

## As A Savings Bank Doing Business In The Puget Sound Area, Whether It Is A First-Time Home Or Car Buyer, A Safe Retirement Strategy, Or A Growing Business, Sound Financial Is Making People Dreams Come True One Transaction At A Time

**Financial  
Community Bank  
(SNFL-OTC: BB)**

**Sound Financial, Inc.**

**2005 Fifth Avenue, Second Floor  
Seattle, WA 98121  
Phone: 206-448-0884**



**Ms. Laura Lee Stewart  
President and CEO**

**BIO:**

Laura Lee Stewart is currently President and Chief Executive Officer of Sound Community Bank. Prior to joining Sound Community Bank in 1989, Ms. Stewart was Senior Vice President/Retail Banking at Great Western Bank.

**Company Profile:**

Sound Financial Inc. is the holding company for Sound Community Bank, a full-

service bank, providing personal and business banking services in communities across the greater Puget Sound region. The Seattle-based company operates banking offices in King, Pierce, Snohomish and Clallam Counties.

**Interview conducted by:  
Lynn Fosse, Senior Editor  
CEOCFOinterviews.com**

**CEOCFO:** Ms. Stewart, what has been your vision as CEO?

**Ms. Stewart:** “We have an interesting history; we started as a credit union, converted to a mutual savings bank and then did a minority offering a year ago. We have come from a \$39 million credit union predominantly serving the grocery industry and related businesses, to a mutual savings bank doing business in the Puget Sound area with total assets of more than \$250 million, and a \$125 million servicing portfolio. It has been a very interesting transition over the last eighteen years. Our vision is very clear. We really believe we make peoples dreams come true. Whether that dream is the dream for a first-time homebuyer, a first-time car buyer, a safe retirement strategy, or a business looking to expand their market share, we believe that we are partners with our client and that we can make their dreams come true, one transaction at a time.”

**CEOCFO:** Who is your typical client?

**Ms. Stewart:** “We serve consumers. A portion of our business that has grown significantly, there are the business clients who have credit needs of \$100 thousand to probably two and a half to three million, and those are small business clients. Because we have a thrift charter, we

focus on real estate lending and the core competency both for retail and for business clients. We love to be able to finance business client’s commercial properties where they are doing business, but we also do consumer and non real estate business lending and lines of credit.”

**CEOCFO:** How is the economy faring in your neck of the woods?

**Ms. Stewart:** “We certainly didn’t have that rapid meltdown that happened in certain parts of the country, but we have definitely seen some softening especially in the second half of this year. We have seen softening in prices, higher inventory, and slower time to market for homes on the market. The big thing in our market is we still have had very strong employment. If employment growth remains strong, while developers are not building houses, we actually shouldn’t have quite as deep a dip, because inventory will begin to decline. Part of that employment picture is what happens to all the headquarters people at Washington Mutual, which go to work just down the street from me. There will definitely be some bankers on the street.”

**CEOCFO:** What is your philosophy at real estate lending, and how have you escaped the problems that so many other banks are facing?

**Ms. Stewart:** “Knock on wood; we have never had a spectacular cycle as others, so we are never spectacular on either side. Clearly although we have done a few development loans, it is a very small portion of our business, unlike some banks who have a huge number of developers and some really rich spread while they were doing that business. We know our business borrowers; we have been out to their

locations, and we do business one borrower at a time. On the residential side, yes, we have done some first-time homebuyer loans, and we have done a few stated income loans, but we know our borrowers. Therefore, it is a conservative approach and making loans that make sense for the financial well being of our borrower has been our approach, and if that means saying no, being able to say no.”

**CEO CFO:** How do you reach your new customer?

**Ms. Stewart:** “The best source of new customers for us, are satisfied existing customers. We do a huge amount of referral business on both the consumer and business side. Nothing speaks better than when someone has their dreams come true and they send us another client. We also do a lot of community service. All of our employees are involved in community service and various activities. We have a high profile in the communities where we do business. I think the third thing is that we delegate a lot of authority to our branch manager. Folks in Sequim see our manager there as more like the president of their home town bank. Certainly some of them know that they this is a branch of a larger organizations, but they really expect that when they walk into that Sequim branch that is their community banker and the people in that branch that are going to get things done for them. They really feel like they are connected and that is our goal. I would not care if anyone knew that I was the bank CEO. I have clients, but I would want those folks on the street to have the authority and the decision-making power and the authority to do transactions.”

**CEO CFO:** What are the intangibles that you want in your people that gives you the confidence to delegate authority?

**Ms. Stewart:** “One is that I believe in the concept of professional bankers. We try to grow our own bankers and we try to bring them up in a manner that even if they don’t have the authority, they can get a quick answer somewhere. Therefore, that ability to really be the frontline person with a client is not impeded by having to

say, “Oh gee, it has to go three places before I can even talk to you about it”. If they don’t have the authority (and we have good credit oversight) they can get an answer really fast. That is one of the skills we really try to develop; for them to understand banking and know where to get an answer if they don’t have the answer. It is because of the need to fill in the role of being the front person for every transaction, no matter how small or big, no matter if someone is having trouble with online banking or somebody who wants a million-dollar commercial secured real estate loan. Another one is this feeling of really wanting to make peoples dreams come true, taking their role as bankers as something more than a nine-to-five kind of job. It is seeing that there is something bigger than just themselves and transactions that they are hoping to facilitate. Along with that must come

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**- Ms. Laura Lee Stewart**

ethics, honesty and class; yes, we expect our people to have class too.”

**CEO CFO:** What is the competitive landscape like for you, particularly with other community banks?

**Ms. Stewart:** “I wish I could see into the future a little bit. For us a lot of competition actually came from Washington Mutual. They were one of the strongest competitors we had because they positioned their branches like community banks; they had the pricing leverage and the huge branch network to just walk all over. So they looked like community banks, but they had the benefit of being a large regional national bank. With the Chase introduction there that may not be our strongest competitor anymore. We compete a lot with credit unions, we compete a lot with other community banks, but we try to be careful in our branching strategy so that we are entering markets where they need us. Will we take

some clients away from Bank of America? Sure, ultimately we will.”

**CEO CFO:** Are there services that you are not offering that you would like to add?

**Ms. Stewart:** “There are not a lot of those. We really spent 2008 beefing up our product line particularly in some areas that will appeal to small business clients, so we have really worked on that. Something that we don’t do are reverse mortgages and we see that as a big product line is our clientele ages and to meet the needs of baby boomers. So that is on our agenda for next year. Because we have to compete with all these other guys, we have to have other online banking and credit products and a lot of varieties of residential real estate loans.”

**CEO CFO:** What is your plan for new branches and has that changed the last few months?

**Ms. Stewart:** “Maybe a little bit. We plan to do two new branches in 2008. We located and are developing one and have plans to relocate another. So we will be slower on that next new branch; we are just watching what is happening in the economy. With everything that is happening, will there be some bank divestitures, so there might be another opportunity out there for us than we anticipated before the current cycle.”

**CEO CFO:** We talked a bit about good earnings; tell me more specifically what is the financial picture for you today and how have you been able to achieve good results?

**Ms. Stewart:** “I think the real fact of the matter is we never had spectacular earnings. We are working really hard to leverage the branch networks that we have and that has to be our focus going forward. That is how we will increase earnings. On the other hand, despite increase allowed for loan losses we have been able to fund those increases out of earnings. That is very atypical for most bankers right now and accounts for a lot of the losses. In terms of delinquencies, our delinquencies are actually down from a year ago.”

**CEO CFO:** What are some concrete examples of what might be different for a client when they are using your bank?

**Ms. Stewart:** “We run articles in our quarterly news letter about making dreams come true. We have a client in the north end of Seattle that wrote me a letter and said, “When I saw you opened a branch here and put that on your business card and your letterhead, I thought that was kind of corny. But I know we have this side barbeque business and I want to take the lead and run a barbeque shop. I came in, talked to the commercial lender and was able to get a line of credit to get started. So now, I have opened my own business and it is profitable. I walked into the branch with my deposit the other day and realized that this bank made my dream come true. They worked with me

they analyzed my business plan, looked at a prudent way to borrow to try to get this enterprise going and here I am. I am a successful entrepreneur.” I had a client over on the Olympic Peninsula that told me about their first-time home-buying experience and then went on to talk about how when she talked to her family about it she realized that in her extended family there were seven people that had loans and accounts with us. There were all these connections, the community bank connections that you make that allowed her to be a first-time homebuyer without taking a bad loan that she couldn’t afford. It is all those small stories that go to accomplishing what anybody’s dream is and some of those dreams are not very grandiose. It might be a courtesy clerk at a grocery store that wants to buy their

first car or a graduating high school senior that wants to be excited about their first debit card and some coaching on how to balance their checking account.”

**CEO CFO:** In closing, why should potential investors choose Sound Financial?

**Ms. Stewart:** “I think that we have hit on a couple of those things. I believe we will be around for the long haul. I believe that our commitment is to be a bank that makes a difference in the communities and with their clients. Our board of directors is committed to a strong improvement in earnings and when fashions have faded and people have done glitzy things, the hope is that we will still be here banking one transaction at a time.”



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