

**CPP ANNUAL USE OF CAPITAL SURVEY - 2010**



NAME OF INSTITUTION  
(Include Holding Company Where Applicable)

Sterling Financial Corporation

Point of Contact:	Patrick J. Rusnak	RSSD: (For Bank Holding Companies)	3152245
UST Sequence Number:	183	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	303,000,000	FDIC Certificate Number: (For Depository Institutions)	
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	N/A	City:	Spokane
Date Repaid <sup>1</sup> :	N/A	State:	Washington

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

**What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).**

**Increase lending or reduce lending less than otherwise would have occurred.**

Sterling developed loan programs for affordable housing, consumer needs, small and medium businesses. Sterling also reduced fees on a number of products and services, in an effort to provide fair pricing for these value added products and services.

**To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

Sterling expanded loan programs for Small Business (under SBA 7 A and 504 programs) and implemented a special home-buyers program, which provided qualified home owners up to a 3% credit.

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**X Increase securities purchased (ABS, MBS, etc.).**

Sterling has been active purchasers of FHLMC, FNMA and GNMA MBS, which helps support the housing market. Sterling's MBS balance increased by over \$664 million in 2010. Sterling has also invested in targeted State bond programs that provide for housing rehabilitation.

**X Make other investments.**

Sterling has made investments in municipal securities and in targeted housing related bonds (which provided for housing rehabilitation), in our local footprint.

**X Increase reserves for non-performing assets.**

Sterling had approximately \$250 million in provision for credit losses at December 31, 2010 and our allowance for non-performing loans has increased to 4.39% at December 2010. In addition, we have also sold notes of non-performing loans and REO to reduce non-performing assets.

**X Reduce borrowings.**

Sterling reduced its borrowings by approximately \$949 million in 2010.

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**X Increase charge-offs.**

Sterling had total charge-offs of more than \$376 million in 2010, \$238 million of which was in our construction portfolio.

**X Purchase another financial institution or purchase assets from another financial institution.**

Sterling purchased \$82.7 million of multifamily loans following its recapitalization in August 2010.

**X Held as non-leveraged increase to total capital.**

Sterling has held higher than required capital since being recapitalized in August of 2010. Sterling Financial Corp.'s Tier 1 leverage ratio was 10.1 % and Sterling Savings Bank's Tier 1 leverage ratio was 9.8 % at December 31, 2010.

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**What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?**

Without the CPP funds, Sterling's lending in most consumer and business programs would have been substantially reduced. Sales of certain non-performing loans may have been sold at substantial discounts, likely increasing the level of charge-offs. Sterling operates 178 depository branches and 229 financial service locations in 5 western states. We employ approximately 2,500 FTEs across our footprint. Employment levels would have been reduced more dramatically. A number of our branches are located in rural markets and in many, Sterling is the only financial institution providing service. The CPP funds have allowed us to remain committed to all of these markets, without disruption to service and product to consumers and businesses. And in fact, Sterling Savings Bank was recognized by JD Power and Associates, in 2010, as having the highest customer satisfaction with retail banking in the Pacific Northwest region, defined as Washington and Oregon.

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**What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?**

Sterling's ability to support municipalities with the investment in general obligation and targeted housing bonds and the agency MBS would have been reduced. We have also implemented consumer loan modification programs under the Making Homes Affordable programs and as part of our continuing CRA efforts, we have met with a number of advocacy groups to educate consumers on the appropriate use of credit. Additionally, we have been able to support our employees' involvement in the communities they serve.

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**Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.**

A large, empty rectangular box with a black border, intended for the respondent to provide a detailed description of actions undertaken with the capital infusion of CPP/CDCI funds.