

#2011-181

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

IN THE MATTER OF:)	AA-EC-11-110
)	
HOME SAVINGS OF AMERICA)	
LITTLE FALLS, MINNESOTA)	Effective Date: December 16, 2011

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Home Savings of America, Little Falls, Minnesota (“Bank”) is a “critically undercapitalized” insured depository institution pursuant to 12 U.S.C. § 1831o and 12 C.F.R. Part 165; and

WHEREAS, the Office of the Comptroller of the Currency (“OCC”) is authorized, pursuant to 12 U.S.C. § 1831o, to take certain supervisory actions against critically undercapitalized insured depository institutions; and

WHEREAS, on December 2, 2011, the OCC issued a Notice of Intent to Issue a Prompt Corrective Action Directive (“Notice”) to the Bank pursuant to 12 C.F.R. § 165.7(a)(1);

WHEREAS, on December 8, 2011, the Bank submitted a written response to the Notice pursuant to 12 C.F.R. §165.7(c); and

WHEREAS, the OCC has carefully considered the Bank’s response to the Notice; and

WHEREAS, the Comptroller of the Currency (“Comptroller”) finds it necessary in order to carry out the purpose of 12 U.S.C. § 1831o to issue this Prompt Corrective Action Directive (“Directive”), requiring the Bank to immediately follow proscriptions and take actions; and

NOW THEREFORE, pursuant to the authority in 12 U.S.C. § 1831o, the Comptroller hereby issues this Directive.

ARTICLE I

JURISDICTION

(1) The Bank is a federal savings association as that term is defined in 12 U.S.C. § 1813(b)(1), and (2) and is supervised and examined by the Comptroller pursuant to 12 U.S.C. § 5412(b).

(2) The OCC is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1831o.

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1831o.

(4) This Directive constitutes a final order under 12 U.S.C. § 1831o and is enforceable under 12 U.S.C. § 1818(i).

(5) A violation of this Directive constitutes a violation of a final order under 12 U.S.C. § 1831o and is subject to the assessment of civil money penalties under 12 U.S.C. § 1818(i)(2)(A).

ARTICLE II

COMPLIANCE COMMITTEE

(1) Within five (5) days, the Board of Directors (“Board”) shall appoint a Compliance Committee of at least three directors, a majority of whom shall not be an employee, former employee, or controlling shareholder of the Bank or any of its affiliates (as the term “affiliate” is defined in 12 U.S.C. § 371c(b)(1)), or a family member of any such person. The Compliance Committee shall be responsible for monitoring and coordinating the Bank’s compliance with this Directive.

(2) Within ten (10) days, the Compliance Committee shall submit a written progress report to the Board setting forth in detail its actions taken to ensure compliance with this Directive, this report shall be included in the Board minutes and a copy of the report shall be sent to the Director for Special Supervision (“Director”).

(3) Thereafter, the Compliance Committee shall provide monthly compliance reports to the Board, with a copy to the Director within ten (10) days of the end of each month, commencing January 2012.

(4) Nothing in this Directive shall diminish the responsibility of the entire Board to comply with this Directive.

ARTICLE III

MINIMUM NUMBER OF BOARD DIRECTORS

(1) The Board shall ensure the Bank has the minimum number of directors on the Bank’s Board of Directors in compliance with the Bank’s bylaws and 12 C.F.R. § 152.7(b). For new proposed directors, the Board shall ensure compliance with the notice requirements of 12 C.F.R. Part 163, Subpart H.

ARTICLE IV

BOARD TO ENSURE COMPETENT MANAGEMENT

(1) The Board shall ensure that the Bank has competent management in place on a full-time basis in all senior executive officer level positions to carry out the Bank’s policies; correct the concerns raised in the September 26, 2011 Report of Examination (“ROE”); ensure compliance with this Directive, the Order to Cease and Desist, effective June 2, 2010 (2010 Order); and, the Amended Order to Cease and Desist, effective June 10, 2011 (2011 Amended

Order); ensure compliance with applicable laws, rules, and regulations; and manage the day-to-day operations of the Bank in a safe and sound manner.

(2) Prior to the appointment of any individual to a senior executive officer position, the Board shall ensure compliance with the notice requirements of 12 C.F.R. Part 163, Subpart H.

ARTICLE V

PAYMENTS TO DIRECTORS AND SENIOR EXECUTIVE OFFICERS

(1) Effective immediately, the Bank shall obtain the Director's written, supervisory non-objection prior to the payment of any fees, expense reimbursements, bonuses, commissions, or other types of compensation to a Bank director or a senior executive officer, as defined in 12 C.F.R. § 163.555, or their related interests, as defined in 12 C.F.R. § 215.2(n), other than salary payments to the Bank's officers and Board fee payments to members of the Board that were approved by the Board prior to the date of this Directive or earned and accrued in any pay period prior to the date of this Directive.

(2) Any request for supervisory non-objection pursuant to this Article shall contain, at minimum and in writing, the Board's determination that such remuneration:

- (a) is reasonable;
- (b) is proportionate to services rendered; and
- (c) compensates only for providing services that meet the Bank's legitimate needs.

ARTICLE VI

SEVERANCE PAYMENTS

(1) The Board shall ensure that the Bank does not make any severance payments unless, with respect to each such payment, the Bank has complied with the requirements of 12 C.F.R. Part 359.

ARTICLE VII

INDEMNIFICATION

(1) The Bank shall not cause any indemnification payments to be made to, or on behalf of, any institution-affiliated party without obtaining the Director's prior, written, supervisory non-objection. Any request for the Director's supervisory non-objection shall include a legal opinion from independent counsel setting forth the basis under which such indemnification payments fully satisfy the requirements of 12 U.S.C. § 1828(k)(5), 12 C.F.R. Part 359, and 12 C.F.R. § 145.121.

ARTICLE VIII

LIMITATIONS ON NEW CONTRACTS

(1) Effective immediately, the Bank shall not enter into or renew any contracts over \$50,000 without obtaining the prior written approval by the Bank's Board and the Director's prior, written, supervisory non-objection.

(2) Any request for the Director's supervisory non-objection shall include:

- (a) a description of the goods received or services to be performed, including a copy of the proposed contract or engagement;

- (b) a description of the Bank’s due diligence process for selecting the contractor or service provider and the results of the due diligence review, including a description of why the contractor or service provider was selected;
- (c) a cost/benefit analysis for engaging the contractor or service provider;
- (d) a determination by the Board that the contract or engagement is being entered into at arm’s length on terms and conditions fair and reasonable to the Bank, including the ability of the parties to perform under the contract or commitment; and
- (e) a determination by the Board that the contract is in the best interests of the Bank.

(3) Following any supervisory non-objection granted by the Director, the Board must routinely monitor the performance of the contractor or service provider to ensure that committed goods or services are received, and that they are in compliance with the written contract or engagement.

ARTICLE IX

PRESERVATION OF BOOKS AND RECORDS

(1) The Board shall ensure that all of the Bank’s books and records are accurately maintained and preserved on the premises of the Bank and shall ensure that no Bank documents, books, or records are destroyed, altered or removed from the Bank’s premises. The Board and Bank management shall provide OCC personnel with prompt and complete access to the books, records, officers and staff of the Bank. The Board shall ensure all agents and representatives of the Bank provide OCC personnel with prompt and complete access to the books and records of the Bank. For purposes of this paragraph, “books and records” shall have the broadest possible

meaning reasonably imaginable and shall include, without limitation, paper and electronic records of all kinds, reports, notes, calendars, phone logs, e-mails, voice-mails, financial instruments, and tapes.

ARTICLE X

COMPLIANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES ("GAAP")

(1) Effective immediately, the Board shall ensure the Bank's books and records are maintained in compliance with GAAP and are consistent with safe or sound banking practices including, but not limited to, ensuring all assets are accounted for in accordance with GAAP and appropriate adjustments were made as required by the ROE.

(2) On a quarterly basis, commencing with the quarter ending December 31, 2011, the Bank shall undertake a review of the Allowance for Loan and Lease Losses ("ALLL") within thirty (30) days of each quarter end to ensure an adequate ALLL is maintained, as required by 12 C.F.R. § 160.160(b), considering, but not limited to, the following factors: (a) internal risk ratings of loans; (b) results of the Bank's independent loan review; (c) recognition of non-accrual loans in conformance with GAAP and regulatory guidance; (d) loan loss experience; (e) trends of delinquent and non-accrual loans; (f) concentrations of credit in the Bank's portfolio; and (g) present and projected economic and market conditions.

ARTICLE XI

CAPITAL RESTORATION PLAN

(1) The Bank first became undercapitalized as of June 30, 2011, and the OCC confirmed this status to the Bank by letter dated August 31, 2011. Since August 31, 2011, the Bank, has been under a continuing obligation to submit an acceptable Capital Restoration Plan

("CRP"), pursuant to 12 U.S.C. § 1831o(e)(2) and 12 C.F.R. § 165.5, and the OCC's letters dated August 31, 2011, November 17, 2011, and December 2, 2011.

(2) Within forty-five (45) days, the Bank shall submit to the OCC an acceptable CRP that meets the requirements of 12 U.S.C. § 1831o(e)(2) and 12 C.F.R. § 165.5, and the OCC's letters dated August 31, 2011, November 17, 2011, and December 2, 2011.

(3) Any increase in capital necessary to meet the requirements of this Article and satisfy the CRP shall be accomplished solely by the following:

- (a) the sale of common stock; or
- (b) the sale of noncumulative perpetual preferred stock; or
- (c) the direct contribution of cash by the Board and/or shareholders of the Bank; or
- (d) any other means acceptable to the Director.

ARTICLE XII

VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in any Report of Examination, or brought to the Board's or Bank's attention in writing by management, regulators, auditors, loan review, or other compliance efforts.

ARTICLE XIII

INTERNAL AUDITS

(1) Within sixty (60) days, the Board shall address deficiencies in the internal audit program and ensure the Bank is conducting ongoing but no less frequently than quarterly internal audits, including its mortgage banking subsidiary.

ARTICLE XIV

OTHER ACTIONS REQUIRED

(1) Immediately upon issuance of this Directive, the Bank shall not do any of the following without the prior, written approval of the Bank's Board and the Director's prior, written, supervisory non-objection¹:

- (a) enter into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, or other similar action;
- (b) engage in the sale or transfer of any Bank-owned other real estate exceeding a fair market value of six hundred thousand dollars (\$600,000), or engage in the sale or transfer of other Bank assets or pool of assets exceeding a fair market value of one hundred thousand dollars (\$100,000). Any other real estate owned sale or transfer less than \$600,000, and any other asset sale or transfer less than \$100,000 must be reported to the OCC within ten (10) days after the sale;
- (c) transfer any asset to its holding company or other affiliated party or person;
- (d) engage in any transaction for the transfer of funds, the extension of credit, the acceptance or transference of risk, and/or the conferring of another type of benefit, directly or indirectly, involving any Bank affiliates, as defined in 12 U.S.C. § 371c(b)(1), or current or former Bank directors, shareholders, senior executive officers, or their respective family members;

¹ This is in addition to any approval required by the Federal Deposit Insurance Corporation ("FDIC").

- (e) amend the Bank's charter or bylaws, except to the extent necessary to carry out any other requirement of law, regulation, or order;
- (f) make any change in accounting methods;
- (g) increase compensation or other payments, including bonuses, to any employee, agent or independent contractor above the average rate of compensation currently paid to that employee, agent or independent contractor by the Bank;
- (h) enter into any new product or service, or undertake a significant expansion of any existing product or service; or,
- (i) enter into any contract with a third party to assist in the sale, merger, or recapitalization of the Bank. If the Bank proposes to enter into any contract with a third party to assist in the sale, merger, or recapitalization of the Bank that requires payment in excess of expenses prior to the sale, merger or recapitalization, or that requires the Bank to pay, directly or indirectly, the cost of performing due diligence or other services related to the transaction, the Bank's submission to the OCC shall include the Board's written analysis of why the proposed contract is in the best interest of the Bank, as well as a description of how the expenses will be accounted for pursuant to GAAP.

ARTICLE XV

COOPERATION WITH THE FEDERAL DEPOSIT INSURANCE CORPORATION

(1) The Bank shall cooperate fully with the FDIC to avoid a loss or otherwise minimize exposure to the Deposit Insurance Fund. Such cooperation includes, but is not limited to, promptly and completely responding to requests for information; providing prompt and complete access to books, records, agents, and service providers; accommodating on-site Bank visits by FDIC personnel; and permitting the FDIC to provide confidential information to third parties to facilitate the liquidation or other resolution of the Bank, in the event of the appointment of the FDIC as receiver or conservator.

CLOSING

(1) This Directive is enforceable under 12 U.S.C. § 1818(i). Each provision of this Directive shall be binding upon the Bank, its subsidiaries, its directors, officers, employees, agents, successors, assigns, and other persons participating in the affairs of the Bank or its subsidiaries.

(2) Any time limitations imposed by this Directive shall begin to run from the Effective Date of this Directive as shown on the first page. Calculation of time limitations for compliance with the terms of this Directive shall be based on calendar days, unless otherwise noted. Such time limitations may be extended in writing by the Director for good cause upon written application by the Board.

(3) The provisions of this Directive are effective upon issuance of this Directive by the Comptroller, through his authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any

provisions of this Directive shall have been amended, suspended, waived, or terminated in writing by the Director.

(4) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States of America to undertake any action affecting the Bank, or any institution-affiliated party of the Bank, nothing in this Directive shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(5) Unless notified otherwise, all submissions required to be submitted pursuant to this Directive shall be forwarded via email and overnight mail to:

James R. Moore, Director
Special Supervision Division
Office of the Comptroller of Currency
250 E Street S.W.
Washington, DC 20219

IT IS SO ORDERED, this 16th day of December, 2011.

Signed

James R. Moore
Director
Special Supervision Division
Office of the Comptroller of the Currency