UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	Order No.: WE-07-011
WASHINGTON FEDERAL SAVINGS AND LOAN ASSOCIATION, Seattle, Washington.	)	Effective Date: December 21, 2007
OTS Docket No.: 00880	)	

CONSENT ORDER TO
CEASE AND DESIST FOR AFFIRMATIVE RELIEF

WHEREAS, Washington Federal Savings and Loan Association, OTS Docket No. 00880 (Institution), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief (Stipulation); and

WHEREAS, the Institution, by executing the Stipulation, has consented to the issuance of this Consent Order to Cease and Desist for Affirmative Relief (Order) by the Office of Thrift Supervision (OTS), pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, the Director of the OTS has delegated to the Regional Directors of the OTS the authority to issue consent orders on behalf of the OTS pursuant to provisions of 12 U.S.C. § 1818.

NOW, THEREFORE, IT IS ORDERED THAT:

I. ORDER TO CEASE AND DESIST

A. The Institution and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or aiding and abetting any violation of:

1. The Currency and Foreign Transactions Reporting Act (the Bank Secrecy Act or BSA), 31 U.S.C. §§ 5311 et seq., and the related BSA regulations issued by the United States Department of the Treasury, 31 C.F.R. Part 103, and the OTS, 12 C.F.R. § 563.177; and

2. The Flood Disaster Protection Act (FDPA), 42 U.S.C. § 4001, et seq., and the related FDPA regulations of the OTS set forth in 12 C.F.R. Part 572 (Flood Regulation).

II. BANK SECRECY ACT/ANTI-MONEY LAUNDERING (BSA/AML) PLAN

A. Within thirty (30) days from the effective date of this Order, the Institution shall submit an acceptable written BSA/AML Plan (Plan) to the Regional Director for his review and comment. The Plan shall include a specific description of the actions the Institution proposes to take, or has taken, to ensure future compliance with all applicable BSA/AML requirements. The Institution shall revise the Plan as required by the Regional Director within thirty (30) days of receiving his comments or at its next regular meeting, if later. The Plan, as modified by the comments of the Regional Director, shall be incorporated into this Order and any deviation from such Plan shall be a violation of this Order.

B. At a minimum, the Plan required by ¶ II A above shall include:

1. A timetable with deadlines to correct the incongruities resulting from incompatibility of the Institution's internally created in-house core mainframe data system for lending and savings platforms with platforms utilized by outside vendors and by the Institution's New Mexico operations – as well as any future acquisitions. The result should be a unitary, cohesive core mainframe data system with applicability throughout all geographic areas of the Institution's operations and across all business lines;

2. Strengthening the system of internal controls to ensure compliance with the BSA and the related BSA regulations. The strengthened system must include enhanced oversight of the BSA/AML compliance program and should ensure adequate staffing of the program by qualified

and appropriately trained personnel needed for an effective control environment. The internal controls should include feedback mechanisms to monitor and assess overall effectiveness of the program;

3. Enhancing independent testing of compliance with the BSA and the related BSA regulations, including a review of the coverage and scope of independent testing of the Institution's BSA/AML compliance program. Such testing shall include, but not be limited to, transactions and account monitoring policies, procedures and practices and the transaction monitoring system;

4. Providing adequate resources and authority for the BSA compliance officer, including structuring the program to provide the Board appointed BSA officer with sufficient control over all components of the Institution's BSA/AML program to ensure compliance with BSA/AML requirements. The duties and responsibilities of each officer and staff member involved in the BSA/AML program should be defined and detailed, including reporting lines within each unit and business line accountability;

5. Strengthening the system of internal controls to ensure that all customer records (including, but not limited to, account opening procedures at all Institution branches) are reviewed against the Office of Foreign Assets Control (OFAC) list of specially designated nationals and the Department of Treasury's 314(a) list pursuant to the USA Patriot Act of 2001. This requirement includes, but is not limited to, ensuring a an appropriate check is performed and documented using an automated system prior to opening a new account for all new and existing customers. By March 31, 2008, the Institution shall submit to the Regional Director a report certifying that the Institution's Internal Auditor has conducted appropriate transactional testing to comply with the requirement of this paragraph and report the results of such transactional testing across all Institution branches and systems;

6. Establishing a comprehensive training program (with the assistance of a qualified vendor) for the directorate and all officers with compliance responsibilities to ensure awareness of their responsibility for: (i) compliance with the requirements of the BSA, and the related BSA regulations; (ii) the BSA and AML risks inherent to their departments and products; and (iii) any changes to the BSA Compliance Program required by this Order (BSA Training Program). The BSA Training Program shall include requirements for mandatory attendance, the frequency of training, specialized training procedures for certain departments of the Institution based upon the particular operations and risk presented by such areas (such as the wire transfer department), and procedures and timing for updating the BSA Training Program and materials, based upon violations, deficiencies, or weaknesses identified. The Institution shall maintain documentation of all BSA training required by this paragraph;

7. Enhancing the ongoing Customer Identification Program (CIP) to ensure appropriate customer risk scoring. The customer risk scoring process and the process and system for collecting and storing customer data should also be evaluated and a timeline for additional enhancements shall be provided as part of the Plan. The CIP must have sufficient internal controls to ensure identification of higher risk customers (through both deposit and loan channels). By January 31, 2008, the Institution shall submit to the Regional Director a report of all factors used or to be used by the Institution as part of the CIP to identify higher risk customers;

8. Adopting and implementing all recommendations contained in the Jefferson Wells independent BSA/AML/CIP/OFAC Review dated July 30, 2007;

9. Enhancing existing transaction monitoring, including aggregation of customer transactions by or on behalf of related individuals and entities. The Plan shall also provide a timetable for the testing and full installation across all business lines of the transaction monitoring systems used by the Institution. Such a timetable should include the establishment of processes,

procedures, and evaluation criteria to ensure that the systems are validated and that the program logic- and rules-based triggers are appropriate and that data feeds are accurate and complete across all business lines. The systems must be able to link and aggregate transactions by or on behalf of related individuals and entities across all business lines. The timetable should also include a methodology and target date for certification to the Regional Director that the transaction monitoring systems are fully effective;

10. Revising existing policies, procedures and practices to ensure that the Institution's monetary instrument logs contain all information required to be retained pursuant to the BSA and the related BSA regulations. This requirement includes, but is not limited to, ensuring that all information required by the BSA and the related BSA regulations is collected and retained for all incoming and outgoing wire transfers. By January 31, 2008, the Institution shall submit to the Regional Director a report - based on transactional testing - indicating whether the monetary instrument log system is functioning effectively, together with results of such transactional testing; and

11. Revising existing policies, procedures and practices to ensure that the Institution's "cash in/cash out monitoring system" is effectively and correctly reporting applicable data to the BSA Officer. Compliance with this requirement shall include development of a plan with a timetable with deadlines to integrate and improve data systems for monitoring and reporting cash transactions. By February 29, 2008, the Institution shall submit to the Regional Director a report - based on transactional testing – indicating whether the "cash in/cash out monitoring system" is functioning effectively, together with results of such transactional testing.

III. FLOOD DISASTER PROTECTION ACT

A. Within thirty (30) days after the Effective Date of this Order, the Institution shall conduct an internal review of the Institution's FDPA policies and procedures, systems, controls, and staffing (the FDPA Review).

B. By January 31, 2008 the Institution shall submit to the Regional Director a written report (FDPA Report) containing the Institution's findings and recommendations based on the FDPA Review. At a minimum, the FDPA Report shall contain an assessment of the Institution's FDPA policies and procedures, systems, controls, and staffing, including but not limited to:

1. The accuracy of the Institution's books and records relating to FDPA compliance;
2. Policies and procedures;
3. Systems and controls;
4. The Institution's present and future management and staffing requirements; and
5. The current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities of personnel with FDPA compliance responsibilities.

IV. INTERNAL AUDIT

A. Within thirty (30) days after the Effective Date of this Order, the Institution shall submit to the Regional Director for review and non-objection the name and curriculum vitae of a qualified independent (Consultant) which the Institution proposes to engage for purposes set forth below. The Consultant must have extensive knowledge of the financial services industry and experience in assisting financial institutions with functions and policies governing compliance with Internal Audit requirements and processes. The Consultant shall, within the time specified below, conduct a review of the Institution's Internal Audit policies and procedures, systems, controls, and staffing.

B. The Review required by ¶ VI A shall be completed and the Consultant shall deliver a final, written report (Report) containing the findings and recommendations of the Consultant to the Regional Director and the Board within one hundred twenty (120) days after the date of the Institution's receipt of non-objection from the Regional Director. At a minimum, the Consultant's Report shall contain an assessment of the Institution's Internal Audit policies and procedures, systems, controls, and staffing, including but not limited to:

1. The accuracy of the Institution's books and records relating to Internal Audit;
2. Policies and procedures;
3. Systems and controls;
4. The Institution's present and future management and staffing requirements; and
5. The current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities of personnel with Internal Audit responsibilities.

C. Within thirty (30) days of receipt of the Consultant's Report, the Institution shall notify the Regional Director what, if any, specific recommendations contained in the Report will be adopted by the Board. The Institution's notification to the Regional Director should include an explanatory statement regarding the reasoning for the adoption or rejection of any of the Consultant's recommendations or conclusions.

V. COMPLIANCE MANAGEMENT PLAN

A. Within thirty (30) days after the Effective Date of this Order, the Institution shall submit to the Regional Director for review and non-objection an acceptable written Compliance Management Plan (Compliance Plan) that contains a specific description of the actions the Institution proposes to take, or has taken, to ensure an effective compliance program. At a minimum, the Compliance Plan shall include:

1. The goals, functions, performance standards, and procedures for each Compliance Officer, and any other officer with responsibility of the compliance function;

2. Periodic assessments of the compliance program staffing and resources; and

3. Integration of all platforms, procedures, and operations of the Institution into a unitary, cohesive system.

B. The Compliance Plan shall specify the person(s) responsible for actionable items within the Compliance Plan, and establish appropriate procedures for the implementation of the Compliance Plan.

C. The Institution shall submit the Compliance Plan to the Regional Director for his review and comment. The Institution shall revise the Compliance Plan as required by the Regional Director within thirty (30) days of receiving his comments or at its next regular meeting, if later. The Compliance Plan, as modified by the comments of the Regional Director, shall be incorporated into this Order and any deviation from such Plan shall be a violation of this Order.

VI. COMPLIANCE COMMITTEE

A. Within thirty (30) days after the Effective Date of this Order, the Board shall establish and appoint an oversight committee of the Board (the Compliance Committee) comprised of at least three directors, the majority of whom shall be Outside Directors,[1] to coordinate and monitor the Institution's progress and compliance with this Order.

B. Beginning at the end of the first quarter after the effective date of this Order and quarterly thereafter, the Oversight Committee shall provide a written progress report to the Board that:

[1] As used in this Order, "Outside Director" means a director who is not: (1) a controlling shareholder (as defined in 12 C.F.R. § 215.2(m); (2) a salaried officer or employee of the Savings Association or its subsidiary(ies) or service corporation(s); or (3) a salaried officer or employee of its holding company or subsidiary of the holding company.

1. Describes the actions taken by the Institution to comply with this Order and the Plans required by this Order, and the results of such actions;

2. Identifies remaining actions to be completed within the quarter;

3. Identifies with specificity any noncompliance with the Order or Plans required by this Order, and remedial actions taken or proposed with respect to any noncompliance;

4. Within thirty (30) days thereafter, the Board shall submit to the Regional Director:

(a) A copy of the Compliance Committee's progress reports for that quarter, with any additional comments made and actions taken by the Board; and

(b) A copy of the Board minutes reflecting discussion of the progress report.

5. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Institution's compliance with the provisions of this Order.

VIII. SUBMISSION TO THE REGIONAL DIRECTOR

All submissions to the Regional Director that are required by or contemplated by this Order shall be submitted within the specified timeframes. Submissions, including progress reports and any requests for extension of time, shall be sent to:

Darrel Dochow, Regional Director
Office of Thrift Supervision
2001 Junipero Serra Blvd.
Daly City, CA 94014-3897

Mark Johnson, Assistant Director
Office of Thrift Supervision
101 Stewart Street, Suite 1010
Seattle, WA 98101-2419

IX. DEFINITIONS

All technical words or terms used in this Order for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners Loan Act

(HOLA), the BSA, the Federal Deposit Insurance Act (FDIA), OTS Memoranda, or other published OTS guidance. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, the HOLA, the FDIA, OTS Memoranda, or other published regulatory guidance shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

X. <u>SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS</u>

Reference in this Order to provisions of statutes, regulations, OTS Memoranda, and other published regulatory guidance shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they become applicable.

XI. <u>NO VIOLATIONS AUTHORIZED; OTS NOT RESTRICTED</u>

A. Nothing in this Order or the Stipulation shall be construed as:

1. Allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject, or

2. Restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law including, without limitation, any type of supervisory, enforcement or other action that the OTS determines to be appropriate, arising out of matters described in Reports of Examination or based on other information in the possession of the OTS.

XII. <u>TIME CALCULATIONS, SEPARABILITY CLAUSE, STIPULATION INCORPORATED</u>

A. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be calendar based, unless otherwise noted;

B. The Regional Director, in the exercise of his discretion, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Institution that includes reasons in support for any such extension. Any extension of a deadline required by this Order shall be made in writing by the Regional Director;

C. In the event any provision in this Order is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise; and

D. The Stipulation is made a part hereof and is incorporated herein by this reference.

XIII. <u>EFFECTIVE DATE; DURATION</u>

This Order is effective on the Effective Date as shown on the first page. This Order (including the related Stipulation) shall remain in effect until terminated, modified, or suspended, in writing by the OTS, acting through its Director, Regional Director, or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By: /s/
Edwin L. Chow, Regional Deputy Director, West Region, acting for the Regional Director pursuant to OTS Order No. WE-07-006

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of	)	Order No.: WE-07-011
WASHINGTON FEDERAL SAVINGS AND LOAN ASSOCIATION, Seattle, Washington.	)	Effective Date: December 21, 2007
OTS Docket No.: 00880	)	

STIPULATION AND CONSENT TO ISSUANCE OF AN
ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF

WHEREAS, the Office of Thrift Supervision (OTS), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding for affirmative relief against Washington Federal Savings and Loan Association, Seattle, Washington, OTS Docket No. 00880 (Institution), pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Institution desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding; and

WHEREAS, the Institution enters into this Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief (Stipulation) without admitting or denying that grounds exist to initiate an administrative cease and desist proceeding but admitting the statements and conclusions in Paragraph 1 below, concerning jurisdiction, hereby stipulates and agrees to the following:

NOW, THEREFORE, the Institution hereby stipulates and agrees as follows:

1. Jurisdiction.

(a) The Institution is a "savings association" within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Institution is an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c).

(b) Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal banking agency" with jurisdiction to maintain an administrative cease and desist proceeding against such a savings association. Therefore, the Institution is subject to the jurisdiction of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

(c) The Director of the OTS has delegated to the Regional Director of the West Region of the OTS (Regional Director) the authority to issue cease and desist orders where the savings association has consented to the issuance of the orders.

2. OTS Findings of Fact. The OTS has determined that the Institution has failed to comply fully with the requirements of the Currency and Foreign Transactions Reporting Act (the Bank Secrecy Act or BSA), 31 U.S.C. § 5311 et seq.; the related BSA regulations issued by the United States Department of the Treasury, 31 C.F.R. Part 103, and the OTS, 12 C.F.R. § 563.177; and the Flood Disaster Protection Act (FDPA), 42 U.S.C. § 4001, et seq.; the related FDPA regulations issued by the OTS, 12 C.F.R. Part 572.

3. Consent. The Institution consents to the issuance by the OTS of the accompanying Consent Order to Cease and Desist for Affirmative Relief (Order). The Institution further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. **Finality.** The Order is issued under 12 U.S.C. § 1818(b) and upon its effective date shall be a final order, effective and fully enforceable by the OTS under 12 U.S.C. § 1818(i).

5. **Waivers.** The Institution waives the following:

(a) The right to be served with a written notice of the OTS's charges provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;

(b) The right to an administrative hearing of the OTS's charges against it as provided by 12 U.S.C. § 1818(b), 12 C.F.R. Part 509;

(c) The right to seek judicial review of the Order including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and

(d) Any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter whether arising under common law, federal statute, or otherwise.

6. **OTS Authority Not Affected.** Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Institution if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

7. **Other Government Actions Not Affected.** Institution acknowledges and agrees that its consent to the issuance of the Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Institution that arise pursuant to this action or otherwise, and that may be or have been brought by any other government entity other than the OTS.

8. **Miscellaneous.**

(a) The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

(b) If any provision of this Stipulation and the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

(c) The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Order.

(d) The section and paragraph headings in this Stipulation and the Order are for convenience only, and such headings shall not affect the interpretation of this Stipulation or the Order.

(e) The terms of this Stipulation and the Order represent the final agreement of the parties with respect to the subject matters hereof and constitute the sole agreement of the parties with respect to such subject matters.

(f) This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Senior Deputy Director, Regional Director, or other authorized representative.

8. <u>Signature of Directors</u>.

Each Director signing this Stipulation attests that he or she voted in favor of a resolution authorizing the consent of the Institution to the issuance of the Order and the execution of the Stipulation.

WHEREFORE, the Institution, by a majority of its directors, executes this Stipulation and Consent to the Issuance of an Order to Cease and Desist for Affirmative Relief intending to be legally bound hereby.

Washington Federal Savings and Loan Association
Seattle, Washington

Accepted by a majority of its directors:

/s/
Director

/s/
Director

/s/
Director

/s/
Director

/s/
Director

/s/
Director

/s/
Director

/s/
Director

Office of Thrift Supervision
West Region

By: /s/
Edwin L. Chow, Regional Deputy Director, West Region, acting for the Regional Director pursuant to OTS Order No. WE-07-006

Dated: December 21, 2007

/s/

Director