

AGREEMENT BY AND BETWEEN  
First Federal Savings & Loan Association of McMinnville  
McMinnville, Oregon  
and  
The Comptroller of the Currency

The First Federal Savings & Loan Association of McMinnville, McMinnville, Oregon (“Bank”) and the Comptroller of the Currency of the United States of America (“Comptroller”)<sup>1</sup> wish to protect the interests of the depositors and other customers of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller has found unsafe or unsound banking practices relating to weak credit administration practices, risk management practices, and ineffective management and Board oversight of the Bank.

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (“Board”), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

---

<sup>1</sup> Pursuant to Title III of the Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010), all functions of the Office of Thrift Supervision (“OTS”) related to Federal savings associations were transferred to the Office of the Comptroller of the Currency (“OCC”) on July 21, 2011. See Dodd-Frank Act, § 312(b), 12 U.S.C. § 5412. Pursuant to § 316(a)(2)(B), of the Dodd-Frank Act, 12 U.S.C. § 5414(a)(2)(B), Title III does not abate any action or proceeding commenced by or against the Director of the OTS or the OTS before July 21, 2011, except that ... for any action or proceeding arising out of a function of the OTS or the Director of the OTS transferred to the OCC or the Comptroller of the Currency by this title, the OCC or the Comptroller of the Currency shall be substituted for the OTS or the Director of the OTS, as the case may be, as a party to the action or proceeding on and after the transfer date of July 21, 2011.

**ARTICLE I**  
**JURISDICTION**

(1) This Agreement shall be construed to be a “written agreement entered into with the agency” within the meaning of 12 U.S.C. § 1818(b)(1).

(2) This Agreement shall be construed to be a “written agreement between such depository institution and such agency” within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. 1818(i)(2).

(3) This Agreement shall be construed to be a “formal written agreement” within the meaning of 12 C.F.R. § 163.555.<sup>2</sup> *See* 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a “written agreement” within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) This Agreement shall cause the Bank to not be eligible for “expedited treatment” within the meaning of 12 C.F.R. § 116.5, unless otherwise informed in writing by the Comptroller.

(6) All reports or plans which the Bank or Board has agreed to submit to the Assistant Deputy Comptroller pursuant to this Agreement shall be forwarded to the:

Assistant Deputy Comptroller  
Seattle Field Office  
101 Stewart St., Ste. 1010  
Seattle, WA 98101-2419

---

<sup>2</sup> Effective July 21, 2011, to facilitate the OCC’s enforcement and administration of former OTS rules and to make appropriate changes to those rules to reflect OCC supervision of federal savings associations as of the transfer date, the OCC republished and re-codified in 12 C.F.R. Chapter I all OTS regulations from 12 C.F.R. Chapter V that the OCC has the authority to promulgate and enforce, with appropriate nomenclature and other technical changes. 76 Fed. Reg. 48950 (August 9, 2011).

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) Within fifteen (15) days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(2) The Compliance Committee shall meet at least monthly.

(3) Within thirty (30) days of the date of this Agreement and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the action needed to achieve full compliance with each Article of this Agreement;
- (b) actions taken to comply with each Article of this Agreement; and
- (c) the results and status of those actions.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller within ten (10) days of receiving such report.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the requirements of this Agreement.

**ARTICLE III**  
**MANAGEMENT**

(1) The Board shall ensure that the Bank has competent management and staff in place on a full-time basis to carry out the Board's policies, ensure compliance with this Agreement, applicable laws, rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Within thirty (30) days of the date of this Agreement, the Board shall complete a written evaluation of the reasonableness of the total compensation packages of senior management. This analysis must address whether salary and other compensation for each member of senior management is consistent with the local market for comparable knowledge, skills and ability. Upon completion, this written analysis shall be forwarded to the Assistant Deputy Comptroller.

(3) If an officer position is vacant now or in the future, including if the Board realigns an existing officer's responsibilities or if an officer position becomes vacant, the Board shall within thirty (30) days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility, unless prior notice is required pursuant to this Article.

(4) Prior to the appointment or employment of any new senior executive officer or changing the responsibilities of any senior executive officer such that the person would assume a different senior executive officer position, the Board shall comply with the prior notice requirements of 12 U.S.C. § 1831i and 12 C.F.R. § 163.560 or any applicable successor regulation or guidance as specified by the Comptroller. The new senior executive officer shall

be vested with sufficient executive authority to fulfill the duties and responsibilities of the position and ensure the safe and sound operation of the Bank.

(5) The Assistant Deputy Comptroller shall have the power to disapprove the appointment of the proposed senior executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed senior executive officer.

(6) Prior to entering into any contract with any person for any senior executive officer position, the Board shall submit the name and qualifications of the individual(s), the proposed terms of employment, and a copy of the contract to the Assistant Deputy Comptroller for a prior written determination of no objection. Prior to submission of such contract to the Assistant Deputy Comptroller, the Board shall ensure that the contract fully complies with the requirements of all applicable laws, regulations, and regulatory guidance, including, but not limited to:

- (a) 12 C.F.R. Part 359 (Golden Parachute and Indemnification Payments);
- (b) 12 C.F.R. §§ 163.39 (Employment Contracts) and 163.161(b) (Management and Financial Policies);
- (c) Section II.I (Compensation, Fees and Benefits) and III (Prohibition on Compensation that Constitutes an Unsafe and Unsound Practice) of 12 C.F.R. Part 170 – Appendix A;
- (d) OTS CEO Memorandum No. 354 (Interagency Guidance on Sound Incentive Compensation Policies), dated June 21, 2010;
- (e) OTS' Examination Handbook, Section 310, "Management;" or

- (f) any applicable successor regulation or guidance as specified by the Comptroller.

#### **ARTICLE IV**

##### **CHIEF LENDING OFFICER**

(1) Within sixty (60) days of this Agreement, the Board shall submit, pursuant to this Article, the name and qualifications of a proposed Chief Lending Officer with the knowledge, skills, and abilities necessary to correct the Bank's deficiencies in credit underwriting, administration, and monitoring, and reach and maintain compliance with the credit related articles of this Agreement.

(2) The individual appointed to the Chief Lending Officer position shall be vested with sufficient executive authority to develop and implement appropriate credit risk management policies, procedures, and systems necessary to correct the Bank's deficiencies in credit underwriting, administration, and monitoring, and reach and maintain compliance with the credit related articles of this Agreement.

(3) Prior to the appointment or employment of the Chief Lending Officer, or entering into any contract with any person for this position, the Board shall comply with the requirements of 12 U.S.C. § 1831i and 12 C.F.R. § 163.560 or any applicable successor regulation or guidance as specified by the Comptroller. The Board shall submit the names and qualifications of the individual and the proposed terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, and shall include the following information:

- (i) the information sought in 12 C.F.R. § 163.570 and OTS' Applications Handbook, Section 720, "Officer and Director Approvals," or any

applicable successor regulation or guidance as specified by the  
Comptroller;

(ii) a written statement of the Board’s reasons for selecting the proposed  
individual; and

(iii) a written description of the proposed duties and responsibilities.

(4) The Assistant Deputy Comptroller shall have the power to disapprove the  
appointment of the proposed Chief Lending Officer. However, the lack of disapproval of such  
individual shall not constitute an approval or endorsement.

(5) If the Chief Lending Officer position described in this Article becomes vacant in  
the future, the Board shall, within sixty (60) days of such vacancy, take the necessary steps,  
pursuant to this Article, to make a submission to employ, appoint, or designate a capable person  
to the vacant position who shall be vested with the authority and responsibilities outlined in  
Paragraph (2) of this Article.

(6) If the Board is unable to appoint a qualified candidate within the timeframe set  
forth above, the Board shall provide documentation of its efforts to locate such a candidate to the  
Assistant Deputy Comptroller. Thereafter, the Board shall provide quarterly reports to the  
Assistant Deputy Comptroller summarizing its continuing efforts to locate such candidates.

## **ARTICLE V**

### **STRATEGIC PLAN**

(1) Within sixty (60) days of the date of this Agreement,, the Board shall develop a  
written strategic plan for the Bank covering at least the next three years (hereafter the “Bank’s  
Three-Year Plan”), complete with specific time frames that incorporate the strategic and other

requirements of this Article. A copy of the Bank's Three-Year Plan shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection.

(2) The Bank's Three-Year Plan shall establish objectives and projections for the Bank's overall risk profile, earnings performance, growth expectations, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, product line development and market segments that the Bank intends to promote or develop, together with specific strategies to achieve those objectives, that are specific, measurable, verifiable, and, at a minimum, address or include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) an assessment of the Bank's present and future operating environment;
- (c) the development of strategic goals and quantifiable measures with specific implementation dates, individual responsibilities, and accountability to ensure the Bank attains sustained earnings to support capital and liquidity;
- (d) the identification of present and future product line development (assets and liabilities) and market segments that the Bank intends to develop or promote;
- (e) an evaluation of the Bank's internal operations, staffing requirements, Board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed pursuant to this Article;
- (f) specific plans to establish responsibilities and accountability for the strategic planning process, new products, proposed changes in the Bank's



operating environment, reduction of problem assets, and Bank-wide consistent application of policies and procedures;

- (g) specific management, staffing and other changes necessary to implement the Bank's Three-Year Plan and attain compliance with this Agreement.;
- (h) control systems to identify and reduce risk to earnings, capital, reputation, and liquidity, and risks associated with any proposed changes in the Bank's operating environment;
- (i) recognition that the Bank cannot offer or introduce new products, enter new market segments, or significantly expand any existing product unless it first develops appropriate systems, controls, and expertise to manage and control the associated risks;
- (j) a financial forecast to include projections for major balance sheet and income statement accounts and desired financial ratios over the next three years that shall address or include consideration of the requirements of this Article; and
- (k) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(3) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the Bank's Three-Year Plan.

## **ARTICLE VI**

### **AUDIT**

(1) Within ninety (90) days of the date of this Agreement, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, the Bank's written policy for an independent and comprehensive internal audit program. This policy shall, at a minimum, require that the Bank:

- (a) identify an officer responsible for coordinating the Bank's outsourced and internal audit program;
- (b) establish a line of communication for audit reporting issues between the internal auditor, audit committee, and board of directors;
- (c) ensure audit work papers and documentation of conclusions provide a meaningful audit trail and validation for findings and recommendations;
- (d) ensure timely management responses and corrective actions on identified weaknesses;
- (e) establish an annual audit plan using a risk-based approach sufficient to achieve these objectives;
- (f) establish a formal Board tickler system that tracks the status of all reported deficiencies until corrected; and
- (g) address the factors set forth in:
  - (i) OTS CEO Memorandum No. 140 (Effective Internal Audit Review Systems), dated May 17, 2001; and
  - (ii) Section II.B of Appendix A to 12 C.F.R. Part 170 (Internal Audit System); or

(iii) any applicable successor regulation or guidance as specified by the Comptroller.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports within thirty (30) days of receipt.

(3) The Board shall ensure that the audit program is independent. The person responsible for implementing the internal audit program described above shall report directly to the Board, who shall have the sole power to direct his/her activities. All reports prepared by the audit staff or audit firm shall be filed directly with the Board and/or Board Audit Committee (comprised of at least two (2) external directors) and not through any intervening party.

(4) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure compliance with the policy required by paragraph (1) of this Article.

(5) Within sixty (60) days of this Order, the Board shall employ a qualified consultant to perform quarterly asset quality reviews of the Bank's loan portfolio. The scope of the external loan review shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the criteria set forth in applicable regulations and regulatory guidance, including, but not limited to:

- (a) 12 C.F.R. § 160.160 (Asset Classification);
- (b) OTS' Examination Handbook, Section 260, "Classification of Assets;" or
- (c) any applicable successor regulation and guidance as specified by the Comptroller.

(6) Such reports shall, at a minimum, include comments and conclusions regarding:

- (a) the identification, type, rating, and amount of problem loans and leases;
- (b) the identification and amount of delinquent and nonaccrual loans;
- (c) the identification/status of credit related violations of law or regulation;
- (d) loans not in conformance with the Bank's lending policies;
- (e) credit underwriting and documentation exceptions;
- (f) credit analysis and documentation of such;
- (g) accuracy of internal risk ratings;
- (h) overall credit administration practices;
- (i) completeness and effectiveness of problem loan workout plans; and
- (j) the adequacy of the Bank's Allowance for Loan and Lease Losses consistent with the guidance set forth in Article XI.

(7) Prior to the appointment or employment of any individual as loan review consultant or entering into any contract with any consultant, the Board shall submit the name and qualifications of the proposed consultant and the proposed scope and terms of employment to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. After the OCC has advised the Bank that it does not take supervisory objection to the loan review consultant or the scope of the review, the Board shall immediately engage the loan review consultant pursuant to the proposed terms of the engagement.

(8) The Board or a designated committee shall review the independent loan review reports and ensure that, if appropriate, immediate, adequate, and continuing remedial action, is taken upon the findings noted in the reports.

(9) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be maintained in the books and records of the Bank.

(10) The Bank shall not terminate the consultant's asset quality review services without a prior written determination of no supervisory objection from the Assistant Deputy Comptroller.

## **ARTICLE VII**

### **LOAN POLICY**

(1) Within sixty-five (65) days of the date of this Agreement, the Board shall review and revise the Bank's written Loan Policy. A copy of the revised Loan Policy shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. In revising this policy, the Board shall refer to and comply with applicable laws, regulations, and regulatory guidance, including, but not limited to:

- (a) OTS' Examination Handbook, Section 201, "Overview: Lending Operations and Portfolio Risk Management;"
- (b) OTS' Examination Handbook, Section 212, "One-to-Four Family Residential Real Estate Lending;"
- (c) OTS' Examination Handbook, Section 213, "Construction Lending;"
- (d) OTS' Examination Handbook, Section 214 "Other Commercial Lending;"
- (e) 12 C.F.R. §§ 160.170 (Records for Lending Transactions) and 160.101 (Real Estate Lending Standards); and

- (f) Section II.D (Credit Underwriting) of Appendix A to 12 C.F.R. Part 170;  
or
- (g) any applicable successor regulation or guidance as specified by the Comptroller.

(2) The Loan Policy required under paragraph (1) of this Article shall include, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans;
- (b) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (c) maximum ratio of loan value to appraised value or acquisition costs of collateral securing the loan;
- (d) definitions of prudent debt service coverage ratios for the various types of loans;
- (e) guidelines for the use of “business loan agreements” with covenants for specific types of financial reporting (audited and unaudited financial statements) and defined financial ratios;
- (f) requirement that a credit memorandum has been, or will be, completed on all non-consumer loans originated subsequent to the examination completion date of June 29, 2011;
- (g) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (h) a definition of the Bank's trade area;

- (i) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;
- (j) guidelines and limitations on concentrations of credit, including, but not limited to, establishing limits on concentrations of credit by category and implementing sufficient detail on concentration reports taking into consideration and complying with the guidelines set forth in:
  - (i) OTS CEO Memorandum No. 311 (Risk Management: Asset and Liability Concentrations), dated July 9, 2009;
  - (ii) OTS CEO Memorandum No. 252 (Guidance on Commercial Real Estate (CRE) Concentration Risks), dated December 14, 2006; or
  - (iii) any applicable successor regulation or regulatory guidance as specified by the Comptroller;
- (k) guidelines for loans to insiders to ensure compliance with 12 C.F.R. Part 215, including a statement that such loans will not be granted on terms more favorable than those offered to similar outside borrowers;
- (l) measures to correct the deficiencies in the Bank's lending procedures noted in the Report of Examination with a start date of May 23, 2011 (“ROE”), in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the Comptroller’s Examiners during any examination; and
- (m) guidelines for periodic review of the Bank's adherence to the revised Loan Policy with specific emphasis on periodic credit analysis and monitoring

of non-homogeneous credits to improve Management's ability to identify potential loan problems.

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the Bank's revised Loan Policy.

## **ARTICLE VIII**

### **CREDIT UNDERWRITING AND ADMINISTRATION**

(1) Effective as of the date of this Agreement, the Board shall ensure that all lending officers comply with all applicable laws, rules, regulations, Bank policies and procedures, safe and sound banking practices, and fiduciary duties.

(2) Effective as of the date of this Agreement, the Bank may not grant, extend, renew, alter, or restructure any loan or other extension of credit equal to or exceeding three-hundred fifty thousand dollars (\$350,000), without:

- (a) documenting the specific reason or purpose for the extension of credit;
- (b) identifying the expected source of repayment in writing;
- (c) structuring the repayment terms to coincide with the expected source of repayment;
- (d) obtaining current and satisfactory credit information, including performing and documenting analysis of credit information and a detailed cash flow analysis of all expected repayment sources;
- (e) determining and documenting whether the loan complies with the Bank's existing (and subsequently) revised Loan Policy and if it does not comply,



providing identification of the exception and ample justification to support waiving the policy provision;

- (f) making and documenting the determinations made regarding the customer's ability to repay the credit on the proposed repayment terms;
- (g) providing an accurate risk assessment grade and proper accrual status for each credit as further described in Article IX;
- (h) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and
- (i) obtaining the written approval of the Bank's Loan Committee or Board.

(3) Within thirty (30) days of this Agreement, the Board shall take the necessary steps to obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the Comptroller's Examiners at the conclusion of an examination.

(4) Within sixty (60) days of this Agreement, the Board shall ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the Comptroller's Examiners at the conclusion of an examination.

(5) Within sixty (60) days of this Agreement, the Board shall revise, adopt, implement, and thereafter ensure Bank adherence to a written program of policies and procedures designed to aggregate and track exceptions to the revised Bank Loan Policy and underwriting guidelines for all loans and exceptions to the appraisal requirements described in

Article X. This includes, at a minimum, monthly Board monitoring of policy exception reports that track aggregate number and dollar amount of loans with material underwriting exceptions by type of loan and loan officer.

(6) Within sixty (60) days of this Agreement, the Board shall take the necessary steps to eliminate credit, collateral, and Bank Loan Policy exceptions, and to include, at a minimum, the development of a program that makes loan officers accountable for such exceptions and considers such exceptions in the periodic performance reviews and compensation of such loan officers.

## **ARTICLE IX**

### **CREDIT RISK RATINGS AND NONACCRUAL RECOGNITION**

(1) Within sixty (60) days of this Agreement, the Board shall develop, and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a program to ensure that the risk associated with the Bank's loans and other assets is properly reflected and accounted for on the Bank's books and records and the Bank does not improperly recognize income. The Bank's program shall include, at a minimum, provisions requiring that:

- (a) the Board adopts a loan grading system that is consistent with the criteria set forth in applicable regulations and regulatory guidance, including, but not limited to:
  - (i) 12 C.F.R. § 160.160 (Asset Classification);
  - (ii) OTS' Examination Handbook, Section 260, "Classification of Assets;" or

- (iii) any applicable successor regulation or guidance as specified by the Comptroller;
- (b) the Bank's loans and other assets are graded based upon current facts and existing/reasonable (considering the loan purpose) repayment terms with a focus upon whether the primary repayment source is threatened by a well-defined weakness and whether the credit relies heavily upon secondary repayment sources, especially illiquid collateral or an unsubstantiated guarantor;
- (c) the Bank's loans and other assets are timely placed on nonaccrual by the lending officers in accordance with the instructions for the preparation of the Thrift Financial Reports and, once implemented and applicable, the instructions for Consolidated Reports of Income and Condition (also known as a "Call Report"), and the OTS' Examination Handbook, Section 260, "Classification of Assets;" or any applicable successor regulation or regulatory guidance as specified by the Comptroller;
- (d) lending officers conduct periodic, formal reviews for determining the appropriate risk rating and accrual determination;
- (e) appropriate analysis and documentation are maintained in the credit files to support the current and previous risk rating or accrual determination for all credit relationships totaling two-hundred fifty thousand dollars (\$250,000) or more;
- (f) the lending officers and senior management are assigned responsibility and held accountable (to include, at a minimum, consideration in periodic

performance reviews and compensation) for ensuring that the Bank's loans and other assets are appropriately and timely risk rated, charged off and/or placed on nonaccrual;

- (g) independent validation of the risk rating process; and
- (h) management information systems that periodically provide feedback about the effectiveness of the program by senior management and the individual lending officers.

(2) Within Sixty (60) days of the date of this Agreement, the Board shall ensure that the President and all lending officers receive training with respect to the application of Subparagraphs (a) through (e) of Paragraph (1) of this Article;

(3) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program required by this Article.

## **ARTICLE X**

### **APPRAISAL AND EVALUATION PROCESS**

(1) Within sixty (60) days of this Agreement, the Board shall revise its written policy on appraisals and collateral evaluation processes. A copy of the revised appraisal policy shall be forwarded to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection. This policy shall ensure the Bank obtains real estate appraisals and evaluations in compliance with:

- (a) the Uniform Standards of Professional Appraisal Practice ("USPAP");
- (b) 12 C.F.R. Part 164 (Appraisals);

- (c) 12 C.F.R. § 160.172 (Re-evaluation of Real Estate Owned);
- (d) OTS CEO Memorandum No. 371 (Final Interagency Appraisal and Evaluation Guidelines), dated December 2, 2010;
- (e) OTS' Examination Handbook, Section 208, "Real Estate Appraisals;" or
- (f) any applicable successor regulation or guidance as specified by the Comptroller.

(2) The Bank's revised appraisal policy under paragraph (1) of this Article shall include, at a minimum:

- (a) the establishment of criteria for obtaining updated appraisals, new appraisals, and evaluations;
- (b) the development of procedures to ensure that appraisals, updates and evaluations are the appropriate type and ordered in a timely manner;
- (c) the establishment of a tickler system for tracking when appraisals, updates and evaluations are received, reviewed and adjustments are made, as appropriate, to reflect Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan); and
- (d) the establishment and implementation of a policy requiring a meaningful review, independent of the lender, of all appraisals to include analysis commensurate with the type, size and complexity of the property being appraised.

(3) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program, policies and procedures required by this Article.

## **ARTICLE XI**

### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

(1) Within ninety (90) days of this Agreement, the Board shall revise, adopt, implement, and thereafter ensure adherence to written policies and procedures for maintaining an appropriate Allowance for Loan and Lease Losses (“Allowance”) in accordance with GAAP. The Allowance policies and procedures shall be consistent with the guidance set forth in:

- (a) the Federal Financial Institutions Examination Council’s “Interagency Policy Statement on the Allowance for Loan and Lease Losses” dated December 13, 2006 (OTS CEO Memorandum No. 250);
- (b) OTS’ Examination Handbook, Section 261, “Adequacy of Valuation Allowances;”
- (c) OTS CEO Memorandum No. 329 (Accounting for Credit Losses and Impairments), dated December 9, 2009;
- (d) OTS CEO Memorandum No. 304 (ALLL-Observed Thrift Practices Including Sound Practices), dated May 22, 2009; or
- (e) any applicable successor regulation and guidance as specified by the Comptroller.

(2) The Allowance policies and procedures required under paragraph (1) of this Article shall include, at a minimum:

- (a) procedures for determining whether a loan is impaired and measuring the amount of impairment, consistent with Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan);
- (b) procedures for segmenting the loan portfolio and estimating loss on groups of loans, consistent with Accounting Standards Codification 310-10 and 450-20 (formerly known as FASB Statement of Financial Accounting Standards No. 5, Accounting for Contingencies);
- (c) procedures for validating the Allowance methodology; and
- (d) procedures to ensure that the estimation of credit losses considers the relevant qualitative and environmental factors, with particular focus on the following:
  - (i) trends in the Bank's internal risk ratings, delinquent and nonaccrual loans;
  - (ii) results of the Bank's external loan review;
  - (iii) concentrations of credit in the Bank;
  - (iv) present and prospective economic conditions; and
  - (v) applicable experience of the Bank's lending staff.

(2) The program shall provide for a process for summarizing and documenting, for the Board's review and approval, the amount to be reported in the Thrift Financial Reports or Call Report, as applicable, for the Allowance. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Thrift Financial Report or Call Report, as applicable, by additional provisions from earnings. Written documentation shall be

maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

## **ARTICLE XII**

### **PROBLEM LOAN MANAGEMENT**

(1) Effective as of the date of this Agreement, the Board shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the Comptroller’s Examiners during any examination.

(2) Within ninety (90) days of this Agreement, the Board shall prepare and submit to the Assistant Deputy Comptroller for a prior written determination of no supervisory objection, a written program designed to reduce the Bank’s criticized assets<sup>3</sup> (the “Problem Assets Program”). The Problem Assets Program shall include or address the following matters:

- (a) aggregate reporting of criticized asset levels by type to the Board or a designated committee thereof every month;
- (b) specific plans for the reduction of criticized assets by asset type with target reductions by month; and
- (c) procedures for the monthly review and preparation of written determinations by the Board or a designated committee thereof regarding the effectiveness of the responsible officer’s efforts to eliminate the weaknesses in each criticized credit relationship or Real Estate Owned (“REO”) totaling two-hundred fifty thousand dollars (\$250,000) or above (including any sold portion).

---

<sup>3</sup> The term “criticized assets” includes all assets classified special mention, substandard, doubtful, or loss.



(3) The Board's compliance with Paragraph (2) of this Article shall include the development of procedures for the monthly submission and review of problem asset reports for all criticized credit relationships and REO totaling two-hundred fifty thousand dollars (\$250,000) or above (including any sold portion), that require, at a minimum, analysis and documentation of the following:

- (a) an identification of the expected sources of repayment;
- (b) the current appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable, as well as other necessary documentation to support the collateral valuation;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations;
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment;
- (e) trigger dates for borrower actions or for loan officers to reassess the strategy and enact collection plans;
- (f) specific action plans and trigger dates for risk rating changes and documentation of the analysis and reasoning to support the current risk rating;
- (g) for criticized relationships of two-hundred fifty thousand dollars (\$250,000) or above (including any sold portion) that were made for the purpose of constructing or developing commercial real estate, the reports shall also include:

- (i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;
  - (ii) project development status;
  - (iii) a comparison of development costs to the budgeted amount;
  - (iv) a comparison of sales activity to the original sales projections;
  - (v) current market conditions and activity;
  - (vi) amount and source of initial interest reserve and the amount and source of any subsequent additions to the reserve;
  - (vii) an assessment of the borrower's global cash flow;
  - (viii) an assessment of the guarantor's ability to support the project;
  - (ix) any other significant information relating to the project; and
- (h) a determination of whether the loan is impaired and the amount of the impairment, consistent with Accounting Standards Codification 310-10 (formerly known as FASB Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan).

(4) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the program required by this Article.

(5) A copy of each problem asset report relating to criticized credit relationships and REO totaling two-hundred fifty thousand dollars (\$250,000) or above (including any sold portion) prepared during the last month of each quarter end (e.g., March, June, September, December) along with any Board comments regarding the effectiveness of the effort to eliminate the weaknesses in each credit or to dispose of the REO, shall be submitted to the

Assistant Deputy Comptroller within fifteen (15) days of each calendar quarter end, with the first set of reports due by no later than January 15, 2012.

(6) Effective as of the date of this Agreement, the Bank may not extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the Comptroller's Examiners during any examination and whose aggregate loans or other extensions equal or exceed two-hundred fifty thousand dollars (\$250,000) (including any sold portion), unless each of the following conditions is met:

- (a) the Board or a designated committee thereof finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the Board or a designated committee thereof approves the credit extension and documents in writing, the reasons that such extension is necessary to promote the best interests of the Bank; and
- (b) the Board's formal plan to collect or strengthen the criticized asset will not be compromised.

### **ARTICLE XIII**

#### **TROUBLED DEBT RESTRUCTURE POLICY**

(1) Within sixty (60) days of the date of this Agreement, the Board shall review, revise and submit to the Assistant Deputy Comptroller for a prior written no supervisory objection, the Bank's written Troubled Debt Restructure Policy. In revising this policy, the

Board shall refer to and comply with OTS Thrift Bulletin 85 (Regulatory and Accounting Issues Related to Modifications and Troubled Debt Restructurings of 1-4 Residential Mortgage Loans), and OTS' Examination Handbook, Section 240, "Troubled Debt Restructuring." This policy shall incorporate, but not be limited to, the following:

- (a) a definition of troubled debt restructure ("TDR");
- (b) management roles and responsibilities;
- (c) documentation requirements from the borrower and documentation/analysis requirements for the Bank;
- (d) methodology for determining impairment;
- (e) a description of when an appraisal is required to determine impairment, considering the type, complexity and size of the problem loan;
- (f) a description of how impairment is to be calculated to ensure proper accounting treatment in accordance with Accounting Standards Codification 310-10 (formerly known as Statement of Financial Accounting Standards No. 114); and
- (g) the frequency of ongoing impairment measurements for TDRs; and classification and nonaccrual practices for TDRs.

(2) Upon receiving a written determination of no supervisory objection from the Assistant Deputy Comptroller, the Board shall immediately implement and thereafter ensure adherence to the policy and procedures required by this Article.

## **ARTICLE XIV**

### **CLOSING**

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or accepted, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;

- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has  
hereunto set her hand on behalf of the Comptroller.

/s/

November 16, 2011

---

Cathy L. Doperalski  
Assistant Deputy Comptroller  
Seattle Field Office

---

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/	November 16, 2011
_____ Douglas M. Hurl, Chairman	_____ Date
/s/	November 16, 2011
_____ Scott Chambers	_____ Date
/s/	November 11, 2011
_____ Ron Davison	_____ Date
/s/	November 16, 2011
_____ Michael Keyes	_____ Date
/s/	November 16, 2011
_____ Tony Meeker	_____ Date
/s/	
_____ Vincent Mekkers	_____ Date
/s/	November 16, 2011
_____ Marshall "Rocky" Wade	_____ Date
/s/	November 16, 2011
_____ Julie Want	_____ Date
/s/	November 16, 2011
_____ Harold Washington	_____ Date