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NOT SIGNED

Exchange Bank

March 6, 2009

Mr. Neil M. Barofsky
Office of the Special Inspector General
1500 Pennsylvania Ave. N.W. Suite 1064
Washington, D.C. 20220

Dear Mr. Neil M. Barofsky,

Attached is our response to your inquiry into TARP recipients' use of funds and our compliance with EESA's executive compensation requirements.

I Bruce DeCrona, as the COO of Exchange Bank, certify that: I have reviewed this response and supporting documents, and, based on my knowledge, this response and supporting documents do not contain any untrue statement of 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.

If you have any questions regarding this response, feel free to contact Mr. Brad Hunter, our Chief Risk Officer, at (b) (6) [redacted]

Sincerely,

Bruce DeCrona,
Executive Vice President & COO

OFFICE OF THE SPECIAL INSPECTOR GENERAL
TROUBLED ASSET RELIEF PROGRAM
MARCH 6, 2009

1. (a)

Exchange Bank is the largest local lender in Sonoma County, California to commercial businesses in virtually all industry groups. Without TARP funds our ability to actively lend in our community would have been significantly constrained. The additional capital created a greater capital cushion and provided us flexibility to aggressively work out non-performing assets, provided greater balance sheet flexibility, namely to increase lending and renew lending commitments within the community. At year end in 2008 the Bank charged off $11 million in loans primarily granted to residential construction and development loans. It maybe necessary for further charges to capital in the remainder of 2009 due to the inability of existing borrowers to repay their loans to Exchange Bank as the national and local economy continue to deteriorate.

A schedule of our lending activity for the months of Dec, Jan, and Feb is attached in Quantitative Overview contained in the Excel spreadsheet. In January of 2009 we were able to commit to lend $14.7 million to the City of Santa Rosa Redevelopment Agency for 150 units of low income housing as a direct result of having received TARP funds.

Beginning in March of this year we have structured a $75 Million Sonoma County Loan program commitment to new consumer and small business. The press release for this new loan program is attached. We also plan to grow our mortgage backed investment portfolio by $15 million and our local agency investment portfolio by $5 million.

1. (b)

TARP funds have not been segregated from other institutional funds.

1. (c)

A schedule of our lending activity for the months of Dec, Jan, and Feb is attached in Quantitative Overview contained in the Excel spreadsheet and a Qualitative overview contained in a Word document.

1. (d)

Beginning in March of this year we have structured a $75 Million Sonoma County Loan program commitment to new consumer and small business. The press release for this new loan program is attached.

2. EW Partners Inc, a Human Resource consulting company was hired by the Chairman of the Compensation Committee of the Board of Directors of Exchange Bank to review and evaluate the Bank's executive variable pay plans and compensation programs for compliance with the requirements of TARP funding. Their review and recommendations to achieve compliance was presented to Bank Senior management and Board management on March 4, 2009. This review included the appropriate amount of emphasis on risk management compliance for each Senior Executive Officer to prohibit variable pay that would encourage "unnecessary and excessive risks". [redacted]

The Bank has adopted a policy on excessive or luxury expenditures that require CEO approval for expenditures that exceed $5,000 and additionally Board approval for expenditures exceeding $25,000.

Limitations on executive compensation, in line with Department of Treasury guidelines, will be monitored by the CFO; the Bank's Compensation Committee, and will be certified by the Bank's Chief Risk Officer. At this particular point in time, Exchange Bank is not offsetting limitations on executive compensation or changing longer-term or deferred forms of executive compensation.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of institution: Exchange Bank
Reporting Month(s): Dec 2008, Jan, Feb 2009
Submission Date: March 6, 2009
Person to be contacted regarding this report: Bruce DeCrona

PART II. QUALITATIVE OVERVIEW

Please provide a brief overview of the intermediation activity during the month. This discussion should include a general commentary on the lending environment, loan demand, any changes in lending standards and terms, and any other intermediation activity.

Exchange Bank, headquartered in Santa Rosa, California, operates solely in California with its primary market being Sonoma County and secondary market the greater Sacramento region, specifically with offices located in Placer County. The company offers a wide arrange of banking services with loan products centered in traditional lending segments such as Commercial and Industrial, Real Estate and Consumer.

At December 31, 2008, Exchange Bank had $1.619 billion in assets, approximately $1.162 billion in loans and $1.290 billion in deposits. At February 28, 2009, assets totaled $1.629 billion with $1.164 billion in loans and $1.355 billion in total deposits.

Economic Summary

The national economy is in a free fall and a rebound is not imminent. The January employment report evidenced continued job losses and revisions show that the economy lost 3 million jobs in 2008 compared with the 2.6 million that was previously reported. With the recession deepening job losses will extend into 2010 and the unemployment rate is expected to approach 9.5%. Inventory build up during the fourth quarter 2008 signals a very weak first half of 2009. Businesses are aggressively cutting inventories to align with final demand. Inventory liquidation, declining consumer spending, and rising unemployment is expected to result in a decline of real GDP in excess of 5%.

While unemployment is a major driver of concern, manufacturing which makes up 12% of the economy, declined in December at the fastest pace in almost 30 years. Durable goods orders declined more than expected as domestic and foreign demand continued to weaken. Retail sales fell significantly as job losses and the cutback in consumer spending impacted all sectors from auto dealers to restaurants. New home sales plunged in December capping the worst year in sales since 1982. Sales of single-family homes decreased by nearly 15% while the median price of a new home dropped about 9.3% as compared to one year earlier.

The primary support for the economy in 2009 will be the U.S. government as it spends trillions of dollars to prevent a depression. Fiscal stimulus legislation is on track to become law by month-end and is expected to include tax cuts, aid to state and local governments and a focus upon infrastructure spending such as roads, bridges and schools.

This boost is expected to add about 3 million jobs to the economy and at least partially offset the steep decline in business spending and private commercial real estate.

Sonoma County's economy, which represents Exchange Bank's primary market, continues to contract and weaken. Employment has been falling since mid-2008 and the unemployment rate has risen to a 15-year high. The recession is expected to last through the third quarter of 2009 and subsequent sluggish growth will result in the unemployment rate rising into early 2010. Thereafter, conditions will improve with the potential for a recovery in 2010 that is expected to exceed national trends. Such conditions include significantly improved housing affordability and a renewed supply-demand balance that will bolster the housing market, a rebound in investment spending that supports tech-producing industries and improved income growth that will support demand for high-end wine and support tourism.

Credit Impact

Over the last several weeks long term rates have begun to bump, particularly the 10-year treasury rate, as this key rate has increased about 80 basis points since 12/31/08. In general, though, credit rates remain low but lending activity is impacted by the general economic slowdown. The bank remains an active lender with a particular focus upon home loans and commercial and industrial lending. Construction lending, which had been a strong niche for the bank, has significantly declined due to the housing fallout and credit issues that have impacted this loan segment.

The bank has halted all new lending activity in the greater Sacramento area as executive management and the board renders a decision on this market's strategic position. The expectation is that lending activity will be moderate through most of 2009 due to the lack of economic growth causing a curtailment in consumer and business spending.

Exchange Bank's Response

While the economic environment has impacted lending the bank continues to remain active within our primary market. In December the bank committed $14.7MM to the City of Santa Rosa Redevelopment Agency Housing Authority, which will use these funds to construct 150 housing units targeted to low income residents. The majority of these units (80) will be allocated to individuals making a maximum of 50% of Area Median Income.

The bank remains very active in the home loan market as originations over the last three months have averaged about $654,000 per month. The bank has always been a traditional lender in this market and portfolio originations are intended to be held to maturity. Over the last 12 months this segment has increased about 60% and total outstandings approximate $104 million. The bank is in the process of introducing a traditional 30-year maturity, 30-year amortization home loan product that will be originated for portfolio purposes.

In the Home Equity segment the bank remains an active lender and has made the decision to-date not to suspend equity lines of credit unless there has been a credit default. This decision has allowed approximately $61 million to remain available for local homeowners.

Finally, the bank remains active in commercial and industrial lending focused upon small business and local industries including wine and vineyards, manufacturing and local dairies. These segments, though, continue to be closely monitored.

TREASURY MONTHLY INTERMEDIATION SNAPSHOT

Name of Institution: Exchange Bank | Submission Date: March 6, 2009 | Person to be contacted regarding this report: Bruce DeCrona

Part 1. Quantitative Overview **(000 Excluded)**

Schedule A: Consumer Lending **1. First Mortgage**	**2008 DEC**	**2009 JAN**	**2009 FEB**	**Key**	Comments
a. Loan Balance (Total Outstanding)	$103,162	$103,766	$103,902	Balances consists of (1-4 family) residential loans expected to be held to maturity. This includes a small balance of ARM loans but none of these mortgage loans qualify as non-traditional or sub-prime products.	Bank offered a portfolio product with a 15-year maturity, 30-year amortization that has resulted in an increase of about 60% in total outstandings over the past 12 months. The bank will also be intorducing a home loan product that will include a 30-year maturity. Underwriting guidelines are in the process of being finalized.
b. Total Originations	$1,006	$594	$362	Originations include loans originated to be held to maturity.	
(1) Refinancings	$0	$0	$0		
(2) New Home Purchases	$1,006	$594	$362		
2. Home Equity					
a. Total Loan Balance	$88,682	$88,252	$87,866	Balances represent HELOC and HEL Loans.	Home equity lines of credit are monitored closely as home values have declined on average about 35% over the last 12 months in the bank's primary market. Lines have not been suspended although we continue to assess the economic fallout, specifically unemployment. Over the last three month delinquencies have averaged about 20 basis points.
b. Originations (New Lines + Line Increases)	$1,698	$1,421	$1,185	Originations represent HELOC and HEL Loans.	
c. Total Used and Unused Commitments	$149,606	$149,269	$149,661		
4. Other Consumers					
a. Total Loan Balance	$40,257	$38,458	$37,414	Balances and origination represent Indirect Auto, Mobile Homes and Other Consumer Product Types	The decline in Other Consumer is due to the bank's decision to exit the Indirect Automobile market approximately 3 years ago. Runoff in this segment is averaging about $1.5 million to $2 million per month.
b. Originations	$296	$267	$530		
Schedule B: Commercial Lending **1. C & I**					
a. Total Loan and Lease Balance	$297,048	$309,927	$305,594	C & I is non real estate commercial loans and segment also includes Lease Financing	Commercial demand has clearly declined as local businesses are deferring any capital investments or expansion plans until the economy evidences stability. The increase in C & I was due primarily to a new loan commitment to the City of Santa Housing Authority to develop affordable housing units. Total commitment is approximately $14.6MM with $7.8MM funded in December 2008.
b. Renewal of Existing Accounts	$32,285	$8,377	$26,112	Renewals represent credit facilities that expires/matures and were renewed during the period includes funded and unfunded exposure.	
c. New Commitments	$19,576	$19,590	$5,537	New commitments represent new credit facilities booked during the period includes funded and unfunded exposure and includes all insturments types	
2. Commercial Real Estate					
a. Total Loan and Lease Balances	$635,421	$635,198	$630,692	Totals include permanent mortgages,SFR construction, permanent agriculture, commercial construction, land and acquisition and development loans.	The decline in Commercial Real Estate was due to a decline in resdiential construction centered primarily in the sale of a note that resulted in a $4.3MM principal repayment and a $500M charge-off.
b. Renewal of Existing Accounts	$52,785	$1,921	$1,935		
c. New Commitments	$6,712	$0	$1,358		