

STERLING

Financial Corporation

111 North Wall Street
Spokane, WA 99201-0696

March 6, 2009

Mr. Neil M. Barofsky
Special Inspector General
Office of the Special Inspector General
Troubled Asset Relief Program
1500 Pennsylvania Ave, NW, Suite 1064
Washington, DC 20220

OMB Control No. 1505-0212

Dear Mr. Barofsky,


This is a response from Sterling Financial Corporation / Sterling Savings Bank, to your letter dated February 6, 2009, regarding the Troubled Asset Relief Program ("TARP"). We have included our responses following your original inquiries.

1. *A narrative response specifically outlining (a) your anticipated use of TARP funds; (b) whether the TARP funds were segregated from other institutional funds; (c) your actual use of TARP funds to date; and (d) your expected use of unspent TARP funds at the time that you applied for such funds, or any actions that have taken that you would not have been able to take absent the infusion of TARP funds.*

Response:

- (a) On December 5, 2008, Sterling Financial Corporation ("SFC") entered into an agreement with the US Department of the Treasury ("US Treasury"), under its Capital Purchase Program ("CPP"), to sell 303,000 shares of preferred stock and issued a warrant to purchase 6,437,677 shares of SFC common stock and received \$303 million in proceeds from the US Treasury. As stated in our application for Tarp Capital (see memo dated October 22, 2008, which is attached as Exhibit 1), SFC has downstreamed \$303 million of the CPP proceeds into its two subsidiary banks: \$208 million to Sterling Savings Bank as capital, \$70 million deposited with Sterling Savings Bank as liquidity support and \$25 million to Golf Savings Bank as capital.

SFC's subsidiary banks; Sterling Savings Bank and Golf Savings Bank have developed business plans for 2009 with a goal of using the CPP proceeds to expand its lending capabilities. These initiatives are documented in several communications: Exhibit 2 is a communication of "An Update on Sterling Financial Corporation's Capital Purchase Program and Report to the Community", dated February 2009; Exhibit 3 is a communication of "Lending Initiatives within Golf Savings Bank"; and Exhibit 4 is a



communication of an expanded lending program for small business within Sterling Savings Bank.

- (b) SFC did not segregate the CPP proceeds. The CPP proceeds contributed into SFC's subsidiary banks have not been segregated.
- (c) As indicated in (a) above, SFC has down-streamed \$303 million of the CPP proceeds into its two subsidiary banks.
- (d) At the time we applied for the TARP capital, SFC committed itself to provide additional lending from existing and newly developed programs to support the credit needs of creditworthy borrowers throughout our footprint. Exhibit 5, documents the dollar amount and number of loans originated by SFC's two subsidiary banks for the months of November and December 2008 and January 2009. Sterling Savings Bank has seen its loan originations increase 8.5%, based on number of loans, and 22.4%, based on dollar amount, since November 2008. At the same time, Golf Savings Bank has seen both the number and dollar amount of loans doubled compared to the month of November 2008. While lower interest rates have been conducive to residential mortgage lending, without the TARP capital, Golf Savings Bank would not be able to produce these volumes.

Exhibit 3 summarizes some of the initiatives that Golf Savings Bank expects to implement in order to promote lending, reduce unnecessary foreclosures and ensure compensation is properly aligned with prudent lending practices.

Exhibit 4 summarizes Sterling Savings Bank's small business.

In addition to lending initiatives, both Sterling Savings Bank and Golf Savings Bank have made significant investments in GNMA mortgage backed securities (approximately \$333 million) in support of creating liquidity in these secondary markets. These investments will provide cash flows in the future to further support lending. The majority of these investments would not have been made without the TARP capital.

Further, both subsidiary banks have made investments in local municipal bonds, which are intended to finance affordable housing projects. Since the CPP was completed, we attribute investments of approximately \$84 million have been invested.

2. *Your specific plans, and the status of implementation of those plans, for addressing executive compensation requirements associated with the funding. Information provided regarding executive compensation should also include any assessments made of loan risks and their relationship to executive compensation; how limitations on executive compensation will be implanted in line with Department of Treasury guidelines; and whether any such limitations may be offset by other changes to other, longer-term or deferred forms of executive compensation.*

Response:

Prior to the December 5, 2008 consummation of the Transaction with the US Treasury, Sterling entered into amendments to the employment agreements with its Senior Executive Officers ("SEOs"), to bring such employment agreements in compliance with Section 111 of the Emergency Economic Stabilization Act ("EESA"). Subsequent to the consummation of the Transaction, pursuant to the US Treasury's interim final rules, Sterling's Personnel Committee has reviewed the SEO incentive compensation arrangements to ensure that such arrangements do not encourage or lead the SEOs to take unnecessary and excessive risks that could threaten the value of Sterling. Although as of the date hereof, guidance has not yet been provided by the US Treasury or the SEC regarding the American Recovery and Reinvestment Act ("ARRA"). Sterling has taken steps to ensure that its executive compensation programs comply with the ARRA. For example, Sterling no longer allows its SEOs to participate in Sterling's bonus programs, and intends to voluntarily include a "say on pay" proposal in its 2009 proxy statement. As rules and regulations are promulgated under the ARRA, Sterling will endeavor to comply with them. See Exhibit 6, Internal Communication "Senior Executive Officer Compensation – Unnecessary and Excessive Risk Analysis" dated March 3, 2009.

In connection with Sterling's efforts to comply with the ARRA, Sterling reviewed the base salaries of its top six most highly compensated executives. Because bonuses have been an integral form of compensation by which Sterling attracts and retains talented personnel, and in the interest of retaining its management team during this critical time, Sterling adjusted base salaries

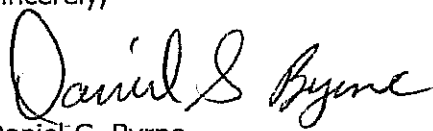
(b) (4) (b) (4)

Additionally, Sterling has formed a Team to review all compensation plans for compliance with the provisions of CPP. See Exhibit 7, Internal Communication "CPP Incentive Plan Review Requirement" dated March 5, 2009.


Certification of Senior Officer

I, Daniel G. Byrne, have reviewed this response and supporting documents, and, based on my knowledge, this response and the supporting documents do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading.

Sincerely,



Daniel G. Byrne
Executive Vice President and Chief Financial Officer

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- Enclosures:
- Exhibit 1, Memo dated October 22, 2008, included with TARP application
 - Exhibit 2, Communication "An Update on Sterling Financial Corporation's Capital Purchase Program and Report to the Community"
 - Exhibit 3, Communication of lending initiatives within Golf Savings Bank
 - Exhibit 4, Memo summarizing Sterling Savings Bank's small business
 - Exhibit 5, Dollar amount and number of loans originated by SFC's two subsidiary banks for the months of November and December 2008 and January 2009
 - Exhibit 6, Internal Communication "Senior Executive Officer Compensation – Unnecessary and Excessive Risk Analysis" dated March 3, 2009
 - Exhibit 7, Internal Communication "CPP Incentive Plan Review Requirement" dated March 5, 2009

DATE: October 22, 2008
TO: Harold Gilkey, CEO
FROM: Daniel Byrne, CFO

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Financial Corporation

MEMO

As the Treasury embarks to recapitalize the industry, Sterling Financial Corporation ("SFC") is looking at its role in supporting renewed economic expansion (lending) in the communities we serve. With receipt of a capital investment from the TARP Capital Purchase Program ("TARP CPP"), SFC would intend to use the proceeds initially to downstream (b) (4) to Sterling Savings Bank ("Sterling") and (b) (4) to Golf Savings Bank ("Golf"), to promote and expand current lending programs, to evaluate loan contracts with existing residential borrowers that have become seriously delinquent and to determine whether the loans can be restructured in a way that foreclosure could be avoided and to assist banking regulators' resolution of problem institutions.

Sterling expects that additional lending from existing (b) (4) (b) (4) and new programs will be approximately (b) (4), in the 12 months following this capital investment. Sterling believes that total loans would increase to more normalized levels and any reductions in the construction portfolio would provide funds to reinvest.

Sterling is the largest commercial bank headquartered in the Pacific Northwest, Sterling enjoys a position in one of the strongest economic markets in the United States. A \$12 billion community bank, with 225 locations in five states, headquartered in Spokane, WA. This TARP CPP investment will ensure the continued employment of 2,600 employees, as well as an opportunity to hire additional staff to support the increase in lending.

Sterling's footprint is comprised of a unique blend of urban and rural markets. It is a footprint, and a marketplace where Sterling plays a critical role to the communities that we serve, and one that we believe presents us with substantial room to grow and prosper in the future.

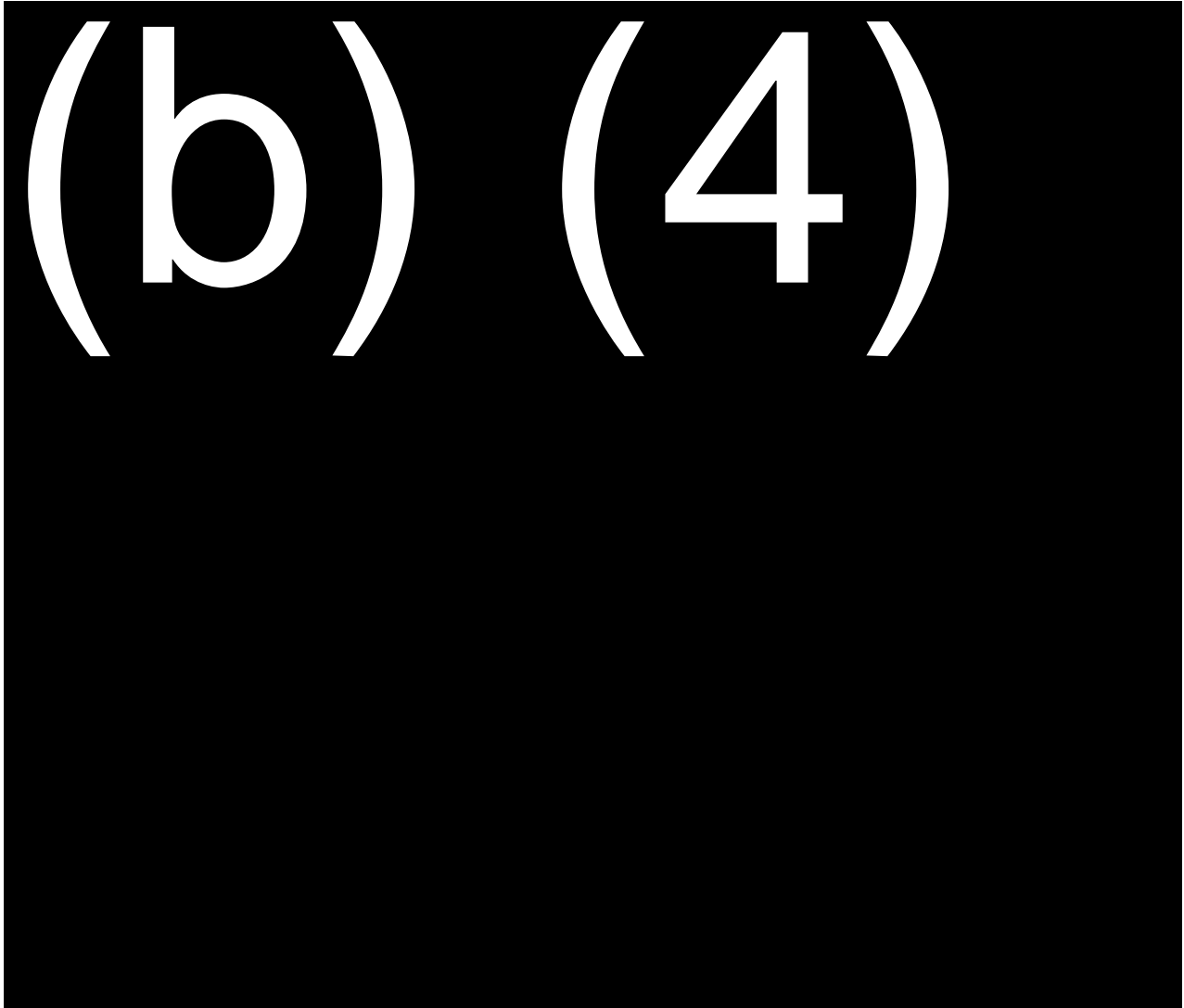
Sterling's role in many of the rural markets that we serve is critical to the economic health and well-being of towns and communities throughout the states of Washington, Oregon, Idaho, Montana and California. This is demonstrated by the following:

- Of our 176 branch locations, we are either the sole bank or one of only two banks in 11 communities. If segregated by rural vs. urban branch locations...approximately 47% of our branches are located in rural markets. An increase in capital would allow Sterling to provide an even greater impact on the well being of these communities.

This clearly makes us a critical financial partner for the communities we serve.

With respect to Golf, it is focused on originating and selling residential mortgage loans. Golf only originates through its retail network and creates banking relationships with our portfolio borrowers. Where many banks have been forced out of home lending due to the increasing complexity, Golf focuses its efforts on these products. We believe that our services are increasingly needed in the communities we serve.

With the investment of TARP CPP into SFC, we believe that this capital can be used to support and stimulate activities in a number of our Retail and Commercial lines of business that have been constrained for most of 2008 due to current capital levels. Specifically, we see opportunities arising in the following areas:



Based upon our market assessments, and current inquiry levels from existing customers and prospective customers, demand for bank loans remains strong within our footprint. We believe that this demand is not being met due to the current approach to capital management taken by banks in this market environment. With the investment of TARP CPP, SFC would have the increased flexibility to review credit policies with a goal to meet credit needs within our market footprint.

February 2009

STERLING

Financial Corporation

An Update on Sterling Financial Corporation's Capital Purchase Program and Report to the Community

Sterling Financial Corporation (NASDAQ: STSA) received \$303 million as part of the U.S. Department of the Treasury's Capital Purchase Program (CPP). This program is intended to enhance business and consumer access to credit, a key component of a healthy economy.

Sterling views this program as an important way to serve our customers and communities and we borrowed funds with our customers in mind. Sterling is committed to maintaining safe, sound and secure banking practices and Sterling's management team, supported by its board of directors, has taken steps to increase its capital reserve, further protect customer deposits and maintain strong liquidity.



Harold B. Gilkey

Sterling is already putting the \$303 million to work to enhance the capital positions of Sterling Savings Bank and Golf Savings Bank. Sterling Savings Bank, as a commercial bank, and Golf Savings Bank, as an originator of residential home loans, are actively deploying this capital to help stimulate economic activity. Both banks have increased lending activity to creditworthy borrowers and have introduced new lending programs to meet the needs of small- to mid-sized businesses and consumers throughout the Pacific Northwest.

We are already seeing results from the capital infusion. In December 2008, Sterling originated approximately \$325 million in new loans, bringing fourth-quarter lending to \$720 million. Over the last several months, mortgage-loan volume has risen significantly. Sterling Savings Bank and Golf Savings Bank are working to make low-interest mortgages available to those purchasing or refinancing homes and potential homeowners with low to moderate incomes.

Sterling's priority areas for the use of these funds include lending programs focused on:

- Single-family mortgages
- Small-business loans
- Business growth

We serve more than 25,000 businesses and 175,000 consumers in five states. Service to our communities is at the heart of our mission and who we are. We call it Hometown Helpful[®]. You can think of it as neighbors helping neighbors to improve lives and communities.

Both Sterling Savings Bank and Golf Savings Bank look forward to working with you. This includes more than 25 years of Hometown Helpful service and it is our promise to you. If you have questions, please feel free to visit a local Sterling Savings Bank or Golf Savings Bank branch. We'd be happy to talk with you.

Sincerely,

Harold B. Gilkey
Chairman, President and Chief Executive Officer
Sterling Financial Corporation

Understanding the Capital Purchase Program (CPP)

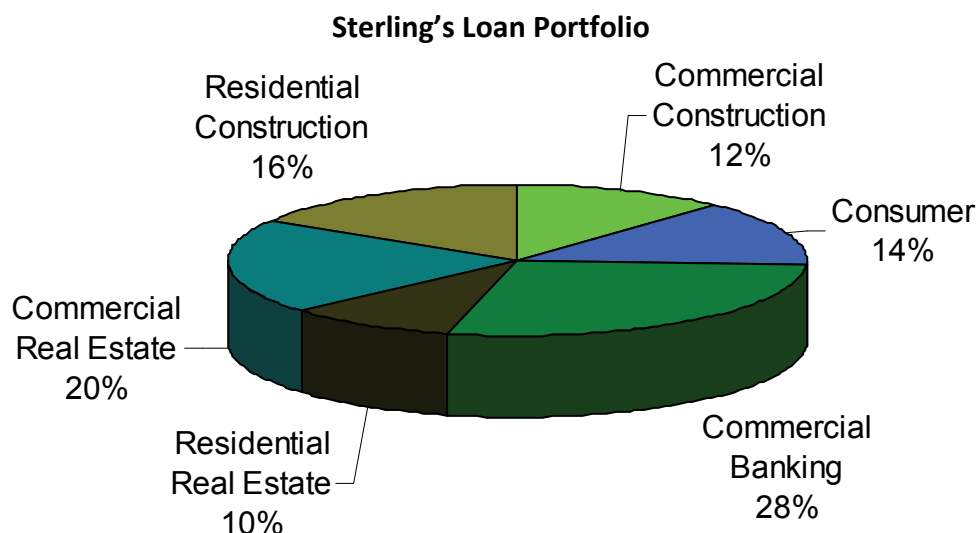
In October 2008, the U.S. government announced a plan to inject capital into the nation's financial institutions. The capital is an investment aimed at bolstering banks, which are the key to our nation's economic recovery. Sterling Financial Corporation, the parent to Sterling Savings Bank and Golf Savings Bank, was selected to participate in this program.

Sterling was eligible for an investment from the U.S. government because of its stability and strong capital base. We believe this was a vote of confidence from the U.S. Treasury.

The U.S. Treasury funding is not "free money." In exchange for the capital, Sterling will pay the U.S. Department of the Treasury a 5% dividend on the preferred stock the government now owns, as well as comply with a variety of conditions and restrictions. The dividend will rise to 9% after five years. In addition, the government received a warrant to purchase shares of Sterling common stock that will allow it to share in any increase in value of our common stock.

Sterling's Loan Portfolio

Sterling's loan portfolio reflects the diverse nature of the customers served by Sterling Savings Bank and Golf Savings Bank.



Doing Our Part—New and Enhanced Programs to Spur Economic Growth

When communities grow, business grows. Since receiving the U.S. Treasury funds, Sterling has enhanced a number of lending programs and created new ones. Here are a few examples:

Mortgage loan programs

Sterling is offering special mortgage loan programs for the purchase of single-family residences and condominiums in Sterling-financed developments throughout its footprint.

Small Business Administration (SBA)

Sterling Savings Bank's Small Business Administration (SBA) division has dedicated additional funding to support the development of small business through active lending under 7A and 504 SBA programs, which provide basic loans for American small businesses and long-term financing options for fixed-asset projects such as the construction of facilities, purchase of machinery and equipment or installation of utilities.

Commercial, equipment and capital goods

Sterling Savings Bank is partnering with a leasing company to provide additional financing solutions for commercial customers seeking to purchase equipment and other capital goods.

Affordable housing

In its continued support of affordable housing, both Sterling Savings Bank and Golf Savings Bank work with third parties to fund or invest in local bonds that finance affordable-housing projects throughout Sterling's region.

Safety & Soundness—Protecting Deposits

In addition to the funds from the U.S. Department of the Treasury, other government programs added or enhanced during 2008 have been beneficial to our business and consumer customers.

FDIC

The FDIC expanded basic insurance coverage from \$100,000 to \$250,000 per qualified accountholder. This applies to each entity separately, regardless of whether the account is held in trust.

Temporary Liquidity Guarantee Program (TLGP)

In addition to expanded FDIC coverage, the TLGP provides a full guarantee on all non-interest-bearing transaction accounts held by any depositor, regardless of dollar amount. In other words, all funds in non-interest-bearing deposit accounts held in domestic offices of participating FDIC-insured institutions will be fully guaranteed under the Transaction Account Guarantee (TAG) program component of the TLGP program.

Deploying U.S. Treasury Funds

The U.S. Treasury funds allow Sterling Savings Bank and Golf Savings to enhance lending and investments in the communities they serve, helping customers like homeowners, families and small- and medium-sized businesses across the Pacific Northwest.

We appreciate this vote of confidence from the U.S. government. Sterling focuses on serving our customers in the towns and cities in our footprint. As a community bank, Sterling knows local business needs firsthand.

We are here to help the businesses and individuals who are identifying opportunities—both in terms of job creation and job preservation—within the communities across our footprint. A healthy economy relies on successful businesses. Our key focus areas are:

Single-Family Mortgages

We know the communities we live and work in, and community banks have an important role in supporting real estate lending. The U.S. Treasury capital allows us to continue making conforming, low-interest mortgages available to qualified home buyers, including first-time and low- to moderate-income buyers. We actively help qualified homeowners refinance their homes, thereby providing them with lower mortgage rates and payments. In many cases, we are finding more affordable mortgage options for individuals who were sold teaser or other non-conforming loans by competitors.

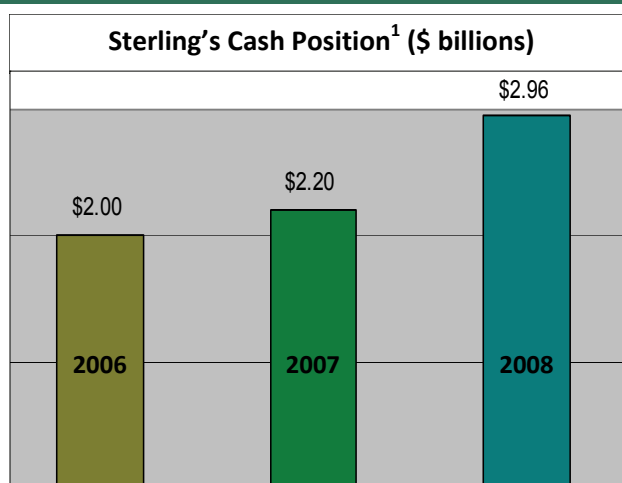
Small-Business Loans

Our intention is to help our neighbors—businesses and consumers. Sterling understands the local needs of our commercial and personal-banking customers. We continue to support lending to small-business owners, as well as for our customers who need personal loans.

Business Growth

As a leading community bank in the Pacific Northwest, Sterling has an important role to play in sustaining and growing businesses. Sterling is committed to helping our commercial clients find workable solutions and assisting local organizations with their financial needs. We understand the value these local businesses bring to our neighborhoods.

Despite the current economic environment, Sterling takes a long-term view of business and the economy. We work with all of our customers to understand their needs and help them plan for growth and success. Now more than ever, these relationships and this type of partnership will help our customers and our country thrive.



¹—includes cash, cash equivalent and high-grade investment securities as of Dec. 31, 2008



A happy customer in Clarkston, Wash.

Supporting our Communities

Sterling believes strong communities foster strong banking relationships. Our employees volunteer time and talent each day to causes and organizations that support the communities we serve.

Sterling employees logged more than 4,100 Community Reinvestment Act (CRA) volunteer service hours in 2008. Through the CRA, we focus on community-related projects and activities, including building homes, revitalizing communities, teaching financial education and serving on non-profit boards and advisory councils.

Through direct and indirect grants and investments in 2008, Sterling funded projects, such as those listed below, that help improve our communities:

- Contributed to more than 450 nonprofit organizations for community support of affordable housing, financial education, the arts and humanitarian concerns.
- Accessed \$460,000 in Federal Home Loan Bank Community Investment funds for affordable housing projects in locations throughout the Pacific Northwest.
- Sponsored first-time home buyer education classes.
- Purchased more than \$7.5 million in tax credits to build affordable housing and provide support for small business.

*Hometown
Helpful!*



Every year, Sterling partners with Habitat for Humanity to build affordable homes for people in need. Housing is a core need in every community we serve.

During the annual Habitat Blitz Build in Spokane, Wash., more than 50 volunteers spend the day sawing, hammering and painting at a construction site. In addition, Sterling donates \$12,000 toward the building of that home. It is one of the most sought-after volunteer events of the year.

Executive Compensation and Dividends

Sterling's executive management team and certain members of Sterling's senior management team elected to accept **no** cash-bonus compensation for 2008. Our commitment to our customers, to our employees and to the long-term health of the company means we intend to use the U.S. Treasury funds where they are needed most—as a way to stimulate the economy and the health of the communities we serve.

To further preserve capital, Sterling's board of directors made the prudent decision to suspend its quarterly cash dividend on common stock. This measure enables Sterling to retain approximately \$21 million annually in its capital base for lending and reserve purposes.

Doing Our Part—Looking Forward

Building on our strengths, Sterling is focused on the following:

- Maintaining liquidity through deposit-gathering focus
- Shifting to more commercial and industrial loans and consumer mortgages
- Offering fair pricing and policies
- Expanding net interest margin
- Controlling expenses
- Remaining the employer of choice for our people
- Actively participating in our communities

2008 Highlights:

- Capital ratios remain above "well-capitalized" levels at 13.0%
- Available liquidity remains strong at \$3.2 billion
- Total assets of \$12.79 billion
- Total loans receivable of \$8.81 billion
- Total deposits increased 9% over 2007 to a record \$8.35 billion

Forward-Looking Statements

This release contains forward-looking statements, which are not historical facts and pertain to Sterling's future operating results. These forward-looking statements are within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements may include, but are not limited to, statements about Sterling's plans, objectives, expectations and intentions and other statements contained in this release that are not historical facts. When used in this release, the words "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and similar expressions are generally intended to identify forward-looking statements. These forward-looking statements are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond Sterling's control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. Actual results may differ materially from the results discussed in these forward-looking statements because of numerous possible risks and uncertainties. These include but are not limited to: the possibility of additional adverse economic developments that may, among other things, increase default and delinquency risks in Sterling's loan portfolios; shifts in interest rates that may result in lower interest rate margins; shifts in the demand for Sterling's loan and other products; lower-than-expected revenue or cost savings in connection with acquisitions; changes in accounting policies; changes in the monetary and fiscal policies of the federal government; and changes in laws, regulations and the competitive environment.

CAPITAL PURCHASE PLAN OUTLINE GOLF SAVINGS BANK

Methods Golf Savings is employing to meet the US Treasury CPP Guidance

Prudent Lending

- Over \$400 million lent since the announcement of Sterling Financial's acceptance of the US Treasury's Capital Purchase. This includes residential mortgage origination from December 2008, through mid February 2009.
- All \$400 million of loans are underwritten to Fannie Mae, Freddie Mac, the Federal Housing Authority, or Veteran's Affairs standards.
- Refinance of qualified borrowers that has saved homeowners an average in excess of \$400 per month on their mortgage payments.
- Refinance of borrowers from Adjustable Rate, Interest only, or Negative Amortization products to 30 year fixed products.

Creation of a Golf Savings Bank Workout Program

- Approval of over \$36 million modified loans including lower interest rates, (b) (4) (b) (4) and payments to create positive cash flow rentals.
- Work with owner occupied homes to reduce interest rates in line with government recommended standards.
- Adjust delinquent non owner occupied payments to allow rental cash flows to offset payment (keeping these homes off the market).
- (b) (4)
- Establishment of a standardized workout program.

Adjust Dividend Policies to Preserve Capital and Lending Capacity

- Approved Capital and Strategic Plan in January 2009 to specifically address forward lending strategies.
- Approval of dividends to support the payment of the down streamed CPP funds, subject to banking regulator approval.
- Reduction in non core lending functions. Focus on residential mortgage lending.
- Increase in earnings to supplement Capital.

Employ Compensation Structures that Encourage Prudent Lending

- (b) (4)
- (b) (4)
-

Golf's management team is focused on meeting the guidelines of the CPP program.



Memo

To: Dan Byrne, Chief Financial Officer, Sterling Financial Corp

From: b(4), b(6)

Date: March 6, 2009

Re: Utilization of US Treasury Capital via the SBA Loan Programs



The SBA/CRE Team has stepped up our efforts to attend Commercial and Retail Banking Team meetings in their marketplaces to increase our communication to our marketplaces about our lending opportunities and our expert delivery of these products. The purpose is to educate them about the SBA loan programs we have to allow small businesses to buy, construct, refinance or renovate owner occupied business premises. SBA loan proceeds can be used for debt refinance, working capital, equipment and inventory purchase as well.

In addition to the existing advantages, the recently passed (HR1) American Recovery and Reinvestment Act of 2009 (ACT) provides enhancements to the SBA loan programs that benefit small business owners.

Specifically:

- Most all borrower fees will be eliminated from the SBA 7a loan program and the fees on the SBA 504 loan program will be dramatically decreased. On a \$2MM SBA 7a loan, a borrower can save up to \$52,000 depending on how the provisions in the bill are implemented. Additionally, the Act provides for the reduction and/or elimination of lender fees for these transactions.

- The ACT also establishes a 90% guarantee on SBA 7a loans (up from 75%).
- The ACT also includes a Business Stabilization Program that provides loans up to \$35,000 for businesses that are facing “immediate financial hardship”. The loans would provide up to 6 months of principal and interest on an existing qualifying small business loan. These loans would be on a deferred basis and would not require repayment until 12 months after final disbursement of the funds. These loans would be 100% guaranteed by the SBA.
- The ACT establishes a program to provide guarantees for 504 first mortgage pools that are sold to third-party investors. This allows SBA lenders to sell first mortgages financed in conjunction with the SBA 504 loan program into a secondary market thereby freeing up capital and liquidity. Presently there is no guarantee program for first mortgage 504 loans.

Credit tightening in all sectors of finance coupled with economic uncertainty has made it increasingly difficult for small businesses to access and/or qualify for financing. (b) (4) Sterling is poised to capitalize on these market conditions and SBA enhancements for many reasons. Sterling's liquidity and capital positions facilitate our delivering our products without relying on the additional benefits that a robust secondary market provide and the SBA guarantee allows the Bank to mitigate some of the increased credit risks inherent in a recession.

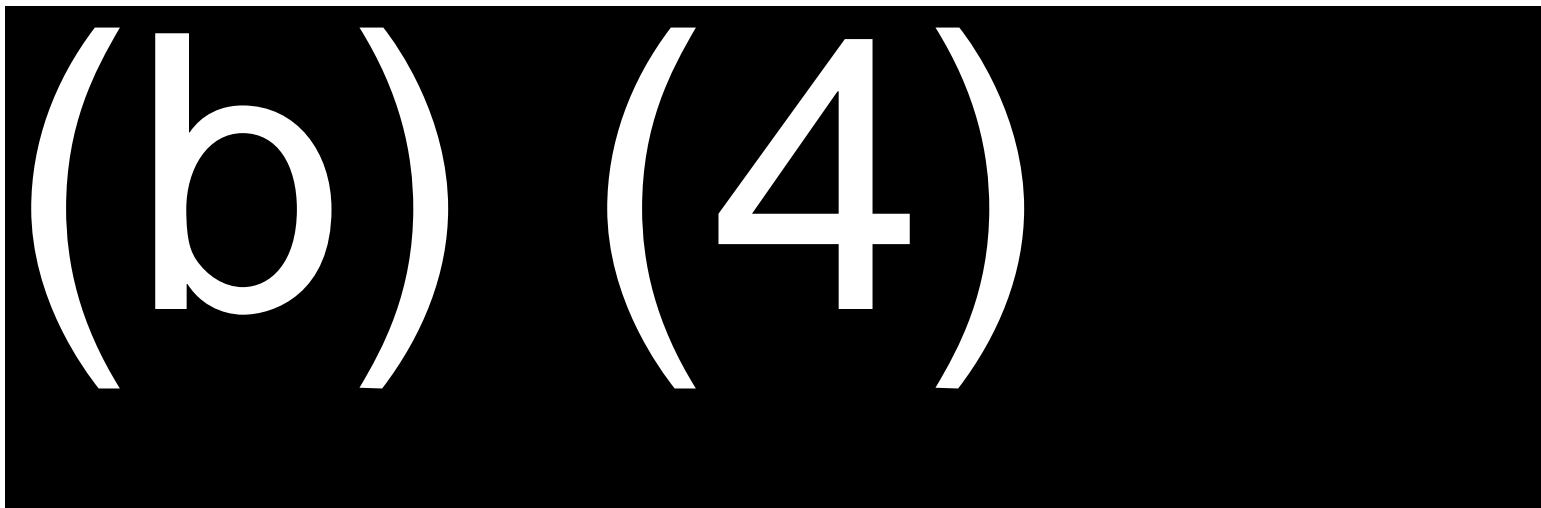
Many of our competitors relied on a profitable secondary market for the guaranteed portion of SBA 7a loans. This market has been frozen along with many other credit markets and institutions that did not possess our level of liquidity and capitalization either exited the SBA lending programs or shut their doors completely. As a true partner in our communities and with the financial wherewithal to utilize the SBA loan programs to serve our customers financing needs and leverage our liquidity and capital positions regardless of the economic environment, we have developed a sustainable program that benefits Sterling, our communities and our shareholders.



Now more than ever borrowers and Banks need experienced SBA Bankers and back office support.

Loan Production Trend

Jan '09 Dec '08 Nov '08 Oct '08



| | | | | |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| SFC Non Mortgage \$\$ | 78,482,545 | 111,221,245 | 58,452,464 | 83,701,517 |
| Units # | 1,102 | 1,031 | 985 | 1,333 |
| SFC Mortgage \$\$ | 193,934,097 | 202,485,316 | 130,057,849 | 133,946,753 |
| Units # | 815 | 582 | 389 | 513 |
| SFC Total Originations \$\$ | <u>\$ 272,416,642</u> | <u>\$ 313,706,561</u> | <u>\$ 188,510,313</u> | <u>\$ 217,648,270</u> |
| Units # | <u>1,917</u> | <u>1,613</u> | <u>1,374</u> | <u>1,846</u> |

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Financial Corporation

STERLING
SAVINGS BANK 

Golf Savings Bank
Everything you'd never expect from a mortgage lender.

To: Harold B. Gilkey, Chief Executive Officer and Chairman, Sterling Financial Corporation; Daniel G. Byrne, Chief Financial Officer, Sterling Financial Corporation; Andrew J. Schultheis, Corporate Secretary and Counsel, Sterling Financial Corporation; (b) (6), Human Resources Executive, Sterling Savings Bank

From: (b) (6), Enterprise Risk Manager, Sterling Financial Corporation; (b) (6) Audit Services Director, Sterling Savings Bank; (b) (6) Director of Internal Audit and Controls, Golf Savings Bank

Date: March 3, 2009

Re: Senior Executive Officer Compensation - Unnecessary and Excessive Risk Analysis

In accordance with the Treasury Department's Troubled Asset Recovery Plan's Capital Purchase Program ("CPP"), we certify that we have completed a review of Sterling Financial Corporation's ("Sterling's") compliance with certain requirements that senior executive officer ("SEO") incentive compensation arrangements do not encourage "unnecessary or excessive risks" that threaten the value of Sterling throughout the time the Treasury Department holds an interest in Sterling shares. Testing efforts included review of minutes from the February 23, 2009 Sterling Personnel Committee of the Board of Directors, SEO payroll records, all SEO employment-related contracts, and review of the relationship between Sterling's risk management policies and practices and SEO compensation arrangements. Sterling appears to be in compliance.

Sterling's CPP Incentive Review Team met in February 2009 and has concluded that:

- The term "Senior Executive Officer" is defined as the Chief Executive Officers of Sterling and Sterling Savings Bank, the Chief Financial Officer of Sterling, President of Sterling Savings Bank, Executive Vice President of Golf Savings Bank, and Chief Operating Officer of Sterling Savings Bank.

- The risks to which Sterling is subject can be categorized as credit risk, market risk, liquidity risk, operational risk, legal and regulatory compliance risk, and reputation risk. Sterling's SEO compensation arrangements do not encourage unnecessary or excessive risks in any of these risk categories.

(b) (4)

- There are no annual cash incentive payments for senior executive officers for 2008 performance to be paid during 2009.

- Restricted stock and stock options awarded by Sterling do not encourage unnecessary or excessive risk because they are vested over a period of time that focuses the executive on the company's long-term interests.

- Anticipated holdings by Sterling executives of significant amounts of Sterling stock through their employment, and historically well into retirement, provide considerable incentive for them to consider the company's long-term interests while still employed.

It is our conclusion that the overall compensation structure for Sterling's SEOs does not encourage unnecessary or excessive risk taking by the executives. While the variable elements of stock-based compensation are, on the one hand, a sufficient percentage of overall compensation to motivate executives to produce superior results, the fixed element of base salaries is a sufficiently high percentage of overall compensation to ensure that unnecessary or excessive risk taking is not encouraged.

Pursuant to Treasury Department Regulations, both the short-term and long-term components of Sterling's senior executive officer incentive compensation plans are subject to new claw-back and golden parachute restrictions. As a condition of Sterling's participation in the CPP, all bonuses and other incentive compensation may be recovered or "clawed-back" if any payments were based on materially inaccurate financial statements or any other materially inaccurate performance metrics used to award bonuses or incentive compensation. While this requirement should act as a disincentive to any executive from manipulating financial statements or performance metrics in a way that would assure payment of or increase a bonus award, Sterling has no cash incentive programs for the named SEOs in 2009. All employment-related agreements with the SEOs have also been amended to prohibit golden parachute payments during the period the Treasury Department holds an equity position in the Company. For these purposes, a "golden parachute payment" is defined as any compensation payments to a senior executive officer due to: (1) involuntary termination of employment, including termination by the Company with or without cause and voluntary termination by the executive for a good reason, or (2) in connection with any bankruptcy filing, insolvency, or receivership of the company. Limits on golden parachute payments in the event of involuntary termination of employment likewise deter any behavior not in the Company's best interests.



DATE: March 5, 2009

TO: Daniel G. Byrne, Chief Financial Officer, Sterling Financial Corporation; Andrew J. Schultheis, Corporate Secretary and Counsel, Sterling Financial Corporation

FROM: (b) (6), Human Resources Executive, Sterling Savings Bank

RE: CPP Incentive Plan Review Requirement

MEMO

In accordance with the Treasury Department's Troubled Asset Recovery Plan's Capital Purchase Program ("CPP"), I implemented a review process for all incentive plans for Sterling Savings Bank, Golf Savings Bank, INTERVEST and Sterling Financial Corporation. The purpose of the review is to ensure the plans do not encourage the participants to take unnecessary or excessive risks that could threaten the value of Sterling.

The CPP Incentive Plan Review Team was formed and includes the following team members: (b) (6), Enterprise Risk Manager, Sterling Financial Corporation; (b) (6), Audit Services Director, Sterling Savings Bank; (b) (6), Compensation and Benefits Manager, Sterling Savings Bank; (b) (6), Production Administrator, Sterling Savings Bank; (b) (6), Human Resources Executive, Sterling Savings Bank; and (b) (6), Director of Internal Audit and Controls, Golf Savings Bank. The team has met and I assure you we take our role very seriously.

Although the Treasury has not provided clear direction on the requirements to date, we are moving forward with our rigorous analysis. We have conducted a preliminary review of several plans and continue to assess risk within Sterling. Our analysis will proceed and we are committed to finalizing the review and taking appropriate actions, if necessary, within ninety days of the Treasury issuing guidelines.

Should you need further information, please let me know.