

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS

OLYMPIA, WASHINGTON

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In the Matter of	)	
BUSINESS BANK	)	ORDER TO CEASE AND DESIST
BURLINGTON, WASHINGTON	)	FDIC-09-406b
(INSURED STATE NONMEMBER BANK)	)	
_____	)	

Business Bank, Burlington, Washington ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and Revised Code of Washington, Anno. § 30.04.450, and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), and with counsel for the Washington Department of Financial Institutions ("WDFI"), dated August 31, 2009, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the WDFI.

The FDIC and the WDFI considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices. The FDIC and the WDFI, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns, cease and desist from the following unsafe and unsound banking practices, as more fully set forth in the Joint FDIC and WDFI Report of Examination dated March 23, 2009 (“ROE”):

- (a) operating with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;
- (b) operating with a board of directors that has failed to provide adequate supervision over and direction to the active management of the Bank;
- (c) operating with inadequate capital in relation to the kind and quality of assets held by the Bank;
- (d) operating with a large volume of poor quality loans;
- (e) engaging in unsatisfactory lending and collection practices;
- (f) operating in such a manner as to produce operating losses;
- (g) operating with inadequate provisions for liquidity;
- (h) operating in violation of Part 323 of the FDIC Rules and Regulations with respect to appraisals;
- (i) operating in violation of Part 326 of the FDIC Rules and Regulations with respect to minimum security devices; and
- (j) operating in contravention of Part 365 Appendix A of the FDIC Rules and Regulations with respect to concentration policies.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties, and its successors and assigns, take affirmative action as follows:

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 a chief executive officer with proven ability in managing a bank of comparable size, and experience in upgrading a low quality loan portfolio, improving earnings, and other matters needing particular attention. Management shall also include a chief credit officer with significant appropriate 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 Bank's 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 Regional Director of the FDIC's San Francisco Regional Office ("Regional Director") and the Director of the Washington Department of Financial Institutions ("Director") in writing when it proposes to add any individual to the Bank's Board or employ any individual as a senior executive officer. The notification must be received at least 30 days before such addition or employment is intended to become effective and should include a description of the background and experience of the individual or individuals to be added or employed. The Regional Director and the Director shall have the power under the authority of this Order to disapprove the addition, employment or change of responsibilities of any proposed officer or director.

(d) Within 60 days after the effective date of this ORDER, the Bank's Board shall obtain an independent study of the management and personnel structure of the Bank to determine whether additional personnel are needed for the safe and profitable operation of the Bank. Such a study shall include, at a minimum, a review of the duties, responsibilities, qualifications, and remuneration of the Bank's officers. The Bank shall formulate a plan to implement the recommendations of the study. The plan shall be acceptable to the Regional Director and the Director as determined at subsequent examinations.

2. Within 30 days from the effective date of this ORDER, the Bank's 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 at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. The Bank's Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

3. (a) Within 120 days from the effective date of this ORDER, the Bank shall have and thereafter maintain Tier 1 Capital to Total Assets Ratio ("Tier 1 Leverage Capital Ratio") in such an amount as to equal or exceed ten (10) percent of the Bank's total assets, in accordance with Part 325 of the FDIC's Rules and Regulations.

(b) Within 120 days from the effective date of this ORDER, the Bank shall have and thereafter maintain a ratio of total qualifying capital to risk weighted assets ratio ("Total Risk-Based Capital Ratio") in such an amount as to equal or exceed thirteen (13) percent, in accordance with Appendix A of Part 325 of the FDIC's Rules and Regulations.

(c) Within 60 days from the effective date of this ORDER, the Bank shall revise the Capital Plan to include contingency plans for maintaining capital levels in accordance with Paragraph 3 of this ORDER.

(d) The level of Tier 1 capital to be maintained during the life of this ORDER pursuant to Subparagraph 3(a) 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.

(e) Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 3 of this ORDER may be accomplished by the following:

- (i) the sale of common stock; or
- (ii) the sale of noncumulative perpetual preferred stock; or
- (iii) the direct contribution of cash by the Bank's Board and/or shareholders of the Bank; or
- (iv) any other means acceptable to the Regional Director and the Director; or
- (v) any combination of the above means.

Any increase in Tier 1 capital necessary to meet the requirements of Paragraph 3 of this ORDER may not be accomplished through a deduction from the Bank's allowance for loan and lease losses.

(f) If all or part of the increase in Tier 1 capital required by Paragraph 3 of this ORDER is accomplished by the sale of new securities, the Bank's Board shall forthwith take all necessary steps to adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities

(including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 15 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration and Disclosure Unit, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Director for prior approval.

(g) In complying with the provisions of Paragraph 3 of this ORDER, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities, a written notice of any planned or existing development or other changes which are materially different from the information reflected in any offering materials used in connection with the sale of Bank securities. The written notice required by this paragraph shall be furnished within 10 days from the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(h) For the purposes of this ORDER, the terms "Tier 1 capital" and "total assets" shall have, the meanings ascribed to them in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 325.2(v) and 325.2(x).

4. Within 30 days from the effective date of this ORDER, the Bank's Board shall develop or revise, adopt and implement a comprehensive policy for determining the adequacy of the allowance for loan and lease losses. For the purpose of this determination, the adequacy of the reserve shall be determined after the charge-off of all loans or other items classified "Loss." The policy shall provide for a review of the allowance at least once each calendar quarter. Said review should be completed at least 10 days prior to the end of each quarter, in order that the findings of the Bank's Board with respect to the loan and lease loss allowance may be properly reported in the quarterly Reports of Condition and Income. 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 significant credits, 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 Reports of Condition and Income, by a charge to current operating earnings. The minutes of the Bank's Board meeting at which such review is undertaken shall indicate the results of the review. Upon completion of the review, the Bank shall increase and maintain its allowance for loan and lease losses consistent with the allowance for loan and lease loss policy established. Such policy and its implementation shall be satisfactory to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

5. (a) Within 30 days from the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets classified "Loss" in the ROE dated March 23, 2009, 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 90 days from the effective date of this ORDER, the Bank shall have reduced the items classified "Substandard" in the ROE dated March 23, 2009, that have not previously been charged off to not more than 100 percent of total capital and reserves.

(c) Within 270 days from the effective date of this ORDER, the Bank shall have reduced the items classified "Substandard" in the ROE dated March 23, 2009, that have not previously been charged off to not more than 80 percent of total capital and reserves.

(d) Within 360 days from the effective date of this ORDER, the Bank shall have reduced the items classified "Substandard" in the ROE dated March 23, 2009, that have not previously been charged off to not more than 60 percent of total capital and reserves.

(e) The requirements of Subparagraphs 5(a), 5(b), 5(c), and 5(d) 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. As used in Subparagraphs 5(b), 5(c), 5(d), and 5(e) 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 FDIC.

(f) Within 60 days from the effective date of this ORDER, the Bank shall develop written asset disposition plans for each classified asset greater than \$50,000. The plans shall be reviewed and approved by the Bank's Board and acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.



(g) Within 60 days from the effective date of this ORDER, the Bank shall adopt and implement a written plan for the reduction and collection of delinquent loans. The plan shall be acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

6. (a) 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 charged off or classified, in whole or in part, "Loss" and is uncollected. Subparagraph 6(a) of this ORDER 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 in excess of \$50,000 that has been classified, in whole or part, "Doubtful" or "Substandard" without the prior approval of a majority of the Bank's Board or the loan committee of the Bank.

(c) The loan committee or Bank's Board shall not approve any extension of credit, or additional credit to a borrower in Paragraphs (b) above without first collecting in cash all past due interest.

7. Within 60 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function, which policies shall include specific guidelines for placing loans on a non-accrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policies and their implementation

shall be in a form and manner acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

8. (a) Within 30 days from the effective date of this ORDER, the Bank shall revise its Concentration Policy to limit concentrations for Commercial Real Estate (“CRE”) and Acquisition, Development, and Construction (“ADC”) loans in order to comply with the following:

(i) Appendix A of Part 365 of the FDIC’s Rules and Regulations, 12 C.F.R. Part 365, Appendix A; and

(ii) FIL-104-2006, Commercial Real Lending Joint Guidance, dated December 12, 2006. The Bank’s Concentration Policy and its implementation shall be acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

(b) Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan for systematically reducing the amount of CRE and ADC loans in compliance with the revised Concentration Policy required by subparagraph 8(a) of this ORDER. The Bank shall not make any new CRE or ADC loans unless:

(i) the loans are in compliance with the written plan required by this subparagraph;

(ii) the loans are in compliance with the provisions of paragraph 6 of this ORDER; and

(iii) the loans are approved by the Board. The plan and its implementation shall be acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

9. Within 60 days of the effective date of this ORDER, the Bank shall develop, implement, and submit a plan to reduce the asset size of the bank to a level commensurate with the original business plan submitted with the application for deposit insurance. The plan shall take into account the Bank's current condition and capital support. The plan shall be in a form and manner acceptable to the Regional Director and the Director.

10. 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. Such plan shall include specific goals for the dollar volume of total loans, total investment securities, and total deposits as of December 31, 2009, December 31, 2010, December 31, 2011, and December 31, 2012. For each time frame, the plan will also specify the anticipated average maturity and average yield on loans and securities; the average maturity and average cost of deposits; the level of earning assets as a percentage of total assets; and the ratio of net interest income to average earning assets. The plan shall be in a form and manner acceptable to the Regional Director and the Director.

11. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and implement a written profit plan. This plan shall be acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Bank's Board shall evaluate the Bank's actual performance in relation to the plan required by Subparagraph 11(a) of this ORDER and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Bank's Board meeting at which such evaluation is undertaken.

12. Within 60 days from the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law, as more fully set forth in the ROE dated March 23, 2009. In

addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

13. (a) Within 30 days from the effective date of this ORDER, the Bank's Board shall revise, adopt and fully implement at all times during the life of this ORDER, a written liquidity and funds management policy and address specific contingency plans that detail actions to be implemented under various liquidity scenarios. Such policy shall include specific provisions to provide for a minimum Primary Liquidity Ratio (net cash, short-term, and marketable assets divided by net deposits and short-term liabilities) of at least 15 percent and a plan for achieving and maintaining the minimum primary liquidity ratio. In addition, the policy shall include specific provisions to limit the Bank's Net Non-Core Funding Dependency Ratio to not more than 20 percent and a plan for achieving and complying with the Net Non-Core Funding Dependency ratio. The policy and plan for achieving the minimum Primary Liquidity Ratio and limiting the Dependency Ratio shall be in a form and manner acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

(b) Within 5 business days of the end of each month following the effective date of this ORDER, the Bank shall provide a Primary Liquidity Ratio and Dependency Ratio calculation to the Regional Director and the Director.

14. The Bank shall not pay cash dividends without the prior written consent of the Regional Director and the Director.

15. Upon the effective date of this ORDER, the Bank shall not increase the amount of brokered deposits above the amount outstanding on that date and shall comply with the deposit interest rate restriction in accordance with Part 337.6 of the FDIC's Rules and Regulations. In addition, during the life of this ORDER, the Bank shall not solicit, retain, or rollover brokered deposits unless it has applied for and been granted a waiver of this prohibition by the FDIC in

accordance with the provisions of Part 337 of the FDIC's Rules and Regulations. For purposes of this ORDER, brokered deposits are defined as described in section 337.6(a)(1) of the FDIC Rules and Regulations to include any deposits funded by third party agents or nominees for depositors, including deposits managed by a trustee or custodian when each individual beneficial interest is entitled to or asserts a right to federal deposit insurance.

16. 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 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 shall include a copy of the Bank's Reports of Condition and Income. 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.

17. Following the effective date of this ORDER, the Bank shall send to its shareholder(s) or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also in conjunction with its 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, Accounting and Securities Section, Washington, D.C. 20429, at least 15 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.

This ORDER will become effective upon its issuance by the FDIC and the WDFI. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and

until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the WDFI.

Pursuant to delegated authority.

Dated at San Francisco, California, this 1<sup>st</sup> day of September, 2009.

/s/

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J. George Doerr  
Deputy Regional Director  
Risk Management  
Division of Supervision and Consumer Protection  
San Francisco Region  
Federal Deposit Insurance Corporation

/s/

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Brad Williamson  
Director of Banks  
Washington Department of Financial Institutions