

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

In the Matter of )  
 )  
First Savings Bank, )  
A Federal Savings Bank )  
Arlington, Texas )

Re: Resolution No. DAL-91-28

Dated: May 16, 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 Midwest Regional Office of OTS, Dallas, Texas and First Savings Bank, A Federal Savings Bank, Arlington, Texas ("First Savings Bank"), 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 First Savings Bank 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)). First Savings Bank 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 First Savings Bank with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

- (a) First Savings Bank 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, First Savings Bank is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section



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ORDER TO CEASE AND DESIST

WHEREAS, First Savings Bank, A Federal Savings Bank, Arlington, Te ("Institution"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist, which is incorporated herein by reference ("Stipulation") and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Midwestern Regional Office in Dallas Texas; and

WHEREAS, the Institution, 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. 101-130 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)).

NOW THEREFORE, IT IS ORDERED that the Institution and its directors, officers, employees, agents and service corporations shall cease and desist from any violation of, or the aiding and abetting of any violation of: 12 C.F.R. 561.160, 563.39, 563.41, 563.43, 563.170, 571.2, Section 22(h) of the Federal Reserve Act ("FRA") 12 U.S.C. § 375b, and its implementing regulations at 12 C.F.R. § 215.4, and Sections 23A and 23B of the FRA, 12 U.S.C. §§ 371c and 371c-1.

IT IS FURTHER ORDERED that:

CONFLICTS OF INTEREST AND AFFILIATED PERSONS TRANSACTIONS

1. (a) The Board of Directors shall review and familiarize themselves with the following regulatory and statutory provisions: 12 C.F.R. §§ 561.5, 563.40, 563.41, 563.43, OTS Statements of Policy set forth at 12 C.F.R. §§ 571.7 and 571.9; Section 11(a) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. § 1468; Section 22(h) of the FRA, 12 U.S.C. § 375b, and its implementing regulations, 12 C.F.R. §§ 215.4 and 215.7; and Sections 23A and 23B of the FRA, 12 U.S.C. §§ 371c and 371c-1; as well as the Institution's Standards of Responsibility and Conduct.
- (b) Within 45 days of the effective date of this Order, the Institution and the Board of Directors shall submit to the Regional Director for review, a conflicts policy which provides at a minimum, guidelines for directors' responsibilities.

business ethics, and conflicts of interest for the Institution which are in accordance with the regulations, statutes, and policies referenced in Paragraph 1(a) above.

- (c) Within 45 days of the effective date of this Order, the Board of Directors shall develop and implement a system to monitor compliance with the Conflicts Policy on a continuing basis. Such system shall provide for the Institution to submit a report to the Board of Directors and to the Regional Director no later than the tenth day following the last day of every month, listing all over-drafts of Affiliated Persons and all loans to Affiliated Persons and Affiliates as defined in 12 C.F.R. § 561.5, and Section 23A of the FRA, noting the name of the borrower, the loan number, the loan date, renewal date if applicable, original balance, current balance, interest rate, current status, a description of the collateral, summary of the terms of the loan, and in the case of transactions other than loans, all information significant to the transaction.
- (d) The Institution shall submit to the Regional Director for prior review and approval a written plan for correcting any outstanding violations identified in the system. Upon approval by the Regional Director, the Institution shall implement the plan. The Institution shall comply with the plan as approved and shall make and comply with any modifications to the plan as directed by the Regional Director.
- (e) All financial transactions and obligations between the Institution and any officer, director, employee, or shareholder of the Institution must be in writing and with terms commensurate to those granted to other customers of the Institution.

TRANSACTIONS WITH CERTAIN INDIVIDUALS AND THEIR RELATED INTERESTS

2. (a) With respect to the following individuals,

John H. Harvison	Kay Harvison Parker
Billy R. Delp	Rosalyn Autry
Rick Powell	Robert J. Byrnes
John D. Harvison	Stephen Hartnett
Michael Harvison	Donald St. Clair
Randall Harvison	

without the prior written approval of the Regional Director, the Institution and its subsidiaries shall not, directly or indirectly:

- (i) purchase or lease from, jointly own with, sell or lease to, or commit to purchase or lease from, jointly own with or sell or lease to such individual listed in Paragraph 2(a) above or their related interests as defined in 12 C.F.R. § 215.2, an interest in real or personal property, including shares of stock in any company;
- (ii) pay any fees, commissions or remuneration of any

form, to such individual listed in Paragraph 2(a) above or any related interest of such individual, except for salary and compensation to its officers and directors in accordance with standard personnel policies in effect before the date of this Order and in compliance with Paragraph 3 of this Order;

- (iii) make or purchase a loan, or commit to make or purchase a loan for which any such individual listed in Paragraph 2(a) above is an obligor or guarantor; or
- (iv) make or purchase a loan, or commit to make or purchase a loan to any third party on the security of real or personal property purchased from such individual listed in Paragraph 2(a) above or any related interest of such individual.

#### CEASE SERVICE OF INDIVIDUAL SHAREHOLDER DEBT

3. Effective immediately, the Board of Directors shall ensure that the Institution shall not service the debt of the holding company, Arlington Savings Bankshares, for the individual shareholders of such holding company.

#### COMPENSATION

4. (a) Effective immediately, the Institution shall terminate employment contracts with its officers that do not comply with 12 C. F. R. § 563.39 and shall cease the payment of compensation as defined in Paragraph 4(b) below which is based on the level of loan production.
- (b) Within 30 days of the effective date of this Order, the Board of Directors shall prepare, adopt and submit to the Regional Director for approval: (i) a written policy regarding officer and director compensation. As used in this Paragraph, the term "compensation" includes remuneration such as salary, pension, profit sharing, bonus, severance pay or fees for serving as director or committee member, as well as any other fringe benefit such as club membership or automobile use; and (ii) a detailed justification for the level of compensation paid to each officer and director, including a full description of duties and responsibilities, and a resume of past experience and education.
- (c) Without the prior approval of the Regional Director, the Institution shall not pay any bonus or increase the salary or fees of its senior executive officers or directors. For purposes of this paragraph, senior executive officer shall have the meaning found in Thrift Bulletin 45.

#### BUSINESS PLAN

5. (a) Within 60 days of the date of this Order, the Board of Directors shall prepare and submit to the Regional Director for review, a detailed written business plan that outlines the manner in which the Institution can maintain and improve its regulatory capital

requirement as set forth in Section 5(t) of HOLA, 12 U.S.C. § 1464(t) (as amended 1989), and 12 C.F.R. §567.1.

PLAN FOR REDUCTION AND ELIMINATION OF CLASSIFIED ASSETS

6. (a) Within 30 days of the date of this Order, the Board of Directors shall adopt, implement, and submit to the Regional Director a written plan designed to eliminate the basis for assets classified either internally by the Institution or in the most recent OTS Report of Examination. This plan, which shall be amended as directed in writing by the Regional Director, may not further be amended by the Institution without written notification to the Regional Director, and must include the following with respect to such classified assets:

- (i) an identification of the expected source of repayment;
- (ii) the appraised value of supporting collateral and the position of the Institution's lien on such collateral, where applicable;
- (iii) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (iv) the proposed action to eliminate the basis for classification and the time frame for its accomplishment.

(b) The Board of Directors of the Institution, or a duly authorized committee thereof, shall conduct a review, on at least a quarterly basis, to determine:

- (i) the status of each classified asset or classified portion thereof which exceeds \$100,000; and
- (ii) the need to revise the plan or take alternative action.

PLAN TO REDUCE AND ELIMINATE DEPENDENCE ON HIGH COST LIABILITIES

7. (a) The Institution shall immediately cease accepting, soliciting, or committing to accept any new high cost liabilities such as brokered deposits. This paragraph shall not affect the Institution's ability to renew or replace high-cost liabilities consistent with the Institution's approved business plan.

(b) Within 60 days of the date of this Order the Board of Directors shall formulate and submit to the Regional Director a written policy for the use of high cost liabilities. The policy shall include, but not be limited to the following:

- (i) acceptable levels of brokered deposits to complement the Institution's overall funds management strategies and goals;

- (ii) acceptable sources of brokered deposits, including a Board-approved listing of brokers;
  - (iii) limitations on the specific uses of brokered deposits, including guidelines addressing the qualitative requirements of any assets to be funded by such deposits;
  - (iv) limitations on the amount of primary and secondary liquidity to be achieved through the acquisition of brokered deposits;
  - (v) establishment of management systems and reporting requirements to monitor the impact of acquired brokered deposits on interest rate margins, rate sensitivity, liquidity, and earnings;
  - (vi) requirements for periodic comparisons of the cost and availability of brokered deposits to other funding alternatives;
  - (vii) the extent to which brokered deposits will be used to support loan growth; and
  - (viii) prohibition on the use of brokered deposits to support criticized assets and/or extensions of credit conditioned on the receipt of brokered deposits.
- (c) Within 30 days of the date of this Order, the board of directors shall adopt a plan, with specific timeframes, to eliminate the Institutions reliance on brokered deposits through the development of alternative funding sources. Upon completion, a copy of the plan shall be submitted to the Regional Director for review.
- (d) On a monthly basis, the board of directors shall submit reports to the Regional Director, setting forth the progress made in meeting the plan, including, but not limited to, the following:
- (i) the average dollar amount of brokered deposits compared to the average total deposits for the preceding calendar month;
  - (ii) the dollar amount of brokered deposits repaid during the preceding calendar month;
  - (iii) the specific alternative funding sources, if any, to replace brokered funds on deposits; and
  - (iv) the specific sources of funds used to repay brokered deposits.

**ASSET CLASSIFICATION AND ESTABLISHMENT OF ALLOWANCE FOR LOSSES**

8. (a) Within 60 days of the date of this Agreement, the Institution shall adopt, implement, and submit to the Regional Director a written policy and program for the review and classification of

assets and the maintenance of adequate allowances for loan losses pursuant to the provisions of 12 C.F.R. §§ 563.160 and 571.26. The policy shall take into consideration, at a minimum, the following factors:

- (i) results of the Institution's internal loan review;
  - (ii) loan loss experience;
  - (iii) an estimate of potential loss exposure on each significant credit;
  - (iv) concentrations of credit in the Institution;
  - (v) trends of delinquent and nonaccrual loans;
  - (vi) present and prospective economic conditions.
- (b) The policy shall provide for a review of the valuation allowances by the board of directors at least once each calendar quarter. Any deficiency in the valuation allowances shall be corrected in the quarter it is discovered, prior to the filing of the Thrift Financial Reports, by making additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the board of directors in determining the adequacy of the valuation allowances.

#### INVESTMENT POLICY

9. (a) Within 30 days of the date of this Order, the Board of Directors shall submit to the Regional Director a written investment policy which complies with 12 C.F.R. § 571.19 and Thrift Bulletin 41 and which, at a minimum, limits hedging transactions unless there is demonstrable benefit to the Institution evidenced by a reduction of interest-rate risk based on a detailed pre-purchase analysis.
- (b) The Board of Directors shall amend this investment policy as directed in writing by the Regional Director and shall make no other amendments to it without prior written notification to the Regional Director.

#### BOOKS AND RECORDS

10. (a) The Institution shall maintain such accounting systems, records, documents, files, minutes of the Board of Directors' meetings and Directors' committee meetings, and controls, (collectively referred to as "records") and shall provide an accurate and complete record of all business transactions and disclosures, as well as its past and present financial condition. The Institution's records shall be developed and prepared in accordance with generally accepted accounting principles, except as the applicable regulations permit variation therefrom; shall document that the Institution is being operated in a safe and sound manner; and the Institution shall continue to use its best efforts to comply fully with all applicable laws and statutes, regulations, policy statements, memoranda, guidelines, and instructions administered by or under the purview of the OTS,

including, but not limited to, 12 C.F.R. §§ 563.170 and 571.19.

- (b) Within 30 days of the effective date of this Order, the Institution shall submit to the Regional Director for review a written plan for correcting deficiencies in loan documentation such as those cited in the most recent Report of Examination for the Institution. This plan shall include, but not be limited to, assignment of personnel responsibilities and documentation verifications, and shall explain how the Institution will attempt to correct past and avoid future violations of 12 C.F.R. § 563.170. The Institution shall adopt any amendments to this plan requested by the Regional Director and shall comply with them as so amended.
- (c) At all times such records as are required by applicable regulations shall be maintained at the Institution's home office in Arlington, Texas and shall be available for review by examiners of the OTS.

GENERAL PROVISIONS

- 11. The Board shall take whatever steps are necessary to ensure full compliance by the Institution with the requirements of this Order.
- 12. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided by the provisions of this Order, shall insofar as applicable, have meanings as defined in Chapter V of Title 12 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.
- 13. Any request for modification of this Order must be submitted in writing to the Regional Director or his designee and the Regional Director may, in writing, at his sole discretion, modify or suspend the requirements of this Order.
- 14. Upon execution of this Order, the Supervisory Agreement, entered into by the Institution and the OTS on May 25, 1990, shall be terminated.

THE OFFICE OF THRIFT SUPERVISION

/S/

BY

BILLY C. WOOD  
REGIONAL DIRECTOR  
MIDWEST REGIONAL OFFICE