

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

WASHINGTON DEPARTMENT OF FINANCIAL INSTITUTIONS

OLYMPIA, WASHINGTON

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In the Matter of:	)	
	)	
LAMONT BANK OF ST. JOHN	)	CONSENT ORDER
ST. JOHN, WASHINGTON	)	
	)	FDIC-24-0110b
(INSURED STATE NONMEMBER BANK)	)	
	)	
_____	)	

The Federal Deposit Insurance Corporation (FDIC) is the appropriate Federal banking agency for Lamont Bank of St. John, St. John, Washington (Bank) under Section 3(q) of the Federal Deposit Insurance Act (FDI Act), 12 U.S.C. § 1813(q). The Washington Department of Financial Institutions (WDFI) is the appropriate State banking agency for the Bank under Title 30A of the Revised Code of Washington (RCW).

The Bank, by and through its duly elected and acting Board of Directors (Board), has executed a Stipulation to the Issuance of a Consent Order (Stipulation), dated January 8, 2025, that is accepted by the FDIC and the WDFI. With the Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to Board and senior management oversight, credit underwriting and administration, internal audit, and information technology, to the issuance of this Consent Order (Order) by the FDIC and the WDFI pursuant to Section 8(b)(1) of the FDI Act, and RCW § 30A.04.450.

Having determined that the requirements for issuance of an order under Section 8(b) of the FDI Act, 12 U.S.C. § 1818(b), and RCW § 30A.04.450 have been satisfied, the FDIC and the WDFI hereby order that:

**MANAGEMENT**

1. The Bank shall have and retain qualified management.
  - (a) Each member of management shall have qualifications and experience commensurate with their duties and responsibilities at the Bank.
  - (b) The qualifications of management shall be assessed on its ability to:
    - (i) comply with the requirements of this Order;
    - (ii) operate the Bank in a safe and sound manner;
    - (iii) comply with applicable laws and regulations; and
    - (iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk.
  - (c) During the life of this Order, the Bank shall notify the Regional Director of the FDIC's San Francisco Regional Office (Regional Director) and the Director of the Washington Department of Financial Institutions Division of Banks (Director), in writing, of the resignation or termination of any of the Bank's directors or senior executive officers. Prior to the addition of any individual to the Board or the employment of any individual as a senior executive officer, the Bank shall comply with the requirements of section 32 of the Act, 12 U.S.C. § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100–303.104, and any requirement of the State of Washington for prior notification and approval.

### **BOARD PARTICIPATION**

2. Within 30 days from the effective date of this Order, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; liquidity and funds managements activities; operating policies; and individual committee actions. The Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

### **TIER 1 CAPITAL**

3. (a) Within 90 days from the effective date of this Order, the Bank shall maintain its Tier 1 capital in such an amount to ensure that the Bank's leverage ratio equals or exceeds 9 percent.

(b) Within 60 days from the effective date of this Order, the Bank shall develop and adopt a plan to meet and maintain the capital requirements of this Order and to comply with Part 324 of the FDIC's Rules and Regulations, 12 C.F.R. Part 324. Such plan and its implementation shall be in a form and manner acceptable to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

(c) The level of capital to be maintained during the life of this Order shall be in addition to a fully funded allowance for credit losses, the adequacy of which shall be satisfactory to the Regional Director and the Director as determined at subsequent examinations and/or visitations. Any increase in Tier 1 capital necessary to meet the requirements of this

paragraph may not be accomplished through a deduction from the Bank's allowance for credit losses.

(d) If all or part of the increase in capital required by this Order is accomplished by the sale of new securities, the Board shall adopt and implement a plan for the sale of such additional securities, including the voting of any shares owned or proxies held or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with the Federal securities laws. Prior to the implementation of the plan and, in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Registration, Disclosure and Securities Unit, 550 17th St. N.W., Washington, D.C. 20429, for review. Any changes requested by the FDIC shall be made prior to dissemination. If the increase in capital is provided by the sale of noncumulative perpetual preferred stock, then all terms and conditions of the issue, including but not limited to those terms and conditions relative to interest rate and convertibility factor, shall be presented to the Regional Director and the Director for prior approval.

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

furnished to every subscriber and/or purchaser of the Bank's securities who received or was tendered the information contained in the Bank's original offering materials.

(f) For the purposes of this Order, all terms relating to capital shall have the meanings and be calculated in accordance with the applicable FDIC's Rules and Regulations concerning Capital Adequacy/Capital Maintenance (currently at 12 C.F.R. Part 324).

#### **ALLOWANCE FOR CREDIT LOSSES**

4. (a) Within 30 days from the effective date of this Order, the Board shall develop, adopt, implement, and adhere to a Current Expected Credit Losses (CECL) methodology that accurately evaluates whether loans continue to share similar risk characteristics with other loans in their collective pools on a quarterly basis. If a loan does not share similar risk characteristics with other loans, expected credit losses for that loan should be evaluated individually. Further, if a loan is determined to be 'collateral-dependent,' the individual Allowance for Credit Losses (ACL) analysis must be measured using the fair value of collateral, adjusted for estimated costs to sell if repayment or satisfaction of the loan depends on the sale of the collateral. Individual ACL analyses should be documented and supported by updated borrower financial information and real estate valuations. Additionally, individually evaluated assets should not be included in a collective assessment of expected credit losses. Such methodology and its implementation shall be satisfactory to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

(b) The Board shall review the ACL at least once each calendar quarter. The review shall be completed at least 10 days prior to the end of each quarter in order that the findings of the Board with respect to the ACL are properly reported in the quarterly Reports of Condition and Income. The review shall focus on the results of the Bank's internal loan review, loan loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss

exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the ACL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. The review and its implementation shall be satisfactory to the Regional Director and the Director as determined at subsequent examinations or visitations.

### **REDUCTION OF CLASSIFIED ASSETS**

5. (a) Within 60 days from the effective date of this Order, the Bank shall formulate a written plan to reduce total adversely classified assets at least by half of the total reported in the March 4, 2024 Joint Report of Examination (Joint ROE). The Bank shall, upon completion, submit the plan to the Regional Director and the Director for review and comment, and after due consideration of any recommended changes, the Board shall approve the plan, which approval shall be recorded in the minutes of the Board meeting. Thereafter, the Bank shall implement and fully comply with the plan. For purposes of this provision, “reduce” means to collect, charge off, or improve the quality of an asset so as to warrant its removal from adverse classification by the Regional Director and the Director. In developing the plan mandated by this paragraph, the Bank shall, at a minimum, and with respect to each such adversely classified loan, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(b) The plan mandated by this provision shall also include, but not be limited to, the following:

(i) A schedule for reducing the outstanding dollar amount of each such adversely classified asset, including timeframes for achieving the reduced dollar amounts (at a minimum, the schedule for each such adversely classified asset must show its expected dollar balance on a quarterly basis);

(ii) Specific action plans intended to reduce the Bank's risk exposure in each such classified asset;

(iii) A schedule showing, on a quarterly basis, the expected consolidated balance of all such adversely classified assets, and the ratio of the consolidated balance to the Bank's projected Tier 1 capital plus the ACL;

(iv) A provision for the Bank's submission of monthly written progress reports to its Board; and

(v) A provision mandating Board review of the progress reports, with a notation of the review recorded in the minutes of the meeting of the Board.

(c) Within 30 days from the effective date of this Order, the Bank shall eliminate from its books, by charge off or collection, all assets classified "Loss" in the Joint ROE that have not been previously collected or charged off.

(d) The requirements of this paragraph are not to be construed as standards for future operations and, in addition to the foregoing, the Bank shall eventually reduce the total of all adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph.

#### **ADDITIONAL CREDIT**

6. Beginning with the effective date of this Order, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower whose loan or other credit has been classified "Loss" or "Doubtful" or "Substandard" and is uncollected, unless the

Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank, and has notified the FDIC and WDFI prior to approval. The detailed written statement shall be placed in the appropriate loan file and included in the minutes of the applicable Board meeting.

### **LENDING AND COLLECTION POLICIES**

7. (a) Within 90 days from the effective date of this Order, the Bank shall develop or revise, adopt, and implement written lending and collection policies to provide effective guidance and control over the Bank's lending function. Such policies and their implementation shall be satisfactory to the Regional Director and the Director as determined at subsequent examinations and/or visitations.

(b) The initial revisions to the Bank's loan policy and practices required by this paragraph shall, at a minimum, include the following provisions:

(i) Loan income treatment under which the accrual of interest income is discontinued and previously accrued interest is reversed on delinquent loans, consistent with the FDIC's instructions for the preparation of Reports of Condition and Income;

(ii) Prohibition of the capitalization of interest or loan-related expense unless the Board supports in writing and records in the minutes of the corresponding Board meeting why an exception thereto is in the best interests of the Bank;

(iii) Requirement of complete loan documentation, realistic repayment terms, and current financial analysis of a borrower's ability to support the outstanding indebtedness. Such documentation shall include current financial information, profit and loss statements, copies of tax returns and cash flow projections;

(iv) Limitations on the amount that can be loaned in relation to established collateral values in compliance with Part 365 of the FDIC Rules and Regulations,

and requirements to ensure that real estate valuation practices fully conform with Part 323 of the FDIC's Rules and Regulations and Uniform Standards of Professional Appraisal Practice;

(v) Requirements for lien perfection and maintenance of proper Uniform Commercial Code (UCC) filing documentation in loan files to support collateralization of loans with real estate, equipment, titled vehicles, crop inventory and other forms of collateral;

(vi) Prohibition on using overdrafts for interim financing and established standards for unsecured credit and officer lending limits;

(vii) Requirement that extensions of credit to any of the Bank's executive officers, directors, or principal shareholders, or to any related interest of such persons, be approved in advance by a majority of the entire Board in accordance with section 215.4(b) of Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.4(b);

(viii) Requirement for the preparation of a loan "watch list" which shall include relevant information on all loans classified "Substandard" and "Doubtful" in the FDIC Report of Examination beginning on February 21, 2023 (ROE), the Joint ROE, or by the FDIC or WDFI in subsequent Reports of Examination or Visitation, and all other loans that warrant individual review and consideration by the Board as determined by the loan committee or active management. The loan "watch list" shall be presented to the Board for review at least monthly with such review noted in the minutes;

(ix) Requirements for an accurate internal grading system based on the loan risk grading definitions detailed in the Lending Policy and a credit file review system that ensures proper, current, and complete documentation is obtained to aid in identifying borrowers' financial position, determining collateral values and lien position, assigning appropriate risk ratings, implementing timely corrective action, and enforcing repayment of loans;

(x) Requirement to have independent loan reviews at least annually, including an assessment of the quality and risks associated with each loan reviewed, as well as an opinion of loan risk grades, with loan review conclusions presented to the Board by an independent party;

(c) The Board shall adopt procedures whereby compliance with the revised loan policy is monitored and responsibility for exceptions thereto assigned. The procedures adopted shall be reflected in minutes of a Board meeting at which all members are present and the vote of each is noted.

#### **VIOLATIONS OF LAW**

8. Within 60 days from the effective date of this Order, the Bank shall eliminate and/or correct all violations of law cited in the ROE and Joint ROE. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws and regulations.

#### **CALL REPORTS**

9. During the life of this Order, the Bank shall file Reports of Condition and Income which accurately reflect the financial condition of the Bank as of the end of the period for which the Reports are filed, including any adjustment in the Bank's books made necessary or appropriate as a result of any FDIC and/or WDFI examination of the Bank.

#### **AUDIT PROGRAM AND OVERSIGHT**

10. (a) The Board shall revise and strengthen the Bank's audit program.

(b) The Board shall review and approve the scope of the Bank's outsourced internal audit engagement on an annual basis. The internal audit scope shall include an independent review of information systems that are appropriate to the size of the institution and the nature, scope, and risk of its activities, and that provide for timely and accurate financial, operational, and regulatory reports.

(c) The Board shall ensure that Bank managers who direct or perform audits are independent of the area to be audited and report their findings directly to the Audit Committee.

(d) The Board shall develop and implement an independent validation process for corrective actions taken in response to regulatory or audit findings.

(e) The Board shall ensure that Bank management prepares an issue tracking log that includes all regulatory and audit recommendations, proposed corrective actions, target remediation dates, progress of ongoing remediation, and results of independent validation.

(f) The Board shall ensure that an updated issue tracking log is presented to the Audit Committee on monthly basis and that regulatory and audit findings are addressed in a timely manner.

(g) The Board's revised and strengthened audit program shall be in a form and manner acceptable to the Regional Director and the Director as determined at subsequent examinations or visitations.

### **INFORMATION TECHNOLOGY**

11. (a) Within 60 days of the effective date of this Order, the Bank shall eliminate or correct all issues relating to conformance with Appendix B to Part 364 of the FDIC's Rules and Regulations, 12 C.F.R. Part 364, Appendix B, involving Board reporting, controls testing, and training, all of which are more fully discussed in the ROE and Joint ROE.

(b) Within 60 days of the effective date of this Order, the Bank shall correct or address all other Information Technology-related findings contained in the ROE and Joint ROE.

**PROGRESS REPORTS**

12. Within 30 days of the end of the first quarter following the effective date of this Order, and within 30 days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director and the Director detailing the form and manner of any actions taken to secure compliance with this Order and the results thereof. Such reports shall include a copy of the Bank's Reports of Condition and Income. Such reports may be discontinued when the corrections required by this Order have been accomplished and the Regional Director and the Director have released the Bank in writing from making further reports.

**DISCLOSURE TO SHAREHOLDERS**

13. Following the effective date of this Order, the Bank shall provide a copy of the Order or otherwise furnish a description of the Order to its shareholder(s) in conjunction with:

- (a) the Bank's next shareholder communication; and
- (b) the notice or proxy statement preceding the Bank's next shareholder meeting.

The description shall fully describe the Order in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Division of Risk Management Supervision, Accounting and Securities Disclosure Section, 550 17<sup>th</sup> Street, N.W., Washington, D.C. 20429, at least 20 days prior to dissemination to shareholders. Any changes requested to be made by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

**BINDING EFFECT**

14. The provisions of this Order shall not bar, estop, or otherwise prevent the FDIC, the WDFI, or any other federal or state agency or department from taking any other action

against the Bank or any of the Bank's current or former institution-affiliated parties, as that term is defined in Section 3(u) of the FDI Act, 12 U.S.C. § 1813(u).

This Order will become effective upon its issuance by the FDIC and the WDFI.

The provisions of this Order shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this Order shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the WDFI.

Issued pursuant to delegated authority.

Dated this 10th day of January, 2025.

/s/  
\_\_\_\_\_  
Michelle Ogren  
Deputy Regional Director  
Division of Risk Management Supervision  
San Francisco Region  
Federal Deposit Insurance Corporation

/s/  
\_\_\_\_\_  
Roberta Hollinshead  
Director of Banks  
Washington Department of Financial  
Institutions