

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

_____)	
In the Matter of)	
SHORELINE BANK)	SUPERVISORY
SHORELINE, WASHINGTON)	PROMPT CORRECTIVE
(INSURED STATE NONMEMBER BANK))	ACTION DIRECTIVE
_____)	FDIC-10-387PCAS

WHEREAS, Shoreline Bank, Shoreline, Washington (the “Bank”) is a “significantly undercapitalized” depository institution as that term is defined in Section 38(b)(1) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. §1831o(b)(1), and Section 325.103 of the Federal Deposit Insurance Corporation (“FDIC”) Rules and Regulations, 12 C.F.R. §325.103;

WHEREAS, pursuant to a letter dated February 2, 2010, the FDIC notified the Bank of its “undercapitalized” capital category;

WHEREAS, pursuant to that February 2, 2010 letter, the FDIC notified the Bank that a Capital Restoration Plan compliant with Section 38(e)(2) of the Act, 12 U.S.C. § 1831o(e)(2), and Section 325.104 of the FDIC Rules and Regulations, 12 C.F.R. § 325.104 needed to be filed by March 19, 2010;

WHEREAS, pursuant to a December 29, 2009 Consent Order, the Bank submitted a Strategic/Capital Plan on March 2, 2010, which it indicated was also to serve as the Bank’s Capital Restoration Plan;

WHEREAS, on May 18, 2010, the FDIC determined that the Strategic/Capital Plan submitted in lieu of a Capital Restoration Plan was unacceptable pursuant to Section 38(e)(2) of

the Act, 12 U.S.C. § 1831o(e)(2), and Section 325.104 of the FDIC Rules and Regulations, 12 C.F.R. § 325.104 and directed the Bank to submit an acceptable Capital Restoration Plan;

WHEREAS, the Bank has not submitted a Capital Restoration Plan that is acceptable under Section 38(e)(2) of the Act, 12 U.S.C. § 1831o(e)(2), and Section 325.104 of the FDIC Rules and Regulations, 12 C.F.R. § 325.104;

WHEREAS, on May 18, 2010, FDIC also notified the Bank of its “significantly undercapitalized” capital category as a result of the filing of the March 31, 2010 call reports;

WHEREAS, the Bank’s condition continues to deteriorate;

WHEREAS, the Bank’s management has not demonstrated the ability to return the Bank to a safe and sound condition;

WHEREAS, the Bank’s capital levels and deteriorating condition and management’s inability to return the Bank to a safe and sound condition require that prompt corrective action be taken immediately;

WHEREAS, the actions in this directive are necessary to carry out the purposes of Section 38 of the Act including Section 38(e)(5), 12 U.S.C. § 1831o(e)(5);

THEREFORE, the FDIC finds it necessary, in order to carry out the purposes of Section 38 of the Act, to issue this SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE without providing notice as set forth in Section 308.201(a)(1) of the FDIC's Rules of Practice and Procedure, 12 C.F.R. §308.201(a)(1), and hereby issues this SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE pursuant to Section 38 of the Act, 12 U.S.C. §1831o, and Section 308.201(a)(2) of the FDIC's Rules of Practice and Procedure, 12 C.F.R. §308.201(a)(2).

SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE

IT IS HEREBY DIRECTED, that the Bank shall take one or both of the following actions to recapitalize the Bank:

1. The Bank shall sell enough voting shares or obligations of the Bank so that the Bank will be adequately capitalized after the sale; and/or
2. The Bank shall accept an offer to be acquired by a depository institution holding company or to combine with another insured depository institution;

FURTHER DIRECTED, that during the period this Directive is in effect, the bank shall refrain from accepting, renewing or rolling over any brokered deposits as defined in Section 337.6(a)(2) of the FDIC Rules and Regulations, 12 C.F.R. § 337.6(a)(2);

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall conform the interest rates paid on deposits to comply with the interest rate restrictions in Section 337.6 of the FDIC Rules and Regulations;

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall restrict growth by ensuring that the average total assets during any calendar quarter do not exceed the average total assets during the preceding calendar quarter;

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall refrain from making capital distributions or dividend payments to its parent or any affiliate of the Bank or its parent, and paying any bonuses to, or increasing the compensation of, any director or officer of the Bank without prior written approval from the FDIC. The term “capital distribution” shall be defined as at Section 38(b)(2)(B) of the Act (12 U.S.C. § 1831o(b)(2)(B));

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall not enter into any material transaction, including any investment, expansion, acquisition, sale of

assets, or other similar transaction which would have a significant financial impact on the Bank, without the prior written consent of the FDIC;

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall employ and retain qualified senior executive officers;

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall comply with Section 23A of the Federal Reserve Act as if subsection (d)(1) of that section (exempting transactions with certain affiliated institutions) did not apply;

FURTHER DIRECTED, that during the period this Directive is in effect, the Bank shall request the FDIC's prior written approval to relocate, sell or dispose of any existing branch;

FURTHER DIRECTED, that the provisions of this SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE shall not affect the obligations of the Bank pursuant to any other action issued against the Bank by the FDIC; and

FURTHER DIRECTED, that this SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE shall become effective immediately upon its receipt by the Bank.

Each provision of this SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of the Bank.

Each provision of this SUPERVISORY PROMPT CORRECTIVE ACTION DIRECTIVE shall remain effective and enforceable until the Bank has been adequately capitalized on average for four (4) consecutive calendar quarters, except to the extent that any provision shall be modified, terminated, suspended, or set aside by the FDIC.

The Bank may file a written appeal of this SUPERVISORY PROMPT CORRECTIVE

