

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS

OLYMPIA, WASHINGTON

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IN THE MATTER OF )  
THE BANK OF WASHINGTON )  
LYNNWOOD, WASHINGTON )  
(INSURED STATE NONMEMBER BANK) )  
)

CONSENT ORDER  
Docket FDIC-09-415b

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The Federal Deposit Insurance Corporation ("FDIC"), under 12 U.S.C. § 1818(q), is the appropriate Federal banking agency and the Washington Department of Financial Institutions ("WDFI") is the appropriate state banking agency for The Bank of Washington, Lynnwood, Washington ("Bank").

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated November 17, 2009, that is accepted by the FDIC and the WDFI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to management, capital, loans, concentration of credit, and liquidity, referenced in the WDFI Report of Visitation dated May 27, 2009, to the issuance of this Consent Order ("Order") by the FDIC and the WDFI.

Having determined that the requirements for issuance of an order under 12 U.S.C.

§ 1818(b) and Revised Code of Washington, Anno. § 30.04.450 have been satisfied, the FDIC and the WDFI hereby order that:

1. Effective immediately and during the life of this Order, the Board of Directors shall have and retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the bank. As part of this effort, the Board of Directors must ensure that such management shall include a chief executive officer and senior lending officer qualified to restore the bank to satisfactory condition. Management shall be assessed on its ability to:

- (i) comply with the requirements of this ORDER;
- (ii) operate the bank in a safe and sound manner;
- (iii) comply with applicable laws and regulations; and,
- (iv) restore all aspects of the bank to a safe and sound condition, including asset quality, capital adequacy, earnings, and management effectiveness.

2. During the life of this ORDER, the Bank shall notify the Regional Director and Director, in writing, when it proposes to add or replace any individual on the Board of Directors, or employ any individual, or change the responsibilities of any individual, to act as a senior executive officer. The notification shall include a completed Interagency Biographical and Financial Report and must be received at least 30 days before such addition or employment is intended to become effective. The Regional Director and the Director shall have the power under the authority of this ORDER to disapprove the addition or employment of any such individual.

3. Within 120 days from the effective date of this ORDER, the Bank shall increase Tier 1 capital to no less than ten percent (10%) of the Bank's total assets, which will be

maintained throughout the life of this ORDER. The level of Tier 1 capital shall be in addition to a fully funded allowance for loan and lease losses, the adequacy of which shall be satisfactory to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

4. During the life of this ORDER, the Board of Directors shall review the allowance for loan and lease losses at least once each calendar quarter. The review should focus on the results of the Bank's internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of credits subject to FAS 114 and groups of loans evaluated per FAS 5 accounting treatment, concentrations of credit, and present and prospective economic conditions. A deficiency in the allowance shall be remedied in the calendar quarter it is discovered, prior to submitting the Call Reports, by a charge to current operating earnings. The minutes of the Board of Directors meeting at which such review is undertaken shall indicate the results of the review. Such methodology and its implementation shall be satisfactory to the Regional Director and Director as determined at subsequent examinations and/or visitations.

5. (a) Within 120 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" as of March 31, 2009, that have not previously been charged off, to not more than 150% of the Bank's Tier 1 capital plus the Allowance for Loan and Lease Losses.

(b) Within 210 days from the effective date of this ORDER, the Bank shall have reduced the assets classified "Substandard" as of March 31, 2009 to not more than 100% of the Bank's Tier 1 capital plus the Allowance for Loan and Lease Losses.

(c) Within 360 days from the effective date of the ORDER, the Bank shall

have reduced the assets classified “Substandard” as of March 31, 2009 to not more than 75% of the Bank’s Tier 1 capital plus the Allowance for Loan and Lease Losses.

The requirements of Subparagraphs 5(a), 5(b) and 5(c) of this ORDER are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

“Reduced” means (1) to collect (2) charge-off or (3) to sufficiently improve quality of the asset to warrant an upgrade to a classification of “Pass” as determined by the WDFI and the FDIC.

6 Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank in excess of \$50,000 that has been adversely classified, without the prior approval of a majority of the Bank’s Board of Directors or the loan committee of the Bank. The loan committee or Bank’s Board shall not approve any extension of credit, or additional credit to a borrower with an adversely classified credit without first collecting in cash all past due interest. Notwithstanding the foregoing, the Bank may extend additional credit to any such borrower provided that: (i) the Bank adopts a written plan for the extension of additional credit in workout situations to protect and improve the Bank’s collateral position (“workout plan”); (ii) the workout plan specifically outlines the mechanics, safeguards, and controls required to approve the extension of additional credit; (iii) the Bank receives the approval of the Regional Director and the Director of Banks for adoption of the workout plan prior to its implementation; (iv) if the workout plan is approved by the Regional Director and the Director of Banks, the Bank shall submit quarterly reports to the Regional Director and the Director of Banks regarding all extensions of additional credit approved under the workout plan;

and (v) the Bank's implementation of the workout plan shall be acceptable to the Regional Director and the Director of Banks as determined at subsequent examinations and/or visitations.

7. Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan, approved by its Board of Directors and acceptable to the Regional Director and the Director, for systematically reducing its credit concentration in "Land Acquisition, Development, and Construction" loans. Such plan shall address compliance with the provisions of the Financial Institution Letter entitled "Commercial Real Estate Lending: Joint Guidance" FIL-104-2006.

8. Within 30 days from the effective date of this ORDER, the Bank shall develop written asset resolution plans for each classified asset greater than \$100,000. The plans shall be reviewed and approved by the Bank's Board and acceptable to the Regional Director and the Director of Banks.

9. Within 60 days of the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Director a written three-year strategic plan. The plan shall be in a form and manner acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

10. Within 30 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan and a comprehensive budget. The plan and budget required by this paragraph shall include formal goals and strategies, consistent with sound banking practices, to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, and improve and sustain earnings of the Bank. The profit plan shall include a description of the operating assumptions that form the basis for and adequately support major projected income and expense components.

11. During the life of this ORDER, the Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Director.

12. Within 30 days of the effective date of this ORDER, management and the Board of Directors will develop a plan to achieve and maintain a minimum Primary Liquidity Ratio (net cash, short-term and marketable assets/net deposits, and short-term liabilities) of at least 15 percent.

13. Within 30 days of the end of the first calendar quarter, following the effective date of this ORDER, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Director detailing the form and manner of any actions taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Director have released the Bank in writing from making further reports.

14. Following the effective date of this Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholder(s) in conjunction with:

- (a) the Bank's next shareholder communication; and
- (b) the notice or proxy statement preceding the Bank's next shareholder

meeting.

The description shall fully describe the Order in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Supervision and Consumer Protection, Accounting and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429, at least 20 days prior to dissemination to shareholders.

Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the WDFI, or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This Order will become effective upon its issuance by the FDIC and the WDFI.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

Pursuant to delegated authority.

Dated at San Francisco, California, this 18<sup>th</sup> day of November, 2009.

/s/  
\_\_\_\_\_  
J. George Doerr  
Deputy Regional Director  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation

/s/  
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Brad Williamson  
Director  
Division of Banks  
Washington Department of Financial  
Institutions