

First Sound Bank.

February 26, 2009

Special Inspector General—TARP
1500 Pennsylvania Avenue, NW Suite 1064
Washington, D.C. 20220

RE: Response: First Sound Bank, Seattle, WA


Gentlemen:

Thank you for your letter of February 6, 2009. The following is our attempt to answer the questions you raised regarding our participation in the Capital Purchase Plan and the \$7.4MM in capital we received on December 23, 2008.

1. We anticipate using the additional funding to grow the bank. We are a business bank specifically focused on providing banking services to small and medium sized businesses in the Greater Seattle market. The bank was chartered as a state, FDIC insured bank in Washington State and opened in July, 2004. We currently have in excess of \$250MM in total assets. Operating as a separate division of the bank is a small ticket commercial leasing company also assisting small business. We also have an asset based lending group within the bank serving businesses who do not have access to traditional sources of funding. We consider our participation in the Capital Purchase Plan as providing additional equity to the bank and not a sinking fund from which to fund individual loans and leases. Based on our operating guidelines and operating principals as agreed to by our Board of Directors it is not our intention to lend our equity but rather our intention would be to leverage the additional equity by attracting and building additional balance sheet deposits which, in turn, will be used to expand our lending practices to the small and medium sized businesses throughout our market area. We would expect to lever our \$7.4MM in new CPP equity in proportion to a 12% asset to equity ratio. This would be expected to produce roughly \$60 million in additional loans supported by \$53 million in new deposits over an extended period of time. **We have not segregated our CPP funds** from other institutional investors who represent are a very minor and insignificant part of our total equity base. This additional equity is supported by the only preferred shares on our balance sheet and is segregated in that manner. We do consider these funds to be part of our equity pool to support the business plan outlined above and we will endeavor to keep sufficient records of growth related to the availability of this segment of our capital. In our opinion as other banks retrench and withdraw from this market we will be able to reach out to quality

prospects and grow our balance sheet and our market penetration. This additional capital gives us the resources to expand. A copy of our January 22, 2009 Strategy of Deployment of CPP funding is attached for your reference. **Use of these funds** is not anticipated to produce a short term stimulus to the local economy; we have planned on a 3-5 year term in which to deploy this capital in a prudent way and to build on this equity to further strengthen our capital base. We have no intention of making any claim to have the ability to utilize it sooner unless there is an opportunity to acquire a base of deposits from another bank that deems itself vulnerable. That said, we were never under the impression that these funds were to be earmarked for acquisitions and we would expect that case to only arise from a distressed bank deposit purchase.

2. **Executive compensation:**

 We felt, in light of the worsening local economy, this was the prudent and responsible thing to do. We do intend to comply fully with the compensation guidelines imposed by the Treasury and our Compensation Committee has a meeting scheduled to address these issues. We do not see these guidelines as problematic to us and look forward to further clarification on these guidelines from Treasury.

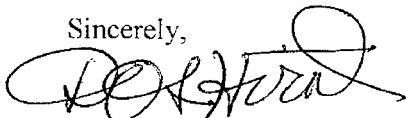
3. Again, it is our intention to conduct an aggressive calling and marketing program to reach out to small business which are the cornerstone of this local economy. We will report monthly to our Board of Directors on the use of our additional capital and we will continue to track and report our new growth as a result of this addition to our capital (which we currently do on a monthly basis). We have only had these funds since the end of December and the first month or two of 2009 has not been a particularly robust time for growth in banking as many small businesses are concerned with the local and national economy and have delayed or cancelled plans to expand. Many are already implementing or anticipating layoffs as they experience a downturn in revenue. This will likely create challenges for a lender looking for quality relationships and new lending opportunities but we, nonetheless, feel there are opportunities during this time for a sound, reliable lender to step forward with the capital and the resources to assist small business. We feel that as other competitors look internally and retrench during this time there will be opportunities for strong community banks to step forward and grow profitably. Regular dialogue with our customers and shareholders is important to us and we will share with the public our commitment to the local community in an honest and direct way (a networking sample is attached).

4. **Specific use of funds:** Again, as I have mentioned it is our intent to add deposits to fund our additional growth and preserve our capital but here are some recent specific opportunities we have help fund that allow the growth of small business in this market: A.) We are booking approximately \$1.5MM per month in new leases assisting approximately 50 small businesses each month with financing that they would have difficulty obtaining elsewhere. We recently lowered our rates by 200 basis points to show our commitment to this market segment. B.) We recently committed \$1.5MM to a company that had applied for and was declined by a major bank to fund a real estate transaction that has CRA implications. This financing will assist the development of a low to moderate income area by bringing a business that otherwise would not locate there C.) Our asset based lending group added \$1.4MM since January to assist in the expansion of a small business.

We are hopeful this gives you the general direction of First Sound Bank in effectively utilizing the additional capital for quality growth. Any questions you may have can be directed to my attention.

The following statements, representations and supporting information are accurate and a true reflections of the intent and practice of First Sound Bank.

Sincerely,



Don L. Hirtzel
Chairman and CEO

Sent via e mail on 2-26-09 to SIGTARP.response@do.treas.gov



First Sound Bank.

January 22, 2009

Strategy for optimizing the deployment of the \$7.4MM participation in TARP-Capital Purchase Plan:

1. Add deposits and utilize the additional capital to lever our balance sheet for growth and increased lending activity to take advantage of revised pricing and terms that reflect changes in the marketplace. Expanding our outreach to small and medium sized businesses in the Greater King County market. Seek attractive risk-reward opportunities in support of our 2009 business plan.
2. Augment available capital and develop contingent capital and liquidity plans to support current and future business opportunities.
3. Use capital to support aggressive loan loss reserve additions, non performing asset sales, loan modifications and other balance sheet restructuring programs.
4. [REDACTED]
5. [REDACTED]
6. [REDACTED]

Executive Management
First Sound Bank



JANUARY 2008

THE "SCARY TIMES" SUCCESS MANUAL

Transforming anxiety about the future into strategic growth, progress, and achievement

From time to time, economic and political events make people anxious and fearful about their futures. In response to many requests for insight on how to thrive when events seem to be beyond their control, here are ten strategies for transforming negativity and unpredictability into opportunities for growth, progress, and achievement. We hope these strategies support your creative thinking, communications, and actions.

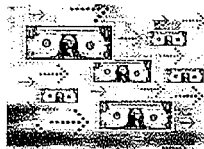


1. Forget about yourself, focus on others.
2. Forget about your commodity, focus on your relationships.
3. Forget about the sale, focus on creating value.
4. Forget about your losses, focus on your opportunities.
5. Forget about your difficulties, focus on your progress.
6. Forget about the "future," focus on today.
7. Forget about who you were, focus on who you can be.
8. Forget about events, focus on your responses.
9. Forget about what's missing, focus on what's available.
10. Forget about your complaints, focus on your gratitude.

Read or listen to the entire *The "Scary Times" Success Manual*.

Dan Sullivan is the founder and president of The Strategic Coach Inc. and the creator of the Strategic Coach® Program, which helps accomplished entrepreneurs reach new heights of success and happiness. He has over 30 years of experience as a speaker, consultant, strategic planner, and coach to entrepreneurial individuals and groups. For more information, please visit www.strategiccoach.com.

ASSET BASED LENDING



Although the majority of commercial lending is secured by an asset, the term Asset Based Lending is typically used to describe a type of commercial lending that involves a higher degree of structuring and monitoring

than conventional commercial lending. This type of lending is most commonly utilized to meet 'cash flow timing needs' (the period between selling something and receiving payment for it). Asset Based Lending allows a lender to mitigate increased risk levels through comprehensive monitoring and auditing of a company's accounts receivables. The lender will also maintain strict oversight of who the company does business with, as well as the ability of those particular customers to actually pay. Asset Based Lending is frequently utilized by companies that, because of adverse financial conditions, find themselves temporarily unable to borrow conventionally.

Amber Klein, V.P. & ABL Manager, First Sound Bank

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CASH FLOW BEST PRACTICES

Credit & Accounts Receivable

- Establish (written) credit policies and adhere to sound credit practices. Train staff.
- Review the payment performance of all customers and segment utilizing the 80/20 rule. Consider measures for slow payers/problem accounts.
- Bill the same day the order is fulfilled.
- Become more selective when granting credit (tighten credit criteria surrounding who gets it).
- Become more selective regarding the amount and/or time of credit granted (tighten credit criteria surrounding how much, when, and how long).
- Add late payment charges or fees where possible.
- Generate weekly reports on aging and receivable ratios (A/R Turnover & A/R Collection period).
- Use more proactive collection techniques (first call at 10 days rather than 30 days, etc.)
- Establish exact criteria for which (collection) accounts are handed internally and which are turned over to another party.

ON CRISIS

"In a time of crisis we all have the potential to morph up to a new level and do things we never thought possible."

- Stuart Wilde
British Author & Lecturer

ON ASSETS

"People first, then money, then things."

- Suze Orman
Author (The Road to Wealth)

ON GOALS

"People with clear, written goals, accomplish far more in a shorter period of time than people without them could ever imagine."

- Brian Tracy
Motivational Coach and Author