

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

)
)
In the Matter of)
)

1ST SECURITY BANK OF WASHINGTON)
MOUNTLAKE TERRACE, WASHINGTON)

(INSURED STATE NONMEMBER BANK))
)
_____)

ORDER TO
CEASE AND DESIST

Docket No. FDIC-07-190b

1st Security Bank of Washington, Mountlake Terrace, Washington ("Bank"), having been advised of its right to a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b)(1) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b)(1), and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC"), dated August 9, 2007, whereby solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC.

The FDIC considered the matter and determined that it had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had committed violations of law and/or regulations. The FDIC, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS HEREBY ORDERED, that the Bank, its institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), and its successors and assigns cease and desist from the following unsafe and unsound banking practices and violations of law and/or regulation as more fully set forth in the FDIC's Report of Examination dated January 29, 2007.

(a) operating in violation of section 326.8 of the FDIC Rules and Regulations, 12 C.F.R. § 326.8, regarding a satisfactory BSA/AMA compliance program; and

(b) operating in violation of section 353.3 of the FDIC Rules and Regulations, 12 C.F.R. § 353.3, regarding procedures to identify, monitor and report suspicious activities.

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

1. Within 45 days of the effective date of this ORDER, the Bank shall comply in all respects with the Bank Secrecy Act ("BSA") and its rules and regulations.

2. Within 45 days of the effective date of this ORDER, the Bank shall correct the violations of sections 326.8 and 353.3 of the FDIC's Rules and Regulations, 12 C.F.R. §§ 326.8, 353.3.

3. Within 60 days of the effective date of this ORDER, the Bank shall develop, adopt and implement a written compliance program, as required by the applicable provisions of section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8, designed to, among other things, ensure and maintain compliance by the Bank with the BSA and the rules and regulations issued pursuant thereto. The program shall ensure that clear and comprehensive BSA compliance reports are provided to the Bank's Board of Directors on a monthly basis. Such program and its implementation shall be in a manner acceptable to the Regional Director of the

FDIC's San Francisco Regional Office ("Regional Director") as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the program shall:

(a) Establish a system of internal controls to ensure compliance with the BSA and the rules and regulations issued pursuant thereto, including policies and procedures to detect and monitor all transactions to ensure that they are not being conducted for illegitimate purposes and that there is full compliance with all applicable laws and regulations.

(b) Provide for independent testing of compliance with the BSA, all applicable rules and regulations related to the BSA, and the reporting of suspicious transactions required to be reported pursuant to Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353. The independent testing shall be conducted on an annual basis and in accordance with the procedures described in the Federal Financial Institutions Examination Council ("FFIEC") Bank Secrecy Act/Anti-Money ("BSA/AML") Laundering Examination Manual 2006. The independent testing, at a minimum, should address the following:

(i) overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes;

(ii) BSA/AML risk assessment;

(iii) BSA reporting and recordkeeping requirements;

(iv) Customer Identification Program ("CIP") implementation;

(v) adequacy of customer due diligence ("CDD") policies, procedure, and processes and whether they comply with internal requirements;

(vi) personnel adherence to the Bank's BSA/AML policies, procedures, and processes;

(vii) appropriate transaction testing, with particular emphasis on high-risk operations (products, service, customers, and geographic locations);

(viii) training adequacy, including its comprehensiveness, accuracy of materials, the training schedule, and attendance tracking;

(ix) integrity and accuracy of management information systems (“MIS”) used in the BSA/AML compliance program;

(x) an evaluation of management’s efforts to resolve violations and deficiencies noted in the previous tests or audits and regulatory examinations; and

(xi) an assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, completeness, and effectiveness of the Bank’s policy.

(c) Written reports shall be prepared which document the testing results and provide recommendations for improvement. Such reports shall be presented to the Bank’s Board of Directors;

(d) Ensure that the Bank’s BSA compliance program is managed by a qualified officer who shall have sufficient time and staffing to devote to BSA duties. The officer shall have responsibility for all BSA compliance and related matters, including, without limitation;

(i) the identification of timely, accurate and complete reporting to law enforcement and supervisory authorities of unusual or suspicious activity or known or suspected criminal activity perpetrated against or involving the Bank; and

(ii) monitoring the Bank's compliance and ensuring that full and complete corrective action is taken with respect to previously identified violations and deficiencies.

(e) Provide and document training by competent staff and/or independent contractors of all board members and all appropriate personnel, including, without limitation, tellers, customer service representatives, lending officers, private and personal banking officers, employees of the funds transfer and check processing departments, and all other customer contact personnel, in all aspects of regulatory and internal policies and procedures related to the BSA, with a specific concentration on accurate recordkeeping, form completion and the detection and reporting of known and/or suspected criminal activity. Training shall be updated on a regular basis to ensure that all personnel are provided with the most current and up to date information.

4. Within 60 days of the effective date of this ORDER, the Bank shall develop, adopt and implement a written customer due diligence program. Such program and its implementation shall be in a manner acceptable to the Regional Director as determined at subsequent examinations and/or visitations of the Bank. At a minimum, the customer due diligence program shall provide for the following:

(a) A risk focused assessment of the customer base of the Bank to determine the appropriate level of enhanced due diligence necessary for those categories of customers that the Bank has reason to believe pose a heightened risk of illicit activities at or through the Bank.

(b) For those customers whose transactions require enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to confirm the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer;
and

(iii) reasonably ensure the identification and timely, accurate and complete reporting of known or suspected criminal activity against or involving the Bank to law enforcement and supervisory authorities, as required by the suspicious activity reporting provisions of Part 353 of the FDIC's Rules and Regulations, 12 C.F.R. Part 353.

(c) Monitoring of all high-risk accounts at least quarterly, with documentation of conclusions regarding customer transactions, and submission of the internal "HRA Watchlist" to the board monthly as required by the BSA Policy.

(d) Maintenance of an effective audit trail for executed transactions.

(e) Procedures to allow the Bank to identify those accounts currently in existence for which the Bank lacks critical customer data (including without limitation, full names of account holders and beneficial owners of accounts, tax identification numbers, addresses and country of origin, business) and to collect any missing information relating to such accounts within 60 days of identification of missing account data.

(f) Notwithstanding any other provisions of the ORDER, with respect to accounts for which critical information cannot be located, procedures for determining whether such accounts should be closed and for closing them and procedures for determining whether such accounts warrant a suspicious activity report.

(g) Procedures to identify related accounts; whether related through common signors, common addresses, common owners, and/or common individuals designated as power

of attorney. Any such related accounts should be maintained in a comprehensive "Related Depositor List" which shall be updated and distributed to all operations personnel monthly. Such list shall also include any other related depositors which any Bank director, officer, or employee has reason to believe are related. The significance of such list shall be discussed in regular BSA training sessions, along with instructions on how to use it to identify structured transactions. In addition, such list shall be used to fully complete any suspicious activity reports filed by the Bank, which shall include information on any related deposit accounts, as determined by such list.

5. (a) Within 90 days from the effective date of this ORDER, the BSA Officer shall review all high-risk accounts and high-risk transactions, including but not limited to the Bank's large currency transaction reports, cash purchases of monetary instruments, wire transfer activity, and foreign exchange services for the period July 1, 2006 through January 1, 2007 (Transaction Review Period), and shall prepare and file any additional CTRs and SARs necessary based upon the review. Documentation supporting any determination made pursuant to this paragraph shall be retained in the Bank's records for such period of time as may be required by any applicable rules or regulations. Based upon the results of the review, the Regional Director may extend the Transaction Review Period.

(b) Upon completion of the reviews required pursuant to the paragraphs above, the Bank shall submit the findings of the review and copies of any additional SARs and CTRs filed to the Regional Director.

6. Within 30 days of the end of the first quarter following the effective date of this ORDER, and within thirty (30) days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Regional Director detailing the form and manner of any actions

taken to secure compliance with this ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director has released the Bank in writing from making further reports. A copy of progress reports shall be sent to the State of Washington Director of Banks.

This ORDER will become effective upon its issuance by the FDIC. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provisions of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC.

Pursuant to delegated authority.

Dated at San Francisco, California, this 10th day of August, 2007.

Stan Ivie
Acting Regional Director
Division of Supervision and Consumer Protection
San Francisco Region
Federal Deposit Insurance Corporation