

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

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In the Matter of	)	
	)	
WASHINGTON FINANCIAL BANK	)	CONSENT ORDER
WASHINGTON, PENNSYLVANIA	)	
	)	FDIC-10-506b
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency Washington Financial Bank, Washington , Pennsylvania (“Bank”), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER (“Consent Agreement”), dated September 2, 2010 that is accepted by the FDIC. With the Consent Agreement, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulation relating to weaknesses in compliance with the Bank Secrecy Act, 31 U.S.C. § 5311 et seq., 12 U.S.C. § 1829b and 12 U.S.C. §§ 1951-1959, and its implementing regulations, 31 C.F.R. Part 103 and 12 C.F.R. Part 353, and 12 U.S.C. § 1818(s) and its implementing regulation, 12 C.F.R. § 326.8 (collectively referred to as “BSA”); to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) have been satisfied, the FDIC hereby orders that:

1. Within 30 days from the effective date of this ORDER, the Bank shall develop a revised written plan (“Compliance Plan”) for the adequate improvement of the Bank’s Bank

Secrecy Act /Anti-Money Laundering (“BSA/AML”) Compliance Program and the Bank’s Customer Identification Program (“CIP”) designed to, among other things, ensure and maintain compliance with the BSA and its implementing rules and regulations. The Bank shall submit the revised Compliance Plan to the FDIC Regional Director and the Bureau of Commercial Institutions of Pennsylvania Department of Banking (the “Bureau”) for review and comment. Upon receipt of comments from the Regional Director and the Bureau, if any, the Board shall review and approve the revised Compliance Plan. The review and approval of the revised Compliance Plan shall be recorded in the minutes of the Bank’s board of directors. Thereafter, the Bank shall implement the revised Compliance Plan.

At a minimum, the revised Compliance Plan shall provide for the development and implementation of (i) a system of internal controls sufficient to ensure compliance in all material respects with the BSA and its implementing rules and regulations; (ii) a system of internal controls sufficient to ensure compliance with the regulations promulgated by the United States Department of Treasury’s Office of Foreign Assets Control (“OFAC”), 31 C.F.R. Part 500, as well as all statutes, regulations, rules and/or guidelines issued or administered by OFAC (collectively referred to herein as the “OFAC Provisions”); (iii) independent testing; (iv) training; and (v) internal and external audits. .

#### **DESIGNATION OF BSA AND OFAC OFFICER**

2. Within 30 days from the effective date of this ORDER, the Bank shall submit the name, resume and such other information as the Regional Director and the Bureau may request, of a qualified individual or individuals to be responsible for coordinating and monitoring day-to-day compliance with the BSA (“BSA Officer”) for review and non-objection by the Regional Director and Bureau. This BSA Officer shall: (i) have sufficient executive authority to monitor

and ensure compliance with the BSA; (ii) be responsible for determining the adequacy of the Bank's BSA staffing given its size and risk profile (based upon the Risk Assessment, as hereinafter defined) and for supervising such staff; (iii) at least quarterly apprise the Board and senior management of ongoing compliance with BSA and this ORDER; and (iv) be responsible for assuring the proper and timely filing of Suspicious Activity Reports ("SARs"), Currency Transaction Reports ("CTRs"), Reports of International Transportation of Currency or Monetary Instruments ("CMIRs"), Reports of Foreign Bank and Financial Accounts ("FBARs") and any other BSA required reports.

3. Within 30 days from the effective date of this ORDER, the Bank shall submit the name, resume and such other information as the Regional Director and Bureau may request, of a qualified individual or individuals to be responsible for coordinating and monitoring day-to-day compliance with the OFAC Provisions and the oversight of blocked funds ("OFAC Officer") for review and non-objection by the Regional Director and Bureau. This OFAC Officer shall (i) have sufficient executive authority to monitor and ensure compliance with the OFAC Provisions; (ii) at least quarterly apprise the Board and senior management of ongoing compliance with the OFAC Provisions; and (iii) be responsible for assuring the proper and timely filing of, reports of blocked or rejected transactions with OFAC and any other reports required by the OFAC Provisions.

4. The designated BSA Officer and the OFAC Officer may be the same qualified individual or individuals.

#### **SYSTEM OF BSA INTERNAL CONTROLS**

5. Within 90 days from the effective date of this ORDER, the Bank shall develop, adopt, and implement a system of internal controls designed to ensure full compliance with the BSA ("BSA Internal Controls") taking into consideration its size and risk profile as well as the

deficiencies and recommendations contained in the March 29, 2010 joint Report of Examination issued by the FDIC and the Pennsylvania Department of Banking utilizing financial data as of December 31, 2009 (“2010 Joint ROE”). At a minimum, such system of BSA Internal Controls shall include policies, procedures and processes addressing the following areas:

(a) Risk Assessment: The Bank shall conduct an initial and subsequent periodic risk assessments of the Bank’s operations (“Risk Assessment”) consistent with the guidance for risk assessments set forth in the *Bank Secrecy Act/Anti-Money Laundering Examination Manual* compiled by the Federal Financial Institutions Examination Council ([www.ffiec.gov/bsa\\_aml\\_infobase/default.htm](http://www.ffiec.gov/bsa_aml_infobase/default.htm)) (the “FFIEC BSA/AML Manual”) and shall establish appropriate written policies, procedures and processes regarding Risk Assessments.

(b) Customer Identification Program: The Bank shall review and enhance its 12 C.F.R. § 326.8(b)(2) required customer identification program (“CIP”) to ensure that the Bank’s CIP is consistent with the guidance for CIPs set forth in the FFIEC BSA/AML Manual;

(c) Customer Due Diligence: The Bank shall develop, adopt, and implement customer due diligence (“CDD”) policies, procedures and processes for new and existing customers to (i) be consistent with the guidance for CDD set forth in the FFIEC BSA/AML Manual; (ii) operate in conjunction with its CIP; and (iii) enable the Bank to predict with relative certainty the types of transactions in which a customer is likely to engage.

(d) Enhanced Customer Due Diligence: The Bank shall develop, adopt, and implement policies, procedures and processes to identify, understand and monitor new and existing high-risk customers to (i) be consistent with the guidance for enhanced customer due diligence set forth in the FFIEC BSA/AML Manual; and (ii) operate in conjunction with its CIP and CDD policies, procedures and processes.

(e) Account/Transaction Monitoring and Reporting: The Bank shall, taking into account its size and risk profile (based upon the Risk Assessment), review and enhance its policies, procedures, processes and systems (i) to monitor and aggregate currency activity, funds transfers, and monetary instrument sales; (ii) detect suspicious activity being conducted within or through the Bank; and (iii) ensure the timely, accurate and complete filing of SARs, CTRs, CMIRs, FBARs and any other similar or related reports required by law or regulation. These policies, procedures, processes and systems should operate in conjunction with each other and be consistent with the guidance for account/transaction monitoring and reporting set forth in the FFIEC BSA/AML Manual.

(f) Information Sharing: The Bank shall review and enhance its policies, procedures and processes for implementing the requirements of section 314 of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (“Section 314”) as implemented by sections 103.100 and 103.110 of Title 31 of the Code of Federal Regulations, 31 C.F.R. §§ 103.100 and 103.110, to ensure the Bank’s compliance with these provisions in a manner consistent with the guidance for information sharing set forth in the FFIEC BSA/AML Manual and the guidelines established by the Financial Crimes Enforcement Network (“FinCEN”) pertaining to Section 314.

(g) Funds Transfers: The Bank shall establish policies, procedures and processes with respect to recordkeeping requirements for funds transfers, including, but not limited to, the requirements for complete information on beneficiaries and originators established by section 103.33 of Title 31 of the Code of Federal Regulations, 31 C.F.R. § 103.33, to ensure the Bank’s compliance with these requirements in a manner consistent with the guidance for funds transfers recordkeeping set forth in the FFIEC BSA/AML Manual.

## **SYSTEM OF OFAC INTERNAL CONTROLS**

6. Within 90 days of the effective date of this ORDER, the Bank shall develop, adopt, and implement a system of internal controls designed to ensure full compliance with the OFAC Provisions taking into consideration the deficiencies and recommendations contained in the 2010 Joint ROE and in a manner consistent with the guidance for OFAC compliance in the FFIEC BSA/AML Manual.

## **INDEPENDENT TESTING**

7. Within 180 days from the effective date of this ORDER, and at least annually thereafter, the Bank shall provide for independent testing for compliance with the BSA and its implementing rules and regulations to be conducted by either a qualified outside party with the requisite ability to perform such testing and analysis, or Bank personnel independent of the BSA function with the requisite ability to perform such testing and analysis. The independent testing shall, at a minimum be consistent with the guidance for independent testing set forth in the FFIEC BSA/AML Manual.

## **TRAINING**

8. Beginning on the effective date of the ORDER, the Bank shall take all steps necessary, consistent with sound banking practices, to ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA and the OFAC Provisions applicable to the individual's specific responsibilities to assure the Bank's compliance with the BSA and the OFAC Provisions.

9. Within 60 days from the effective date of this ORDER, the Bank shall develop, adopt and implement effective training programs designed for the Board, management and staff and their specific compliance responsibilities on all relevant aspects of laws, regulations, and

Bank policies, procedures and processes relating to the BSA and the OFAC Provisions (“Training Program”). This Training Program shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of both the BSA and the OFAC Provisions on an ongoing basis. The Training Program shall, at a minimum, be consistent with the guidance for independent testing set forth in the FFIEC BSA/AML Manual.

### **AUDIT POLICY**

10. Within 90 days from the effective date of this ORDER, the Bank shall amend its policies, procedures, and processes with regard to both internal and external audits so that the Bank periodically reviews compliance with both the BSA and the OFAC Provisions as part of its routine auditing. As long as this ORDER shall remain in effect, the Bank's internal and external audits shall include a review of these areas, with significant exceptions reported directly to the Bank's Audit Committee and the Board.

11. Beginning on the effective date of this ORDER, the Bank shall provide periodic reports to the Audit Committee of the Board setting forth any law enforcement inquiry or subpoena that relates in any way to the BSA or the OFAC Provisions and any action taken or response provided with respect to such inquiry or subpoena.

### **THIRD PARTY LOOK BACK REVIEW**

12. (a) Within 60 days from the effective date of this ORDER, the Bank shall engage a qualified independent firm ("Consultant") acceptable to the Regional Director and the Bureau to conduct a review of account and transaction activity for the time period beginning two (2) years before the effective date of this Order through the effective date of this ORDER to determine whether suspicious activity involving any accounts of, or transactions within or through, the Bank was properly identified and reported in accordance with the applicable suspicious activity reporting requirements (“Look Back Review”).

(b) Within 10 days of the engagement of the Consultant, but prior to the commencement of the Look Back Review, the Bank shall submit the Consultant's engagement letter to Regional Director and Bureau for their non-objection to the scope, methodology and timing of the Look Back Review.

(c) Upon completion of the Look Back Review, the Consultant shall provide a copy of the report detailing its findings to the Regional Director and Bureau at the same time the report is provided to the Bank.

(d) Within 30 days of its receipt of the Look Back Review report, the Bank shall ensure that all matters or transactions required to be reported, that have not previously been reported, are reported in accordance with applicable laws and regulations.

#### **CORRECTION AND PREVENTION**

13. The Bank shall take all steps necessary, consistent with other provisions of this ORDER and sound banking practices, to correct and prevent the violations of law or regulation identified in the 2010 Joint ROE, address each deficiency identified in the 2010 Joint ROE and ensure the Bank is operated with adequate management supervision and Board oversight to prevent any future violations of law and/or regulation.

#### **SHAREHOLDERS**

14. Following the effective date of this ORDER, the Bank shall send the ORDER or otherwise furnish a description of the ORDER to its parent holding company in conjunction with the Bank's next communication with such parent holding company. The description shall fully describe the ORDER in all material respects.

#### **COMPLIANCE COMMITTEE**

15. Within 30 days from the effective date of this ORDER, the Board shall appoint a committee ("Compliance Committee") composed of at least three directors who are not now, and



have never been, involved in the daily operations of the Bank, to monitor the Bank's compliance with this ORDER. Within 60 days from the effective date of this ORDER, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Board a written report of its findings, detailing the form, content, and manner of any action taken to ensure compliance with this ORDER and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the minutes of the Board meetings. Nothing contained herein shall diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

### **PROGRESS REPORTS**

16. By the 30<sup>th</sup> day after the end of the calendar quarter following the effective date of this ORDER, and by the 30<sup>th</sup> day after the end of every calendar quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Bureau detailing the form, content, and manner of any actions taken to secure compliance with this ORDER, and the results thereof.

### **OTHER ACTIONS**

17. It is expressly and clearly understood that if, at any time, the Regional Director or the Bureau shall deem it appropriate in fulfilling the responsibilities placed upon him or her under applicable law to undertake any further action affecting the Bank, nothing in this ORDER shall in any way inhibit, estop, bar or otherwise prevent him or her from doing so, including, but not limited to, the imposition of civil money penalties.

### **ORDER EFFECTIVE**

18. The effective date of this ORDER shall be immediately upon the date of issuance.

19. The provisions of this ORDER shall be binding upon the Bank, its directors, officers, employees, agents, successors, assigns, and other institution-affiliated parties of the

Bank, and the provisions shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified by the FDIC.

Pursuant to delegated authority.

Dated: September 3<sup>rd</sup>, 2010.

/s/  
Daniel E. Frye  
Acting Regional Director  
Division of Supervision and Consumer Protection  
New York Regional Office  
Federal Deposit Insurance Corporation