be amended in this regard.

4. **WAIVER**: Executive hereby voluntarily waives any claim against the Corporation for any changes to my compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including golden parachute agreements) that are required to comply with the Compensation Guidelines and that are made pursuant to this Agreement. This waiver includes all claims Executive may have under the laws of the United States or any state related to the requirements imposed by the Compensation Guidelines, including, without limitation, a claim for any compensation or other payments Executive would otherwise receive. Executive agrees to execute the required waiver in the form attached hereto and deliver said warrant to the Corporation no later than the close of business on _____, 2009.

5. COVERED EMPLOYMENT, COMPENSATION AND BENEFIT AGREEMENTS, PLANS AND POLICIES: Executive acknowledges that all employment, compensation and benefit agreements, plans and policies applicable to Executive, including but not limited to those listed in Annex A hereto, are subject to the modifications and amendments provided for in this Agreement, to the extent applicable.

6. MODIFICATION - WAIVERS - APPLICABLE LAW: No provisions of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing, signed by Executive and on behalf of the Corporation by such officer as may be specifically designated by the Board of Directors of the Corporation. No waiver by either party hereto at any time of any breach by the other party hereto of, or in compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The validity, interpretation, construction and performance of this Agreement

shall be governed by federal law, to the extent applicable, and otherwise by the laws of the State of California.

7. INVALIDITY - ENFORCEABILITY: The invalidity or unenforceability of any provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. Any provision in this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective only to the extent of such prohibition or unenforceability without invalidating or affecting the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

8. HEADINGS: Descriptive headings contained in this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision in this Agreement.

(Remainder of page intentionally left blank)

IN WITNESS WHEREOF, the parties have executed this Agreement effective as of the date first above written.

EXECUTIVE

Signature

Print Name

**PACIFIC COAST NATIONAL
BANCORP**

By: _____
Chairman, Compensation Committee

PACIFIC COAST NATIONAL BANK

By: _____
Chairman, Compensation Committee

Employment Agreements:

Severance Agreements

Other Benefit Plans or Agreements

Other Employment Compensation and Benefit Plans and Policies

SENIOR EXECUTIVE OFFICER WAIVER

In consideration for the benefits I will receive as a result of my employer's participation in the United States Department of the Treasury's TARP Capital Purchase Program, I hereby voluntarily waive any claim against the United States or my employer for any changes to my compensation or benefits that are required to comply with the regulation issued by the Department of the Treasury as published in the Federal Register on October 20, 2008.

I acknowledge that this regulation may require modification of the compensation, bonus, incentive and other benefit plans, arrangements, policies and agreements (including so-called "golden parachute" agreements) that I have with my employer or in which I participate as they relate to the period the United States holds any equity or debt securities of my employer acquired through the TARP Capital Purchase Program.

This waiver includes all claims I may have under the laws of the United States or any state related to the requirements imposed by the aforementioned regulation, including without limitation a claim for any compensation or other payments I would otherwise receive, any challenge to the process by which this regulation was adopted and any tort or constitutional claim about the effect of these regulations on my employment relationship.

Date: _____

Name
Title