

AGREEMENT BY AND BETWEEN
State National Bank of Garfield
Garfield, Washington
and
The Office of the Comptroller of the Currency

State National Bank of Garfield, Garfield, Washington (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders 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, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination (ROE), dated May 7, 2001.

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.

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. § 5.51(c)(6)(ii). 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) 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:

Nancy E. Wilson
Assistant Deputy Comptroller
Seattle Field Office
1000 2nd Avenue, Suite 3300
Seattle, WA 98104

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which none shall be employees 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 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 sixty (60) days of the appointment of the Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results 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.

ARTICLE III

VIOLATIONS OF LAW AND REGULATION

(1) Within thirty (30) days, the Board will ensure that all violations of the laws and regulations noted in the ROE are corrected and no longer outstanding.

(2) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program that will prevent similar violations of the laws and regulations from recurring. This program shall include general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be promptly forwarded to the Assistant Deputy Comptroller.

ARTICLE IV

CREDIT ADMINISTRATION

(1) Within ninety (90) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a written program to reduce credit risk in the Bank. The program shall include, but not be limited to:

- (a) procedures to strengthen credit underwriting, particularly in the commercial and commercial real estate portfolios;

- (b) procedures to prepare problem loan status reports, updated on a monthly basis, which include:
 - (i) identified trigger points for loan grade changes and corrective action;
 - (ii) accrual status and triggers for placing loan on nonaccrual;
 - (iii) full collateral analysis;
 - (iv) progress to date on correcting deficiencies;
 - (v) Bank's action plan going forward; and
 - (vi) assigned responsibility and accountability.
- (c) procedures to ensure loan officer accountability and responsibility for credit quality and risk rating accuracy;
- (d) procedures and training to ensure an accurate and timely account officer-driven risk rating system;
- (e) procedures to ensure an effective problem loan identification system for deteriorating pass credits;
- (f) procedures to ensure satisfactory and perfected collateral documentation;
- (g) procedures for obtaining and analyzing current and satisfactory credit information on term loans of \$100,000 or greater, at least on an annual basis; and
- (h) a system to track credit, collateral, and policy exceptions.

(2) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

- (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 and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;
 - (i) Failure to obtain the information in (2)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (2)(d) would be detrimental to the best interests of the Bank.
 - (ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank.

(3) Within ninety (90) days, the Board shall review and revise the Bank's written loan policy. In revising this policy, the Board shall refer to the Loan Portfolio Management booklet, A-LPM, of the Comptroller's Handbook. This review and revision shall include measures to correct deficiencies in the Bank's lending policies and procedures noted in any ROE.

(4) The Board shall submit copies of the loan program and policy to the Assistant Deputy Comptroller.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the loan program and policy developed pursuant to this Article.

ARTICLE V

NEW SENIOR EXECUTIVE OFFICER

(1) Within ninety (90) days, the Board shall appoint a new, capable Senior Loan Officer who 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.

(2) Prior to the appointment of any individual to the Senior Loan Officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

- (a) the information sought in the “Changes in Directors and Senior Executive Officers” booklet of the Comptroller’s Corporate Manual, together with a legible fingerprint card for the proposed individual;
- (b) a written statement of the Board's reasons for selecting the proposed officer; and
- (c) a written description of the proposed officer's duties and responsibilities.

(3) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed Senior Loan Officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(4) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his review and act on any such information or authority within ninety (90) days.

ARTICLE VI

INDEPENDENT LOAN REVIEW

(1) The Board shall within thirty (30) days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) Within ninety (90) days, the Board shall obtain an independent loan review report from its designated person/firm to identify credit risk, additional losses, or credit and collateral exceptions.

(3) The Board shall incorporate the findings of the independent loan review into its analysis of the Allowance for Loan & Lease Losses (ALLL).

(4) The Board shall establish an effective, independent and ongoing loan review system to review, at least annually, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system 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 guidelines set forth in the Comptroller's Handbook Rating Credit Risk. Such reports shall, at a minimum, include conclusions regarding:

- (a) the overall quality of the loan and lease portfolios;
- (b) the identification, type, rating, and amount of problem loans and leases;
- (c) identification and amount of delinquent loans and leases;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation;

- (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article;
- (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and
- (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

ARTICLE VII

CREDIT AND COLLATERAL EXCEPTIONS

(1) Within ninety (90) days, the Board shall 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 National Bank Examiners at the conclusion of an examination.

(2) Within ninety (90) days, 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 National Bank Examiners at the conclusion of an examination.

(3) The Board shall improve current risk monitoring practices of exceptions by establishing the following:

- (a) a tickler system to identify and track credit and collateral documentation exceptions;
 - (b) risk limits on exceptions in the portfolio based on the number of loans and/or the dollar exposure of loans with exceptions; and
 - (c) accountability for corrective action on exceptions.
- (4) The Board shall improve risk monitoring practices of credit and collateral exceptions by obtaining monthly reports from management that identifies the following:
- (a) list of individual credit exceptions; and
 - (b) management's progress at correcting deficiencies.

ARTICLE VIII

CAPITAL PLAN AND HIGHER MINIMUMS

- (1) The Bank shall achieve, at a minimum, a "well-capitalized" position and thereafter maintain the following capital levels (as defined in 12 C.F.R. Part 3) until compliance with this document is achieved:
- (a) total risk-based capital at least equal to 10 percent of risk-weighted assets;
 - (b) tier 1 capital at least equal to 5 percent of adjusted total assets.¹
- (2) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a three-year capital program. The program shall include:

¹ Adjusted total assets is defined in 12 C.F.R. § 3.2(a) as the average total asset figure used for Call Report purposes minus end-of-quarter intangible assets. As further noted in 12 C.F.R. § 3.2(a), a bank may

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (1), and which may in fact be greater, depending on the risk profit of the Bank;
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and
- (f) a dividend policy that permits the declaration of a dividend only:
 - (i) when the Bank is in compliance with its approved capital program;
 - (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
 - (iii) with the prior written approval of the Assistant Deputy Comptroller.

(3) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's

be required to compute and maintain its leverage ratio on the basis of actual, rather than average total assets. This language would have to be modified to reflect that change.

capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(4) Within thirty (30) days after receiving the results of the internal loan review conducted in accordance with Article VI, the Bank shall amend its capital program to ensure continued compliance with paragraph (1) of this Article.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE IX

RESTRICTION ON ASSET GROWTH

(1) The Bank shall restrict total loan growth to 5 percent per annum until the capital plan submitted pursuant to Article VIII is approved by the Assistant Deputy Comptroller, and the Bank has achieved compliance with Article IV, Credit Administration.

ARTICLE X

LIQUIDITY AND CONTINGENCY FUNDS PLANNING

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a Liquidity and Contingency Funding plan. The plan shall include:

- (a) specific procedures for daily, weekly, monthly management of the Bank's liquidity position;
- (b) projected funding needs based on anticipated growth and market conditions;
- (c) contingency plans that identify and prioritize alternative funding sources; and

(d) triggers for the activation of the contingency plans and describes the actions to be taken by management in these situations.

(2) Upon completion, the Bank's liquidity and contingency plan shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the plan. The Board shall review and update the Bank's plan on an annual basis or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

ARTICLE XI

CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, 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 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 excepted, waived, or terminated in writing by the Comptroller.

(5) This Agreement is intended, 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 OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its 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 OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations 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.

Signed

07-17-01

Nancy E. Wilson
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.

Signed 07-17-01

David Blankenship Date

Signed 07-23-01

Lucinda L. Carroll Date

Signed 07/17/01

Greg Deckard Date

Signed 07/17/01

James P. Dineen Date

Signed 07/17/01

William G. Dineen Date

Signed 07/19/01

Raymond J. Folwell Date

Signed 07/17/01

Stan W. Horton Date

Signed 07/17/01

Greg Johnson Date

Signed 07/17/01

Jeffery S. Johnson Date

Signed 07/25/01

Kurtis M. Myron Date

- -

Signed

07/17/01

Richard D. Naccarato

Date

Signed

07/17/01

Stanley Pfaff

Date

Signed

07/17/01

Gary Schroeder

Date

Signed

07/17/01

Robert D. Spears

Date