



March 6, 2009

Neil M. Barofsky
Special Inspector General – TARP
1500 Pennsylvania Avenue, NW
Suite 1064
Washington, D.C. 20220

SIGTARP.response@do.treas.gov

Dear Mr. Barofsky,

On behalf of First California Financial Group, Inc. (the “**Company**”), I am responding to your letter dated February 6, 2009, pursuant to which you requested information in connection with your audit of Troubled Asset Relief Program (“**TARP**”) recipients’ use of funds and their compliance with the Emergency Economic Stabilization Act of 2008’s (“**EESA**”) executive compensation requirements.

BACKGROUND

The Company is a bank holding company registered under the Bank Holding Company Act of 1956. The Company’s primary function is to coordinate the general policies and activities of its bank subsidiary, First California Bank (the “**Bank**”), as well as to consider from time to time other legally available investment opportunities. The Bank is a full-service commercial bank headquartered in Westlake Village, California.

The Bank’s focus is on attracting individuals, professionals and small- to mid-sized business borrowers by offering a variety of loan products and a full range of banking services coupled with highly personalized individual service. The Bank’s operations are primarily located within the area commonly known as the “101 corridor” stretching from the City of Ventura to Calabasas, the Moorpark-Simi Valley corridor, the western San Fernando Valley, the South Bay, Century City and other parts of Los Angeles, Ventura and Orange Counties in Southern California.

On January 23, 2009, the Bank assumed the insured, non-brokered deposits of 1st Centennial Bank (“**1st Centennial**”) from the Federal Deposit Insurance Corporation (“**FDIC**”) totaling approximately \$270 million. The Bank also purchased from 1st Centennial approximately \$164 million in cash and cash equivalents, \$89 million in investment securities and \$2 million in consumer loans. The addition of 1st Centennial’s six branches expanded the Bank’s operations to 18 full-service branch locations throughout Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura Counties. The 1st Centennial transaction permitted the FDIC to resolve 1st Centennial’s failure in a manner that minimized disruption to 1st Centennial’s former customers and the communities it served. Additionally, as required

by the Federal Deposit Insurance Act, the transaction minimized costs to the Deposit Insurance Fund from the takeover of 1st Centennial.

The Bank is an Emerging Leader in Small Business Lending in Southern California

The Bank's focus is the commercial market, particularly small- and mid-sized businesses, professional firms and commercial real estate, development and construction companies. The Bank operates as a community bank, committed to providing superior service compared with national mega-banks or small local banks with fewer capabilities. The Bank provides a variety of loan and credit-related products and services to meet the needs of borrowers primarily located in the California counties of Los Angeles, Orange and Ventura.

Business loans, represented by commercial real estate loans, commercial loans and construction loans, comprise the largest portion of the Bank's loan portfolio. Consumer or personal loans, represented by home mortgage, home equity and installment loans, comprise a smaller portion of the loan portfolio.

Commercial mortgage loans, the largest segment of the Bank's portfolio, were 38% of total loans at December 31, 2008. The Bank had approximately 323 commercial mortgage loans with an average balance of \$938,000. Commercial business loans represent the next largest category of loans and were 29% of total loans at December 31, 2008. The Bank had approximately 796 commercial loans with an average balance of \$288,000. Construction loans were 17% of total loans at December 31, 2008. At December 31, 2008, the Bank had 49 projects with an average commitment of \$3,442,000. Construction loans represent single-family, multi-family and commercial building projects as well as land development loans. At December 31, 2008, 23% of these loans were 1 to 4 family residential construction projects, 29% were other residential construction projects, 35% were commercial projects and 13% were land development projects.

Traditional Funding and Liquidity Sources

The Bank's primary source of funds has been, and continues to be, core deposits, and the Bank posted a \$19.5 million increase in retail time deposits during the fourth quarter of 2008 as a result of strategic marketing campaigns. The Bank has access to alternate funding sources and continues to utilize brokered deposits, Federal Home Loan Bank ("FHLB") borrowings and State of California time deposits. In addition, the Bank maintains a \$31.0 million unsecured Federal Funds facility with other financial institutions and a \$10.2 million secured borrowing facility with the Federal Reserve Bank of San Francisco. These facilities, along with the unused and available borrowing capacity on the Bank's secured FHLB borrowing facility in excess of \$55.0 million, provide the Bank with ample liquidity to support its operations and strategic plan.

The Company and the Bank are required to maintain certain minimum levels of capital under guidelines set forth by the Board of Governors of the Federal Reserve, the FDIC and the California Department of Financial Institutions, each of which maintain substantially similar risk-based capital and leverage ratio guidelines for banking organizations. As of December 31, 2008, the Company had a 16.62% total risk-based capital ratio, as compared with a 8.00% ratio required to be considered adequately capitalized, a 15.70% Tier 1 capital ratio, as compared with a 4.00% ratio required to be considered adequately capitalized, and a 12.77% leverage capital ratio, as compared with a 4.00% ratio required to be considered adequately capitalized. As of December 31, 2008, the Bank had a 12.27% total risk-based

capital ratio, as compared with a 10.00% ratio required to be considered well capitalized, a 11.35% Tier 1 capital ratio, as compared with a 6.00% ratio required to be considered well capitalized, and a 9.26% leverage capital ratio, as compared with a 5.00% ratio required to be considered well capitalized.

The Company's Receipt of TARP Funds

On December 19, 2008, the Company issued and sold to the United States Department of the Treasury ("**US Treasury**"), under the TARP Capital Purchase Program ("**CPP**"), (1) 25,000 shares of the Company's Series B Fixed Rate Cumulative Perpetual Preferred Stock ("**TARP Preferred Stock**"), with a liquidation preference of \$1,000 per share, and (2) a ten-year warrant to purchase initially up to 599,042 shares of the Company's common stock at an exercise price of \$6.26 per share, for an aggregate purchase price of \$25 million. The Company's receipt of TARP funds allowed the Company to further improve its already strong capital position, increasing its risked-based capital ratio as of December 31, 2008 from 13.80% on a pro forma basis assuming the Company had not received TARP funds to 16.62% with TARP funds. The receipt of TARP funds also permitted the Company to increase the ability of the Bank to provide prudent lending to consumers and businesses in the communities served by the Bank.

On February 15, 2009, pursuant to the CPP agreements, the Company paid to the US Treasury a dividend of \$194,444 on the 25,000 shares of TARP Preferred Stock.

1. Use of TARP Funds.

(a) The Company's Anticipated Use of TARP Funds at the Time of the Company's CPP Application

The Company applied to participate in the CPP with the expectation that any TARP funds received would be used to improve the Company's capital position, aid the Bank in FDIC assisted transactions or support the Bank's lending activities when required. The Company did not anticipate using any TARP funds for general operating expenses.

(b) Segregation of TARP Funds

The TARP funds received by the Company were maintained by the Company and deposited in an interest bearing account with the Bank. The TARP funds were not placed in an account separate from other Company funds, but such funds can readily be traced if required.

(c) Actual Use of TARP Funds to Date (including actions that have been taken that may not have been taken absent the infusion of TARP Funds)

On January 23, 2009, the Bank assumed approximately \$270 million of deposits of 1st Centennial from the FDIC, protecting the depositors and financial health of the communities served by 1st Centennial. In connection with the 1st Centennial transaction, the Bank retained all of 1st Centennial's offices and branch employees. The Bank also purchased from 1st Centennial approximately \$164 million in cash and cash equivalents, \$89 million in investment securities and \$2 million in consumer loans. The Bank received a right of first refusal from the FDIC to purchase additional former 1st Centennial loans and currently anticipates utilizing cash deposits acquired from 1st Centennial to purchase \$95.6 million of such loans from the FDIC. The Company contributed \$15 million of TARP funds to the Bank

to support the transaction. Without the TARP funds, it is unlikely that the Bank could have assisted the FDIC with the 1st Centennial transaction while still meeting the credit needs of existing customers.

(d) Expected Use of Unspent TARP Funds

The Company intends to use the remaining \$10 million of TARP funds to facilitate any future FDIC assisted transactions the Bank may undertake, including purchasing additional former 1st Centennial loans from the FDIC, support the Bank's lending activities when necessary and maintain a strong capital structure to continue to serve as a source of strength for the Bank. The Company does not intend to use the remaining TARP funds for general operating expenses and currently has non-TARP cash reserves sufficient to pay anticipated expenses, debt interest and TARP dividends for three years.

2. Executive Compensation.

The Company's Specific Plans, and the Status of the Implementation of Those Plans, for Addressing the Executive Compensation Requirements Associated with the Company's Participation in the CPP

As a threshold matter, the answers provided in this section address the Company's policies, procedures and agreements governing executive compensation prior to the enactment of the American Recovery and Reinvestment Act ("ARRA"). The answers do not address any additional actions that the Company may be required to take to comply with the executive compensation provisions in the ARRA.

- ◆ **Documentary TARP Requirements.** As a participant in the CPP, the Company was required to mandate that its senior executive officers ("**SEOs**") execute a waiver of claims relating to the CPP compensation limits and to amend its compensation arrangements applicable to its SEOs to comply with the CPP.

Exhibit A contains the form of waiver of claims relating to the CPP compensation limits signed by the Company's SEOs. All of the waivers were executed prior to December 19, 2008, the date of the Company's receipt of TARP funds.

Exhibit B contains the form of agreement entered into by the Company's SEOs with the Bank and the Company providing for the repayment (clawback) of any bonus paid based upon financial statements, results or performance metrics that later prove to be materially inaccurate, and acknowledging the formula restrictions that apply to golden parachute payments.

- ◆ **Assessment of Risk in Compensation Programs.** Within 90 days after a purchase under the CPP (which, in the Company's case, is by March 19, 2009), a CPP participant's compensation committee must review its SEO incentive compensation arrangements with the participant's senior risk officers to ensure that the arrangements do not encourage SEOs to take unnecessary or excessive risks that threaten the value of the participant.

It has been the Company's longstanding policy to fairly compensate executive officers at competitive salary levels and with incentives tied to the Company's overall, long-term profitability.

In 2008, the Company's Compensation Committee (the "**Committee**") worked with outside consultants to review the Company's existing equity and non-equity incentive programs and to modify the programs as necessary to ensure that they were designed to align employee interests with shareholder interests. After receiving TARP funds, the Committee again revisited these programs to verify that the programs contained no elements that might incentive executive officers to cause the Company or the Bank to take excessive risk. The Committee expects to complete this review prior to March 19, 2009. Based on the Committee's previous work and current data, I believe that the Committee will once again satisfy itself that the incentive programs do not encourage excessive risk-taking and that the Committee will so certify.

A review of the various incentive programs will be undertaken, at least annually, to ensure that excessive risk-taking is not encouraged and, in fact, is discouraged.

- ◆ **Limit on Tax Deduction for Compensation.** The Company understands that the federal income tax deduction that the Company may take for annual compensation paid to each of its SEOs is limited to \$500,000 (even after the executive ceases to be an SEO) and that there is no exception for performance-based awards as exists under Section 162(m) of the Internal Revenue Code. The Company also understands that amounts in excess of \$500,000 that are deferred to a future year will be non-deductible when eventually paid.
- ◆ **Golden Parachutes.** Golden parachute payments (including, without limitation, severance pay, accelerated vesting of incentive awards and enhancement of retirement benefits) to any SEO triggered by an involuntary termination of employment (including a termination of an executive's employment due to the Company's refusal to renew the executive's employment agreement or a resignation for good reason due to a material change in the executive's employment relationship) or the bankruptcy or liquidation of the Company have been limited to less than 3 times the executive's trailing 5-year average annual taxable compensation paid by the Company. As noted above, the SEOs have each entered into an agreement with the Bank and the Company acknowledging these restrictions.
- ◆ **Clawback.** As noted above, the SEOs have each entered into an agreement with the Bank and the Company providing for the repayment (clawback) of any bonus paid based upon financial statements, results or performance metrics that later prove to be materially inaccurate. If the Company's Board of Directors or Compensation Committee determines that any bonus or incentive payment was paid to an SEO based on financial statements, results or performance metrics later determined by the Company's auditors to be materially inaccurate, the Company will take appropriate actions to pursue repayment to the Company of such amounts.

Implementation of Limitations on Executive Compensation in Line with Treasury Guidelines

As described above, the Company has taken appropriate steps to comply with the EESA and the regulation issued by the US Treasury and published in the Federal Register on October 20, 2008. Additional actions will be taken as necessary to comply with the ARRA and the regulations adopted thereunder.

Offsets, if any, of Limitations on Executive Compensation by Other, Longer-Term or Deferred Forms of Executive Compensation

The Company has not offered its executives deferred compensation, longer-term, or other compensation for the purpose of offsetting the effect of the executive compensation limits in the EESA.

3. Preservation of Documents.

The Company has received the request to segregate and preserve all documents referencing the Company's use or anticipated use of TARP funds, and the Company has taken appropriate steps to preserve such documents.

I HEREBY CERTIFY THAT TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF, ALL OF THE STATEMENTS, REPRESENTATIONS, AND SUPPORTING DOCUMENTS MADE IN AND APPENDED TO THIS LETTER ARE ACCURATE.

Sincerely,



Romolo Santarosa

Exhibit A – Form of Waiver Signed by SEOs

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.

December 19, 2008

[Senior Executive Officer]

Exhibit B – Form of Agreement Entered into by SEOs

First California Financial Group, Inc.
First California Bank
3027 Townsgate Road, Suite 300
Westlake Village, California 91361

December 19, 2008

[Senior Executive Officer]
c/o First California Financial Group, Inc.
3027 Townsgate Road, Suite 300
Westlake Village, California 91361

Dear [Senior Executive Officer],

First California Financial Group, Inc. (the “*Company*”) anticipates entering into a Securities Purchase Agreement (the “*Participation Agreement*”), with the United States Department of Treasury (“*Treasury*”) that provides for the Company’s participation in the Treasury’s TARP Capital Purchase Program (the “*CPP*”). If the Company does not participate or ceases at any time to participate in the CPP, this letter shall be of no further force and effect.

For the Company to participate in the CPP and as a condition to the closing of the investment contemplated by the Participation Agreement, the Company is required to establish specified standards for incentive compensation to its Senior Executive Officers and to make changes to its compensation arrangements. The requirements of this Agreement shall apply to you only for so long as both (1) you are a Senior Executive Officer of the Company and/or First California Bank (the “*Bank*”) and (2) any debt or equity securities issued by the Company under the CPP are held by Treasury (the “*CPP Covered Period*”). To comply with these requirements, and in consideration of the benefits that you will receive as a result of the Company’s participation in the CPP, you agree as follows:

(1) *No Golden Parachute Payments.* The Company and the Bank are prohibiting any Golden Parachute Payment to you during any CPP Covered Period. To the extent any event occurs during the CPP Covered Period that would otherwise trigger a Golden Parachute Payment, you will be entitled to the lesser of (i) your rights under the Benefit Plans (as defined below) and (ii) the maximum amount allowed under Section 111(b)(2)(C) of EESA.

(2) *Recovery of Bonus and Incentive Compensation.* Any bonus and incentive compensation paid to you during a CPP Covered Period is subject to recovery or “clawback” by the Company if the payments were based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria.

(3) *Compensation Program Amendments.* Each of the Company's compensation, bonus, incentive and other benefit plans, arrangements and agreements (including golden parachute, severance and employment agreements; collectively, "*Benefit Plans*") with respect to you is hereby amended to the extent necessary to give effect to provisions (1) and (2). For reference, certain affected Benefit Plans are set forth in Appendix A to this letter.

In addition, the Company is required to review its Benefit Plans to ensure that they do not encourage senior executive officers to take unnecessary and excessive risks that threaten the value of the Company. To the extent any such review requires revisions to any Benefit Plan with respect to you, you and the Company and the Bank (to the extent applicable) agree to negotiate such changes promptly and in good faith.

(4) *Definitions and Interpretation.* This letter shall be interpreted as follows:

- "Senior Executive Officer" is used with same meaning as in subsection 111(b)(3) of EESA.
- "Golden Parachute Payment" is used with same meaning as in Section 111(b)(2)(C) of EESA.
- "EESA" means the Emergency Economic Stabilization Act of 2008 as implemented by guidance or regulation issued by the Department of the Treasury and as published in the Federal Register on October 20, 2008, as in effect on the date hereof.
- The term "Company" includes any entities treated as a single employer with the Company under 31 C.F.R. § 30.1(b) (as in effect on the Closing Date). You are also delivering a waiver pursuant to the Participation Agreement, and, as between the Company and you, the term "employer" in that waiver will be deemed to mean the Company as used in this letter.
- The term "CPP Covered Period" shall be limited by, and interpreted in a manner consistent with, 31 C.F.R. § 30.11 (as in effect on the Closing Date).
- Provisions (1) and (2) of this letter are intended to, and will be interpreted, administered and construed to, comply with Section 111 of EESA (and, to the maximum extent consistent with the preceding, to permit operation of the Benefit Plans in accordance with their terms before giving effect to this letter).

(5) *Miscellaneous.* To the extent not subject to federal law, this letter will be governed by and construed in accordance with the laws of the State of California without regard the provisions thereof that would apply the law of any other State. This letter may be executed in two or more counterparts, each of which will be deemed to be an original. A signature transmitted by facsimile shall be deemed an original signature.

The Company appreciates the concessions you are making and looks forward to your continued leadership during these financially turbulent times.

Yours sincerely,

**FIRST CALIFORNIA FINANCIAL
GROUP, INC.**

By: _____

Name:

Title:

FIRST CALIFORNIA BANK

By: _____

Name:

Title:

Intending to be legally bound, I agree with and accept the foregoing terms on the date set forth below

[Senior Executive Officer]

Date: December 19, 2008