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UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

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In the Matter of )  
 )  
HOME FEDERAL BANK, S.B. )  
Reno, Nevada )  
\_\_\_\_\_)

Re: Resolution No. SF-92-020

Dated: June 29, 1992

STIPULATION AND CONSENT TO ISSUANCE  
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the West Region, OTS, and Home Federal Bank, S.B., Reno, Nevada ("Home Federal"), stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Home Federal pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (12 U.S.C. § 1818(b)). Home Federal desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation and, without admitting that such grounds exist, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative cease-and-desist litigation against Home Federal

with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) Home Federal is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act, as amended by FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA (12 U.S.C. § 1813(c)).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Home Federal is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section 8(b) of the FDIA, as amended by FIRREA (12 U.S.C. § 1818(b)).

3. Consent. Home Federal consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. Finality. The Order is issued under Section 8(b) of the FDIA, as amended by FIRREA (12 U.S.C. § 1818(b)). Upon its issuance by the Regional Director for the West Region, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA (12 U.S.C. § 1818(i)).





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OFFICE OF THRIFT SUPERVISION

In the Matter of  
HOME FEDERAL BANK, S.B.  
Reno, Nevada

Re: Resolution No. SF-92-020

Dated: June 29, 1992

ORDER TO CEASE AND DESIST

WHEREAS, Home Federal Bank, S.B., Reno, Nevada ("Home Federal" or the "Institution"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist, which is incorporated by reference ("Stipulation") and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the West Region; and

WHEREAS, Home Federal, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act, as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (12 U.S.C. § 1818(b)).

NOW THEREFORE, IT IS ORDERED that Home Federal and its directors, officers, employees, agents and service corporations shall:

1. Within 45 calendar days from the hire date of the Internal Auditor, refile the 1991 Form AR completely and accurately and disclose all affiliated transactions during the year 1991;
2. File Form AR when appropriate;
3. Within 30 calendar days from the execution date of this Order, ensure that all Quarterly Disclosure of Affiliated Transactions forms are complete and accurate and revise such forms so as to include George Bull;
4. Within 60 calendar days from the execution date of this Order, divest, at a minimum, part of the \$1.2 million Caughlin Creek loan and part of the \$1.2 million Serpa loan so as to ensure that the Institution is in compliance with the loans-to-one-borrower limitations of 12 C.F.R. § 563.93. The Board shall obtain reimbursement from Mr. Gonfiantini and Mr. DiGuglielmo for any losses that were incurred as a result of the divestiture of these loans;
5. Immediately reverse and obtain reimbursement for any and all 1991 bonuses to Mr. Gonfiantini and Mr. DiGuglielmo;
6. Within 60 calendar days from the execution date of this Order, revise the Conflict of Interest policy to include a provision regarding loans underwritten by the Institution but funded by affiliates. This provision should include, among other things, a requirement that such loans funded by affiliates be discussed by the Board of Directors of the Institution ("Board") prior to funding and that Board minutes indicate the reasons why such funding of loans by affiliates is not a usurpation of the Institution's

corporate opportunity. Home Federal, its directors and other officers must adhere to the Conflict of Interest policy;

7. Use its best efforts to fill any and all vacancies on Home Federal's Board of Directors, subject to the approval of the OTS. Submit monthly reports to the OTS detailing the efforts used to secure such directors;

8. Within 80 calendar days from the hire date of the Internal Auditor, revise internal audit procedures to ensure that such audits encompass (a) high-risk areas, including but not limited to affiliated transactions and investments; (b) compliance with loans-to-one-borrower limitations; (c) adequacies of policies and procedures; (d) internal asset review ("IAR"); (e) general valuation allowances ("GVA"); (f) interest rate risk; and (g) capital compliance;

9. Within 90 calendar days from the execution date of this Order, replace the Chief Financial Officer and acquire written approval from the OTS before hiring such new Chief Financial Officer;

10. Within 90 calendar days from the execution date of this Order, hire an Internal Auditor and acquire written approval from the OTS before hiring such new Internal Auditor;

11. Immediately book any and all asset classifications set forth in the findings of the OTS asset review as they appear in the Report of Examination dated March 30, 1992;

12. Within 30 calendar days from the execution date of this Order, ensure that the IAR loan sample includes all modifications,

extensions, renewals of loans and loans where an exception to the underwriting policies has been made;

13. Within 60 calendar days from the hire date of the Chief Financial Officer, (1) revise the methodology for calculating GVA's such that separate and higher risk factors are applied to criticized assets in each asset category and (2) review quarterly the adequacy of the GVA's and document such review;

14. Only reverse GVAs on an exception basis and only after performing and documenting a thorough analysis of the adequacy of the GVAs for the entire asset portfolio;

15. Within 60 calendar days from the execution date of this Order, revise the Asset Classification Policy to properly address loan sample, definitions of substandard and loss assets, classification of single-family dwellings and review of GVAs;

16. Within 30 calendar days from the execution date of this Order, ensure internal controls are in place to prevent violations of the loan-to-one-borrower regulations and abide by the requirements of 12 C.F.R. 563.93;

17. In cases where loans are to be participated out, ensure written commitments from investors are available before the loan agreement is executed, if such loans exceed lending limitations;

18. Immediately ensure all commitment letters clearly stipulate whether the Institution is acting as the lender or as the mortgage broker;

19. Immediately ensure that management reads, understands and abides by the term limitations of construction loans pursuant to 12 C.F.R. § 545.36;

20. Within 120 calendar days from the execution date of this Order, revise the documentation that supports qualifying multi-family mortgages relating to the risk based capital calculation to include the loan-to-value ratio for each loan as of origination and compliance with the 80 percent occupancy provision;

21. Within 60 calendar days from the execution date of this Order, revise the proxy statement so that it is a stand alone document and abide by the requirements of 12 C.F.R. § 569.2;

22. Within 60 calendar days from the hire date of the Chief Financial Officer, revise the operating plan so that it breaks down balance sheet and income projections by quarters;

23. Within 60 calendar days from the hire date of the Chief Financial Officer, (1) ensure that all assumptions on the EV Planner are supportable, (2) that management can evidence its understanding of the EV Planner and (3) that management abides by Thrift Bulletin 13;

24. Within 60 calendar days from the execution date of this Order, strengthen internal controls on investment transactions to ensure that all transactions are approved by the asset liability committee. Such committee must have at least one outside Board member;

25. Obtain reimbursement from Mr. Gonfiantini for losses incurred by unauthorized investments by him, including but not

limited to the \$600 on the mutual fund sale and the repo transaction;

26. Immediately cease purchases of any mortgage derivative products as defined under Thrift Bulletin 52 ("TB-52") until such time as the Board and the new Chief Financial Officer are familiar with and knowledgeable of the risk of investing in mortgage derivative products. If the Board desires to have the Institution invest in mortgage derivative products, it shall notify and receive written permission from the OTS prior to making such investments;

27. Within 60 calendar days from the execution date of this Order, ensure that management and the Board fully understand all provisions of TB-52 and fully complies with TB-52;

28. Within 60 calendar days from the hire date of the Chief Financial Officer, (1) revise the interest rate risk policy to include, inter alia, the most recently approved interest rate risk exposure limits, and (2) ensure that the Board reviews, approves and documents such review on a yearly basis;

29. Within 30 calendar days from the execution date of this Order, create an approval work sheet for all current and future investments in the investment portfolio which documents the type of security purchased, the analysis performed and the approval process;

30. After 60 days from the hire date of the Internal Auditor, require the Internal Auditor to perform an audit of the adequacy of the investment policy and the Institution's adherence to it;

31. Within 30 calendar days from the execution date of this Order, determine the appropriateness of the cost of GB Capital's

service in relation to the quality of the advice provided, determine whether to seek reimbursement from GB Capital for some or all of these costs, and determine the appropriateness of continuing to do business with GB Capital in light of the apparent conflict of interest and lack of independence, which currently exists;

32. Within 30 calendar days from the execution date of this Order, ensure compliance with 12 C.F.R. § 563.134, regarding dividends; and

33. Submit monthly updates to OTS which discuss the progress the Board is making in fulfilling all requirements of this Order. The updates should be executed by each member of the Board.

IT IS FURTHER ORDERED THAT:

34. Home Federal must acquire prior written approval from the Assistant Regional Director ("ARD") before approving or entering into any transaction with (1) any affiliate as defined by 12 C.F.R. § 561.4, 12 U.S.C. § 371C, or 12 U.S.C. § 371C-1, and (2) any affiliated person defined in 12 C.F.R. § 561.5. The Board will abide by Regulation O, Federal Reserve Bank; and

35. The Board of the Institution will comply with the OTS standards which required that each director avoid placing himself or herself in a position which creates, or which leads to or could lead, to a conflict of interest or the appearance of a conflict of

