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UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)	
)	
Hawthorne Savings)	Re: Resolution No. SF-91-009
and Loan Association)	
Hawthorne, California)	Dated: March 22, 1991
)	
)	

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 Western Regional Office, OTS, and Hawthorne Savings and Loan Association, Hawthorne, California ("Hawthorne"), 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 Hawthorne 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") (to be codified at 12 U.S.C. § 1818(b)). Hawthorne desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation and, without admitting or denying 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 Hawthorne with respect to the matters covered in the accompanying Order

to Cease and Desist ("Order").

2. Jurisdiction.

(a) Hawthorne 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 (to be codified at 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, Hawthorne 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 (to be codified at 12 U.S.C. § 1818(b)).

3. Consent. Hawthorne 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 (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the Regional Director for the Western Regional Office, 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 (to be codified at 12 U.S.C. § 1818(i)).

5. Waivers. Hawthorne waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

6. Other Regulatory Action. By executing this Agreement, the OTS does not relinquish the right to take any additional regulatory action. Hawthorne hereby stipulates that it has not received any oral or written representations from the OTS, its agents or employees, that the OTS has relinquished any other rights it may have to pursue other regulatory actions.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Director for the Western Regional Office, OTS, and Hawthorne, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

Part 203 (Regulation C); Title 12 CFR, Part 205 (Regulation E), Title 12 CFR, Part 226 (Regulation Z), Title 12 CFR, Part 229 (Regulation CC), Title 12 CFR, Section 385.4, Title 12 CFR, Part 528, Title 12 CFR Sections 561.28, 563.8, 563e.4; 563.99, 563.160, 563.177, and 571.24 and Title 31, CFR, Part 103 (Bank Secrecy Act);.

IT IS FURTHER ORDERED THAT:

COMPLIANCE AND COMMUNITY REINVESTMENT ACT

1. Within 90 days of the date of this Order, Hawthorne will hire and/or appoint a qualified Compliance/CRA Officer. This position shall be either a full time position covering both the Compliance and CRA responsibilities or, the positions may be filled with two individuals whose primary responsibility is the Compliance or CRA function, respectively. The proposed hire's and/or appointee's name and qualifications shall be submitted to this Office for approval based on the review of the individual's competence, experience, character, and integrity. Concurrently, Hawthorne will develop and submit to this Office for approval position descriptions and reporting relationships and shall vest this position with the appropriate level of responsibility, authority and resources necessary to carry out the duties of these positions.
2. Within 60 days of the date of this Order, the members of Hawthorne's Board of Directors and senior management will receive training in their duties and responsibilities under

federal civil rights, fair housing and lending, consumer protection, and other compliance laws and regulations administered by this Office. Prior to providing such training to Hawthorne's Board of Directors and senior management, the Association will submit a training plan to this Office for review and comment.

3. Within 90 days of appointing the Compliance/CRA Officer, in order to ensure ongoing, effective compliance with nondiscrimination, fair housing and lending, consumer protection, and other compliance laws and regulations, Hawthorne will develop a comprehensive compliance strategy, including an agenda for full implementation and a mechanism for effective Board of Directors' oversight. The strategy should address not only the matters covered by this Order but also those aspects of Hawthorne's business covered by OTS's Compliance Activities Handbook. At a minimum, the strategy should include the following actions:

- a. Hawthorne will undertake a complete self-assessment, conducted by the Compliance Officer, to develop a plan ("the Plan") for identifying and correcting existing deficiencies noted in the November 30 and December 14, 1990 Reports of Examinations. This Plan is to be submitted within the 90 day period set forth in paragraph

3. above, to this Office for review and comment and is to include: (i) a timetable for the review; (ii) the means of implementing corrective actions; and (iii) the follow-up to ensure the effectiveness of such actions thereafter. Subsequently, a quarterly report on the status of the Plan's implementation/effectiveness is to be submitted to this Office by the Board of Directors.

- b. Within 45 days of submission of and written nonobjection to the Plan, Hawthorne will implement a program for training its staff to provide for consistent implementation of the Plan and compliance with applicable laws and regulations. A schedule for this training is to be submitted with the Plan to this Office for review and comment.
- c. Hawthorne will develop a written ongoing compliance program for inclusion in the Plan required by paragraph 3.a. above, for review and comment by this Office, that includes at a minimum: (i) the development and periodic updating of policies and procedures; (ii) training of new and periodic retraining of existing staff; (iii) establishment of day-to-day operational controls; (iv) periodic compliance audits; and (v) mechanisms for updating the program and correcting deficiencies that arise. The responsibility and timetable for implementing

each aspect of this program, as well as the specific areas it will cover, should be included. The roles, responsibilities, and relationships between relevant management personnel should be defined, and a description of the Board of Directors' involvement and oversight role should be set forth.

- d. Hawthorne will develop and implement a comprehensive Bank Secrecy Act compliance program as required by Title 12 CFR Section 563.177 to assure and monitor compliance with the recordkeeping and reporting requirements set forth in Subchapter II of Chapter 53 of Title 31, USC, and the implementing regulations promulgated thereunder by the U.S. Department of Treasury, 31 CFR Part 103. At a minimum, the existing program must be modified to provide for effective periodic training of staff and to improve internal monitoring of Bank Secrecy Act Compliance.

- e. Hawthorne will review and modify as necessary its procedures for calculating Annual Percentage Rates (APR) on construction/permanent loans. Within 60 days after the date of this Order, Hawthorne will (1) review all construction/permanent loans originated since the last regular examination (March 14, 1988) for possible APR understatements, (2) submit to this Office for review and comment those loans containing APR understatements and (3)

present a plan for review and comment by this Office for making restitution as required by Title 15, USC Chapter 41, Section 1607. Additionally, appropriate steps should be taken to ensure that rescission notices are properly provided pursuant to Title 12 CFR Section 226.23 and that any oral disclosures are in accordance with Section 226.26.

- f. Hawthorne will develop and implement an ongoing coordinated marketing program designed to ensure that the Association's advertising and marketing efforts reach substantially all segments of its community, including minorities, members of other protected groups, and low-and moderate-income areas. The program should include methods to monitor the marketing program's effectiveness in penetrating hereto underserved markets and market areas within Hawthorne's delineated local communities.

- g. Hawthorne will establish a formalized Community Reinvestment Act ("CRA") program with specific goals, objectives, and accountabilities that will be actively overseen by its Board of Directors, the Compliance/CRA officer, and senior management. This program should conform at a minimum, to the guidelines provided in the "Interagency Policy Statement on the CRA," dated March 30, 1989, and should include: (i) a description of efforts to

ascertain community credit needs and affirmatively incorporate the results of those efforts into the Association's planning for product development and delivery; (ii) incorporation of the results of the Association's monitoring of its lending patterns; and (iii) periodic evaluation of the Association's own performance and procedures for documenting its CRA activities and how they relate to its CRA goals.

- h. Prior to each regularly scheduled meeting of the Board of Directors occurring after completion of each calendar quarter, the Compliance/CRA officer will prepare and submit as part of the package provided to the Board of Directors a comprehensive report regarding compliance matters. At each regularly scheduled meeting occurring after completion of each calendar quarter, the Board of Directors will review the report prepared by the Compliance/CRA officer and provide certification of such review to this Office along with a description of any proposed corrective action. The report by the Compliance/CRA officer should include, at a minimum, evidence:

- (i) that loan applications registers are completed as required by Title 12 CFR, Part 528.

- (ii) that HMDA reports for the last 5 years are available at the required offices pursuant to Title 12 CFR Section 203.5,
- (iii) that loan application files document the reason for specific action taken pursuant to Title 12 CFR Section 202.12(b), -
- (iv) that Hawthorne has adopted and is implementing a formal EEO policy and affirmative action program as required by Title 12 CFR Section 385.4,
- (v) that transfers from MMDAs are handled in accordance with Title 12 CFR Section 561.28,
- (vi) that NOW accounts are opened only for eligible parties pursuant to Title 12 CFR Section 563.8,
- (vii) that hold information is provided to customers pursuant to Title 12 CFR Section 229.16,
- (viii) that appropriate loan disclosures are provided as required by Title 12 CFR Section 563.99,

(ix) that appropriate disclosures are provided as required by Title 12 CFR Section 205.7 and provide annual notices as required by Section 205.8,

(x) that the CRA statement incorporates the requisite elements and is reviewed and adopted annually pursuant to Title 12-CFR Section 563e.4.

SAFETY AND SOUNDNESS - ASSET QUALITY

4. Within 30 days from the effective date of this Order, Hawthorne will fully implement the Internal Asset Review ("IAR") Policy and Procedure adopted by the Board of Directors in September 1988. Management of Hawthorne and the Board of Directors will take appropriate actions to provide for Hawthorne's adherence to and compliance with the IAR Policy and Procedures. In addition, within the same 30 day period, to ensure that the IAR System produces and maintains a complete record of all monthly or more frequent periodic asset reviews deemed necessary by the Association's management and/or directorate, and IAR Committee meeting discussions and plans of action, Hawthorne will adopt a comprehensive documentation strategy that demonstrates implementation of the IAR Policy and Procedures. This strategy should include, at a minimum, the following:

- a. Development of an IAR worksheet that documents each and every asset reviewed and summarizes the asset reviewer's

and IAR Committee's determination of the quality of each asset reviewed. At a minimum, the IAR worksheet shall include, (i) a description of the asset reviewed, (ii) the individual who performed the review, (iii) the date of the review and date of Committee discussion of the review, (iv) the classification assigned by the reviewer and the Committee, (v) a narrative explanation of the basis for the classification, (vi) an analysis of the asset's net realizable value, (vii) a narrative description of the Committee's instructions and/or requests to the reviewer to provide further information or analysis, and (viii) current and ongoing status of correction of deficiencies.

b. Maintain an IAR file, which includes documentation covering the scope of review, IAR findings, all individual IAR worksheets, and any other information supporting the classification decisions.

5. Within 5 days from the effective date of the Order, Hawthorne will provide evidence that as of December 31, 1990, Hawthorne has internally classified loans in accordance with the examination findings set forth in the September 17, 1990 Report of Examination.

6. Hawthorne will compute the adequacy of its general valuation allowances (GVA) as of December 31, 1990, in accordance with this Office's revised methodology described in the September 17, 1990, Report of Examination, and properly record the resulting amount on its books. This Office's methodology requires that Hawthorne, at a minimum, allocate 10 percent for Doubtful assets, 5 percent for Substandard assets, and 0.5 percent for speculative construction loans. Furthermore, within 15 days from the effective date of this Order, Hawthorne will submit journal vouchers to this Office evidencing the increase in GVA.
7. To ensure that all losses are identified and recorded, Hawthorne will perform net realizable value analyses for all problem assets presently and hereafter identified by the Hawthorne's management and/or IAR Committee. Within 30 days of the date of this Order, Hawthorne shall inform this Office of its findings regarding losses identified as a result of the net realizable value analyses.
8. Effective immediately, to ensure that the Association's construction inspection reports are more informative, Hawthorne will, at a minimum, require that all future inspection reports include narrative comments on adherence to approved building plans, quality of workmanship, and construction progress.

9. Within 30 days of the effective date of this Order, the Board shall adopt and submit to this Office a formal procedure that requires an in-depth evaluation of a proposed development's feasibility and absorption rate ("feasibility study") for all proposed developments in excess of 4 units. A feasibility study for each proposed development in excess of 4 units should contain, at a minimum, (a) a description of the general intent of the development, (b) an estimate of the identifiable market demand and sales pace, (c) data on competing projects showing size of project, sale price per model and per square foot, and sales rates in each development, (d) recap of the anticipated cost of development. An analysis of current market conditions and trends might include, for example, increasing vacancy rates, greater use of rent concessions, or declining sales prices.

10. Within 15 days of the date of this Order, Hawthorne will begin to prepare monthly "Unabsorbed Inventory" reports to be included in the Monthly Board Package. These reports should summarize the unsold, unleased, and unabsorbed inventory in the construction loan portfolio for construction loans of \$1 million or more as described below:
 - a. For single-family, townhome, or condominium projects, the report should include, at a minimum, (i) number of units

planned, (ii) units started, (iii) units completed, (iv) units sold, (v) units released, (vi) projected monthly absorption, and (vii) actual monthly absorption.

b. For office and commercial projects, the report should include, at a minimum, (i) square footage planned, (ii) square footage started, (iii) square footage completed, (iv) square footage leased, (v) remaining commitment not leased, (vi) projected monthly absorption, (vii) actual monthly absorption, and (viii) date leasing commenced.

c. For apartment projects, the report should include, at a minimum, (i) total units, (ii) total units vacant, (iii) projected monthly absorption, (iv) actual monthly absorption, (v) projected stabilized vacancy rate, and (vi) actual vacancy rate.

11. For good cause shown, the Assistant Regional Director may extend the time to complete any act required by this Order;

a. More specifically, if the Assistant Regional Director disapproves any policy, plan, or act submitted for approval under the terms of this Order, upon receipt of written notice of disapproval, Hawthorne will have 30 days

to submit a revision of the policy, plan, or act, to the Assistant Regional Director. Any notice of disapproval shall state the basis and reasons for disapproving the policy, plan or act.

- b. No policy, plan, or act, approved by the Assistant Regional Director may be amended, suspended, or revoked without the prior written approval of the Assistant Regional Director. However, if Hawthorne has been in substantial compliance with any requirement imposed by this Order for a reasonable period of time, the Assistant Regional Director may terminate such requirement upon written request.

12. As used in this Order, the term "savings association" shall have the meaning as set forth in Section 2(4) of the Home Owners Loan Act ("HOLA"), as amended by Section 301 of FIRREA, Pub. L. No. 101-73, Section 301 (1989).

13. Reference in this Order to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Agreement pursuant to Section 401(h) of FIRREA, Pub. L. No. 101-73, Section 401(h) (1989), and references to successor provisions as they become applicable.

14. All technical words or terms used in this Order, for which meanings are not defined or otherwise provided by the provisions of this Order, shall, insofar as applicable, have the meanings set forth in Chapter V of Title 12 of the Code of Federal Regulations and any such technical words or terms used in this Order and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

15. This order shall remain in effect until terminated by the OTS. All requests for termination of the Order shall be submitted to the Assistant Regional Director. Upon review of any such request, the Assistant Regional Director shall make a recommendation to the Regional Director for denial or approval of the request. The Regional Director may grant a written request for termination or modification of the Order if, in his opinion, Hawthorne has satisfactorily complied with the terms of this Order for an appropriate period of time. The Regional Director's grant of such written request shall only be evidenced by the issuance of a written amendment to this Order executed by a duly authorized representative of the OTS.

