



FDIC

Federal Deposit Insurance Corporation

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Legal Division

San Francisco Regional Office
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July 15, 2009

Robert P. Gibb, M.D.
Chuckanut Mountains Park District Advisory Committee
204 Viewcrest Road
Bellingham, WA 98229

Re: Horizon Bank
Bellingham, Washington
Real Estate Development Activities

Dear Dr. Gibb:

On behalf of the Federal Deposit Insurance Corporation ("FDIC"), I am responding to your letter dated June 17, 2009 regarding the current status of the Order issued by the FDIC's Board of Directors to Horizon Bank, Bellingham, Washington ("Bank") on May 24, 1994. Essentially, the Order approves an application submitted by the Bank to continue to engage in residential real estate development activities, subject to the following four conditions:

1. That the applicant [Bank] conduct real estate development activities through its wholly owned subsidiary, Westward Financial Services Corporation ("WFSC");
2. That activities be limited to the development of real estate intended for single-family residential use;
3. That the applicant's [Bank's] aggregate investment in the activity at any one time not exceed 25% of its Tier 1 capital; and
4. That the consent granted [by the Order] is based on the facts and circumstances presented or otherwise known to the FDIC in connection with [the Bank's] request and if the facts and circumstances change significantly, the Corporation [FDIC] shall have the right to alter, suspend, or withdraw its approval.

You have asked the FDIC to ascertain whether the Order is still in effect and, if so, whether the Bank has violated, or is violating, any of the four conditions stated above.

Robert P. Gibb, M.D.
July 15, 2009
Page Two

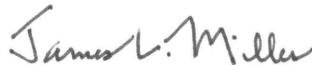
I am confirming that the Order is still in effect and has not been modified. Furthermore, I have been advised by FDIC personnel responsible for examining the Bank that, while the Order is continuing to be assessed in terms of the FDIC's most recent issuance of the Section 8(b) Order to Cease and Desist against the Bank on March 3, 2009, the Bank has not been found to have violated any of the four conditions of the Order to the present time.

In particular, and with respect to condition #2, I have been advised that, while the current site plan on file with the city of Bellingham for the proposed (but not yet constructed) Fairhaven Highlands development (in which WFSC is, in essence, a 50% partner) references both single family and multi-family units, the FDIC will continue to closely monitor the progress of the proposal through the continuing zoning review and approval process and will be in continuing communication with the Bank in order to ensure that the units that may be ultimately approved by the city of Bellingham for construction on the site are, in fact, intended for single-family residential use and that the Bank remains in compliance with condition #2.

With respect to condition #3, I have been advised that, since the Order has been in effect, the Bank's aggregate investment in the real estate activities of WFSC has not exceeded 25% of the Bank's Tier 1 capital. The most recent figures obtained and verified by FDIC personnel confirm that, as of June, 2009, the Bank's current, aggregate investment stands at 20% with respect to the Bank's equity investment in WFSC. Again, we will continue to closely monitor the Bank's investment in this regard to ensure that the Bank remains in compliance with condition #3.

Please do not hesitate to contact the undersigned at 415-808-8175 if you have any further questions regarding this matter.

Sincerely,



James L. Miller
Counsel

JLM;dhg