

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

In the Matter of:  
GEORGE MICHAEL MAGNUSSON,  
Former Branch Manager and  
Institution-Affiliated Party  
of:  
First Federal Savings & Loan  
Association of Giles County,  
Pulaski, Tennessee

Resolution No. CIN-93-8

Dated: May 6, 1993

STIPULATION AND CONSENT TO ENTRY  
OF AN ORDER OF PROHIBITION

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the Central Regional Office ("Regional Director"), and George Michael Magnusson ("Magnusson"), former Branch Manager and institution-affiliated party of First Federal Savings & Loan Association of Giles County, Pulaski, Tennessee ("First Federal" or "Institution"), hereby stipulate and agree as follows:

1. Consideration. The OTS, based upon information derived from the exercise of its supervisory and regulatory powers, is of the opinion that grounds exist to initiate an administrative prohibition proceeding against Magnusson pursuant to Section 8(e) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C.A. § 1818(e) (West 1989 & Supp. 1992). Magnusson desires to

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cooperate with the OTS and to avoid the time and expense of such administrative litigation. Without admitting or denying that such grounds exist, Magnusson hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative prohibition litigation against Magnusson with respect to the matters covered in this Stipulation and Consent to Entry of an Order of Prohibition ("Stipulation") and the accompanying Order of Prohibition ("Order"). Magnusson, without trial, presentation of any evidence, or findings of fact pursuant to an administrative judicial hearing, has consented to the terms of this Stipulation. The OTS has determined that it is appropriate, and in the best interest of the public to execute this Stipulation and the attached Order. This Stipulation and Order are not intended to, nor shall they be construed to have the effect of, limiting the right of any governmental or administrative agency to initiate or pursue any other action, civil or otherwise, against Magnusson. Further, this Stipulation and Order are not intended to, nor shall they be construed to have the effect of, limiting the right or authority of the OTS to initiate or pursue any other action, civil or otherwise, against Magnusson for conduct that occurs, or is first disclosed to or discovered by the OTS, after the entry of the Order.

**2. Jurisdiction and Facts.**

(a) First Federal, at all times relevant to the allegations set forth herein, was a "savings association" within the meaning

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of Section 3(b) of the FDIA, 12 U.S.C.A. § 1813(b) and Section 2(4) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C.A. § 1462(4) (West Supp. 1992). Accordingly, First Federal was an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C.A. § 1813(c).

(b) Until August 9, 1989, pursuant to Section 5 of HOLA, 12 U.S.C.A. § 1464, the Federal Home Loan Bank Board ("FHLBB") was the regulatory agency with jurisdiction over First Federal and its directors and officers.

(c) As of August 9, 1989, pursuant to Section 3(q) of the FDIA, as amended by Section 204 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") (Pub. L. No. 101-73, 103 Stat. 183 (August 9, 1989)), 12 U.S.C.A. § 1813(q), the OTS succeeded to the interests of the FHLBB with respect to the supervision and regulation of all savings associations, and thus became the "appropriate Federal banking agency" with jurisdiction over First Federal and its officers, directors and persons participating in the conduct of its affairs.

(d) The Director of the OTS has the authority to bring administrative prohibition proceedings against persons participating in the conduct of the affairs of First Federal and against institution-affiliated parties, pursuant to Section 5(d)(1)(A) of HOLA, 12 U.S.C.A. § 1464(d)(1)(A) and Section 8(e) of the FDIA, 12 U.S.C.A. § 1818(e).

(e) Magnusson was a Branch Manager of the First Federal and

is deemed to be an "institution-affiliated party" of the Institution as that term is defined in Section 3(u) of the FDIA, 12 U.S.C.A. § 1813(u); having served in such capacity within six (6) years of the date hereof.

(f) Magnusson is subject to the authority of the OTS to initiate and maintain prohibition proceedings pursuant to Section 8(e) of the FDIA, 12 U.S.C.A. § 1818(e).

(g) On November 30, 1984, First Federal entered into a Supervisory Agreement with the FHLBB that included a provision prohibiting First Federal from granting any real estate or commercial loans contrary to sound underwriting principles, which at a minimum included: (1) a signed application, (2) a completed appraisal, if appropriate, (3) a review of current financial statements from the applicant, (4) a documented review of the applicant's ability to repay the credit extended, (5) a documented review of the lien status of security property, and (6) compliance with existing regulatory requirements and established association lending policies and standards. Said Supervisory Agreement continued in full force and effect until July 10, 1992.

(h) Magnusson began his employment at First Federal in September 1988 and was manager of the Institution's branch office in Ardmore, Tennessee from July 1, 1989 until December 1, 1990. Magnusson's employment with First Federal was terminated on June 24, 1991.

(i) Between August 9, 1989 and December 1, 1990, during which

time Magnusson was the Ardmore branch manager, Magnusson originated and/or renewed 96 loans that contained: (1) significant violations of regulatory requirements, and/or (2) unsafe or unsound underwriting practices. Each of the 96 loans also violated one or more of the Institution's written loan and/or appraisal policies. Twenty-seven (27) of the 96 loans violated the Supervisory Agreement.

(j) The 96 loans referred to in Subsection (i) above contained significant unsafe and unsound practices and violations of regulations including: (1) failure to obtain complete financial information concerning borrowers and/or cosigners in violation of 12 C.F.R. §§ 563.170(c)(1)(v) and 563.170(c)(2); (2) failure to obtain meaningful appraisals of real estate in violation of 12 C.F.R. §§ 545.32(b)(1), 563.170(c)(1)(iv) and 564.1 et seq., and failure to obtain proper valuations of personal property taken as collateral; (3) extending loans to persons with demonstrated poor credit and/or high debt-to-income ratios; and (4) failure to obtain and/or perfect liens in violation of 12 C.F.R. §§ 563.170(c)(1)(iii) and 563.170(c)(2).

(k) The 96 loans referred to in Subsection (i) above contained significant violations of First Federal's internal lending and appraisal policies including: (1) failure to comply with the requirements of the appraisal policies; (2) failure to obtain full financial information concerning borrowers and/or cosigners; (3) failure to obtain verification of employment and

income, and/or tax returns, from loan applicants; and (4) under-collateralization of loans.

(1) The 27 real estate and commercial loans referred to in Subsection (i) above contained violations of the Supervisory Agreement including: (1) failure to obtain completed appraisals of real estate; (2) failure to obtain and review current financial statements from borrowers and cosigners; (3) failure to document the applicants' ability to repay the loans; and (4) failure to comply with existing regulatory requirements and established association lending policies as noted in SubSections (j) and (k) above.

3. Consent. Without admitting or denying the foregoing allegations, Magnusson consents to the issuance by the OTS of the Order. He further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all the requirements of law, including Section 8(e) of the FDIA, 12 U.S.C.A. § 1818(e).

4. Finality. The Order is issued under Section 8(e) of the FDIA, 12 U.S.C.A. § 1818(e). Upon its issuance it shall be a final Order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C.A. § 1818(i).

5. Waivers. Magnusson waives his right to a notice of intention to prohibit and the administrative hearing provided by Section 8(e) of the FDIA, 12 U.S.C.A. § 1818(e), and further waives any right to seek judicial review of the Order, including any such



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Resolution No. CIN-93-8

Dated: May 6, 1993

ORDER OF PROHIBITION

WHEREAS, George Michael Magnusson ("Magnusson") has executed a Stipulation and Consent to Entry of an Order of Prohibition ("Stipulation"), which is incorporated herein by reference and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Central Regional Office ("Regional Director"); and

WHEREAS, without admitting or denying the allegations, Magnusson has consented and agreed in the Stipulation to the issuance of this Order of Prohibition ("Order"), pursuant to 8(e) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C.A. § 1818(e) (West 1989 & Supp. 1992);

NOW, THEREFORE, IT IS ORDERED THAT:

1. From and after the effective date of this Order, without the prior written approval of the Director of the OTS, or such person(s) as the Director shall designate, and, if appropriate,

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another Federal financial institutions regulatory agency, Magnusson may not act as a director for, hold any office in, or participate in any manner in the conduct of the affairs of any institution(s) or other entity(ies) as set forth in Section 8(e)(7)(A) of the FDIA, 12 U.S.C.A. § 1818(e)(7)(A), hereinafter referred to as a "Covered Institution". Pursuant to Section 8(e)(6) of the FDIA, 12 U.S.C.A. § 1818(e)(6), conduct prohibited by this Order includes, inter alia, the solicitation, the transfer or the exercise of any voting rights with respect to any securities issued by any insured depository institution.

2. Nothing in this Order, however, prohibits Magnusson from the following activities, even though such activities may involve or relate to a Covered Institution:

(a) being a customer, as a depositor or borrower, of a Covered Institution; or

(b) owning stock in a Covered Institution;

Provided however, that the activities outlined in this paragraph 2(a)-(b) above may not be performed in a manner that would make Magnusson an "institution-affiliated party" as that term is defined in Section 3(u) of the FDIA, 12 U.S.C.A. § 1813(u).

3. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided for by the provisions of this Order, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the FDIA or the Home Owners' Loan Act of 1934 ("HOLA"), or as such definition is amended after the

