

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS
OLYMPIA, WASHINGTON

_____)	
)	
In the Matter of)	
)	CONSENT ORDER
BANK OF WHITMAN)	
COLFAX, WASHINGTON)	10-08-CD
)	
(INSURED STATE MEMBER BANK))	
)	
_____)	

Bank of Whitman (“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 October 22, 2010, that is accepted by the Washington Department of Financial Institutions (“WDFI”). With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law and/or regulation relating to weaknesses in capital, asset quality, management, and earnings, to the issuance of this Consent Order (“Order”) by the WDFI.

Having determined that the requirements for issuance of an order under Section 30.04.450 of the Revised Code of Washington, have been satisfied, the WDFI hereby orders that:

1. The Bank shall have and retain qualified management.

(a) Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Management shall include the following: (i) a chief executive officer with proven ability in managing a bank of comparable size and risk profile; (ii) a chief financial officer with proven ability in all aspects of financial management; and (iii) a senior lending officer with significant lending, collection, and loan

supervision experience and experience in upgrading a low quality loan portfolio. Each member of management shall be provided appropriate written authority from the Board to implement the provisions of this Order.

(b) The qualifications of 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, management effectiveness, liquidity, and sensitivity to market risk.

(c) During the life of this Order, the Bank shall notify the Director of Banks of the WDFI (“Director of Banks”) in writing when it proposes to add or replace any individual on the Board, or to employ any individual to serve as a senior executive officer, or to change the responsibilities of any existing senior executive officer to include the responsibilities of another senior executive officer position. The notification shall include a completed Interagency Biographical and Financial Report and Interagency Change in Director or Senior Executive Officer and must be received at least 30 days before the addition, employment or change of responsibilities is intended to become effective. The Director of Banks shall, under the authority of this Order, have the power to disapprove the addition, employment or change of responsibilities of any proposed officer or director.

2. Upon the effective date of this Order, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank’s activities, consistent with the role and

expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly, and include active participation in the Asset/Liability Committee.

3. Within 60 days from the effective date of this Order, the Board shall engage an independent study of the management and personnel structure of the Bank to determine whether the Bank is staffed by qualified individuals commensurate with its size and risk profile to ensure the safe and profitable operation of the Bank. Such study shall include, at a minimum, a review of the duties, responsibilities, qualifications, and remuneration of the Bank's officers, an evaluation of management resources, and recommendations regarding management and staffing in the context of the Bank's strategic plan. A copy of the study shall be submitted to the Director of Banks. The Board shall consider the recommendations of the study and take such action, as it deems reasonable and appropriate. Implementation of the study's recommendations shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations.

4. (a) Within 180 days from the effective date of this Order, the Bank shall increase and thereafter maintain its Tier 1 Leverage Capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds 10.0 percent.

(b) Within 60 days from the effective date of this Order, the Bank shall develop and adopt a Capital Plan to meet and maintain the capital requirements of this Order and to comply with the FDIC's Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325. Such plan and its implementation shall be in a form and manner acceptable to the Director of Banks as determined at subsequent examinations and/or visitations.

5. During the life of this Order, the allowance for loan and lease losses (“ALLL”) will be fully funded, the adequacy of which shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations. The ALLL methodology will comply with the Interagency Policy Statement on the ALLL – SR 06-17. Any increase in Tier 1 Capital necessary may not be accomplished through a deduction from the Bank’s ALLL.

6. The Bank shall not pay cash dividends or make any other payments or distributions to its shareholders without the prior written consent of the Director of Banks.

7. (a) Within 90 days from the effective date of this Order, the Bank shall submit to the WDFI a written business plan for 2011 to improve the Bank’s earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for 2011, including income statement and balance sheet projections; and

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components

(b) A business plan and budget for each calendar year subsequent to 2010 shall be submitted to the WDFI at least 30 days prior to the beginning of that calendar year. Such plans and their implementation shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations.

8. (a) Upon the effective date of this Order, the Bank shall eliminate from its books, by charge-off or collection, all assets classified “Loss” in the Report of Examination dated March 29, 2010 (“ROE”) that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

(b) Within 120 days from the effective date of this Order, the Bank shall have reduced the volume of adversely classified assets identified in the ROE to not more than 130 percent of the Bank's Tier 1 Capital and ALLL.

(c) The requirements of this paragraph 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. As used in this paragraph the word "reduce" means:

- (i) to collect;
- (ii) to charge-off; or
- (iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the WDFI.

9. (a) Within 30 days from the effective date of this Order, the Bank shall formulate a detailed, written plan to reduce the Bank's risk exposure in each asset above \$1 million that is adversely classified "Substandard" and "Doubtful" in the ROE, including all outstanding loan commitments to a level of acceptable asset quality. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each such adversely classified loan or lease, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank's collateral position.

(b) The plan and its implementation shall be acceptable to the Director of Banks as determined at subsequent examinations and/or visitations.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the WDFI to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset, purpose and history of the loan, changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list, a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report. The Board shall review the progress reports before submission and shall document the review in the minutes of the Boards' meetings.

10. (a) Beginning with the effective date of this Order, and subject to the provisions of this paragraph 10(c) below, 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 that has been charged off or classified, in whole or in part, "Loss" in the March 29, 2010 ROE or in any subsequent report of examination, as long as such credit remains uncollected. This paragraph shall not prohibit the Bank from renewing or extending the maturity of any credit in accordance with the Financial Accounting Standards Board Statement Number 15 ("FASB 15").

(b) 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 that has been classified, in whole or part, "Doubtful" or "Substandard".

(c) Provided, however, a majority of the Board or of the Loan Committee of the Board may approve an extension of additional credit, a waiver of defaults, or a renewal or extension of maturity for "Loss", "Doubtful" or "Substandard" credits with the prior written

approval of a majority of the Board, or the Loan Committee of the Bank *and* the adoption of a written Action Plan specifically identifying the benefit or enhancement to the credit by the Action Plan and the specific factors incorporated in the Action Plan, either separately, or together, that in their reasonable business judgment provides valuable consideration for the adoption of the Plan, including the following:

- (i) Receipt of additional collateral; or
- (ii) Receipt of additional Guarantors with capacity to pay some or all of the debt; or
- (iii) Subordination of senior lien creditor positions; or
- (iv) Release of pending or threatened lender liability claims against the bank; or
- (v) Collection of past due interest; or
- (vi) The execution of a Forbearance Agreement satisfactory to the Bank.

The Action Plan and the Board or Committee's evidence of its approval shall be made a part of the Bank loan file.

11. (a) Within 30 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement written lending policies governing the bank's unsecured lending practices. Such policies required by this paragraph shall, at a minimum, address all recommendations noted in the March 29, 2010 ROE, and shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations.

12. (a) Within 45 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement written lending and collection policies to provide

effective guidance and control over the Bank's lending function. Such policies and their implementation shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations. The initial revisions to the Bank's loan policy and practices required by this paragraph shall, at a minimum, include the following:

- provisions that require an accurate internal grading system;
- provisions that require regularly scheduled independent loan reviews;
- provisions that require reversal of interest income on nonaccrual loans;
- provisions that prohibit concentrations of credit in excess of 25 percent of the Bank's total equity capital and reserves to any borrower and that borrower's related interests, and require enhanced monitoring and risk management of large credit relationships; and
- provisions that set parameters for granting loans or additional advances to fund interest payments, to include a requirement for well defined work out plans that delineate how principal will be repaid.

13. (a) Within 60 days from the effective date of this Order, the Bank shall develop a written plan, approved by its Board and acceptable to the Director of Banks for systematically reducing the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of, borrowers in the "Acquisition, Development, and Construction" Concentrations, as more fully set forth in the ROE dated March 29, 2010. Such plan shall also include reducing the Bank's exposure to Unsecured Loans for the Purposes of Development and Commercial Real Estate activities.

(b) Within 60 days from the effective date of this Order, the Bank shall develop a written plan, approved by its Board and acceptable to the Director of Banks for systematically reducing the concentrations of credit to individual or related borrowers identified in the ROE dated March 29, 2010.

14. Within 30 days from the effective date of this Order, the Bank shall engage an independent third party firm to perform a credit review of the bank's loan portfolio with a focus on ensuring credit grading is reliable. Such review shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations.

15. (a) During the life of this Order, the Bank shall comply with the provisions of 12 C.F.R. § 337.6.

(b) Within 30 days from the effective date of this Order, the Bank shall submit to the Director of Banks a written plan for eliminating its reliance on brokered deposits. The plan shall contain details as to the current composition of brokered deposits by maturity and explain the means by which such deposits will be reduced. For purposes of this Order, brokered deposits are defined as described in 12 C.F.R. § 337.6(a)(2). Such plan and its implementation shall be satisfactory to the Director of Banks as determined at subsequent examinations and/or visitations.

16. Within 60 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of regulations and contraventions of interagency policy statements cited in the ROE dated March 29, 2010.

17. Within 30 days of the end of the first 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 Director of Banks 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 Director of Banks has released the Bank in writing from making further reports.

The provisions of this Order shall not bar, estop, or otherwise prevent 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 as that term is defined in Section 3(u) of the Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the WDFI. The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the WDFI.

Pursuant to delegated authority.

Dated at Tumwater, Washington, this 22nd day of October, 2010.

Brad Williamson
Director of Banks
Washington Department of Financial Institutions