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UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

In the Matter of )  
 )  
HIGHLAND FEDERAL BANK, FSB )  
Los Angeles, California )  
 )

Re: Resolution Nos. SF-91-024  
Dated: June 28, 1991

STIPULATION AND CONSENT TO ISSUANCE  
OF ORDER TO CEASE AND DESIST;  
AND ORDER TO CEASE AND DESIST

STIPULATION AND CONSENT TO ISSUANCE OF ORDER:

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the West Region, OTS, and Highland Federal Bank, FSB, Los Angeles, California ("Highland Federal" or "Institution"), 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 Highland 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") (codified at 12 U.S.C. § 1818(b)). Highland Federal 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 Highland Federal with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) Highland 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 (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, Highland 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 (codified at 12 U.S.C. § 1818(b)).

3. Consent. Highland 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 (codified at 12 U.S.C. § 1818(b)). Upon its issuance by the Regional Director for the Western Region

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 (codified at 12 U.S.C. § 1818(i)).

5. Waivers. Highland Federal waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (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 (codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

ORDER TO CEASE AND DESIST:

NOW THEREFORE, IT IS ORDERED that:

1. Highland Federal shall immediately require that appraisals prepared on behalf of the Institution, whether prepared by an appraiser internal or external to the Institution, meet or exceed the fourteen minimum appraisal standards set forth in 12 Code of Federal Regulations ("C.F.R.") § 564.4(a).

2. Highland Federal shall, in meeting the fourteen standards referred to in Paragraph 1, above, and without diminishing the Institution's responsibility to comply with all fourteen standards, place special emphasis on ensuring that appraisals:

(a) Are sufficiently descriptive to enable the reader to ascertain the estimated market value of the appraised property and the rationale for the appraiser's estimate (12 C.F.R.

§ 564.4(a)(4)(ii));

(b) Analyze and report in reasonable detail any prior sale of the property being appraised that occurred within the following time periods: (i) for one-to-four family residential property, one year preceding the date when the appraisal was prepared; and (ii) for all other property, three years preceding the date when the appraisal was prepared (12 C.F.R. § 564.4(a)(5));

(c) Analyze and report data on current revenues, expenses, and vacancies for the property being appraised if such property is and/or will continue to be income-producing (12 C.F.R. § 564.4(a)(6));

(d) Analyze and report a reasonable marketing period for the subject property (12 C.F.R. § 564.4(a)(7)); and

(e) Analyze and report on current market conditions and trends that will affect projected income during the absorption period, to the extent that they affect the value of the subject property (12 C.F.R. § 564.4(a)(8)).

3. Highland Federal shall, within 20 days of the date of this Order, require that a written compliance review be performed on each appraisal prepared on behalf of the Institution to document compliance with the fourteen requirements of 12 C.F.R. § 564.4.

4. Highland Federal shall immediately require that all appraisals for major loans be reviewed in accordance with Standard 3 of the "Uniform Standards of Professional Appraisal Practice," and that all appraisals of one-to-four family dwellings, at a

minimum, be reviewed in accordance with quality control standards adopted by the Federal National Mortgage Association in the Property and Appraisal section of its Selling Guide. The term "major loans" shall be defined in the Institution's records; such definition shall be communicated to the Assistant Regional Director ("ARD"), within 20 days of the date of this Order. The ARD shall have the authority to approve or disapprove such definition, and the ARD shall notify the Institution of such approval or disapproval within 30 days of the date of receipt of the communication of the definition from the Institution.

5. Highland Federal shall immediately begin to prepare annual performance reviews of approved appraisers used within the preceding 12-month period for compliance with (i) the savings association's appraisal policies and procedures, and (ii) the reasonableness of the value estimates reported, as required by 12 C.F.R. § 564.8(c)(3). The Institution's Board of Directors shall certify in writing to the ARD, within 60 days of the date of this Order, that an initial review has been completed and is available for OTS review.

6. Highland Federal shall immediately require that each appraisal prepared on behalf of the Institution by appraisers associated with Real Estate Services, AAA Valuation, and Dyess Appraisals be accompanied by copies of the appraiser's workpapers compiled in support of the appraiser's valuation estimate and report. Such copies of workpapers shall be maintained in the

Institution's files and be readily available for OTS examiner review.

7. Highland Federal shall immediately implement internal asset review procedures that result in effective self-classification of assets in conformance with 12 C.F.R. §§ 563.160 and 571.26. Without diminishing the importance of implementing an effective overall internal asset review program, Highland Federal shall require that:

(a) Assets that are considered unlikely to be liquidated in a timely manner shall be classified Substandard in accordance with 12 C.F.R. § 571.26(a), unless the Institution can demonstrate with supporting documentation that circumstances exist that favorably affect the liquidation of the asset; and

(b) Assets exhibiting weaknesses which do not currently expose the Institution to a sufficient degree of risk to warrant classification under 12 C.F.R. § 563.160(b), but do possess credit deficiencies or potential weaknesses deserving management's close attention and, if not corrected, could weaken the asset and increase risk in the future, shall be designated Special Mention (12 C.F.R. § 563.160(e)) until such time as the weakness is cured.

8. Within 60 days of the date of this Order, the members of Highland Federal's Board of Directors and Senior Management (as defined in No. 22 below) shall 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 the OTS. Prior to providing such training to Highland Federal's Board of Directors and Senior Management, the Institution will submit a training plan to the ARD for review and comment.

9. In order to ensure ongoing, effective compliance with nondiscrimination, fair housing and lending, consumer protection, and other compliance laws and regulations, Highland Federal shall develop a comprehensive compliance strategy within 90 days of the date of this Order, which strategy includes an agenda for full implementation and a mechanism for effective oversight by the Board of Directors. The strategy should address not only the matters covered by this Order but also those aspects of Highland Federal's business addressed in OTS's Compliance Activities Handbook. At a minimum, the strategy shall include the following actions:

(a) Highland Federal shall 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 Compliance Report of Examination dated June 3, 1991. This Plan shall be submitted, within the 90 day period set forth above, to the ARD for review and comment. The Plan shall 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 and effectiveness is to be submitted to the ARD by the Board of

Directors.

(b) Within 45 days of submission of the Plan and receipt of the ARD's written non-objection to same, Highland Federal 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 the ARD for review and comment.

(c) Highland Federal will develop a written, ongoing, compliance program for inclusion in the Plan required by paragraph 9.a. above, for review and comment by the ARD or his designee, 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.

10. Highland Federal shall immediately revise and amend its loan policies, procedures, and practices to ensure that loan applications are processed in a nondiscriminatory manner. At a minimum, Highland Federal shall:

(a) Immediately cease and desist from the practice of qualifying a property prior to accepting an application for a loan to be secured by the property, which could discourage a reasonable person from pursuing a credit application as prohibited by 12 C.F.R. § 202.5(a);

(b) Immediately cease and desist from imposing more onerous loan terms on a borrower due to age or location of real estate, than the terms imposed on other borrowers, as prohibited by 12 C.F.R. §§ 528.2(a), 528.3(a), and 571.24(c)(7), and 24 C.F.R. 100.130(a).

11. Highland Federal shall immediately implement a procedure to ensure that actions taken by loan personnel with respect to denied or cancelled loan applications are adequately documented in the Institution's records in accordance with 12 C.F.R. § 202.12(b)(1).

12. Highland Federal shall immediately implement procedures, including the provision of appropriate training to loan personnel, to ensure that all loans are accurately recorded on the Institution's Loan Application Register in accordance with the requirements of 12 C.F.R. § 528.6(d).

13. Highland Federal shall immediately begin to review all Finance Charges (see 12 C.F.R. § 226.4(a)) disclosed to Institution customers who received variable rate ("rollover") loans for one-to-four family properties on or after January 1, 1989, in order to identify those borrowers entitled to financial restitution pursuant

to 15 U.S.C. §§ 1607(e)(6). The Institution shall then, within 45 days of the date of this Order, provide the ARD with a plan to compensate those borrowers entitled to restitution.

14. Highland Federal shall immediately implement a procedure to ensure that loan personnel are thoroughly trained and understand the provisions of 12 C.F.R. § 226.23(e) governing the consumer's waiver of his or her right of rescission, particularly with respect to the requirement that a consumer identify a bona fide personal financial emergency before Institution acceptance of that consumer's waiver of his or her right of rescission.

15. Highland Federal shall immediately implement a procedure to ensure that all loan advertisements comply with 12 C.F.R. § 226.24(c) which requires additional disclosure when certain triggering terms appear in credit advertisements.

16. Highland Federal shall, within 20 days of the date of this Order, prepare and disseminate a standard APR example for each of the Institution's credit programs and implement appropriate training and procedures to ensure that loan personnel disclose appropriate APR information during customer telephone inquiries in compliance with 12 C.F.R. § 226.26.

17. Highland Federal shall immediately implement procedures to ensure that the Institution's loan records contain sufficient documentation to demonstrate compliance with the early disclosure requirements of 12 C.F.R. § 226.19(a)(1), 12 C.F.R. § 563.99(d), and 24 C.F.R. § 3500.6(e).

18. Highland Federal shall, within 45 days of the date of this Order: (a) develop those disclosures required by 12 C.F.R. § 563.99(d) pertaining to: (1) due-on-sale clauses, (2) late charges and prepayment penalties, (3) impound accounts, and (4) non- or partially-amortizing loans, as well as those disclosures required by 12 C.F.R. § 563.99(b)(1) and (2) pertaining to adjustable-rate mortgages ("ARMs"); and (b) implement procedures to ensure that such disclosures are disseminated to Institution customers in accordance with the referenced regulations.

19. Highland Federal shall, within 20 days of the date of this Order, develop the flood insurance notice required by 12 C.F.R. § 563.48(e) and develop a procedure to independently verify the flood insurance designation noted in the appraisal.

20. Highland Federal, within 45 days of the date of this Order, shall develop and implement a comprehensive Bank Secrecy Act compliance program, as required by 12 C.F.R. § 563.177, to assure and monitor compliance with the recordkeeping and reporting requirements set forth by the U.S. Department of the Treasury at 31 C.F.R. Part 103 et seq. At a minimum, the existing program must be modified to provide guidance on the completion of chronological logs and to improve internal monitoring of Bank Secrecy Act Compliance.

21. Highland Federal shall, within 45 days of the date of this Order, develop policies and procedures addressing automated teller machine errors and unauthorized claims. Such policies and

procedures shall contain, among other things, provisions that the Institution has the burden of proof in determining whether a transaction(s) was authorized by the consumer in accordance with the requirements of 15 U.S.C. 1693f and 1693g. The policies must also provide that management may deny a consumer's claim only after a good faith investigation, which demonstrates a reasonable basis for belief that the customer's account was not in error. Further, to correct prior inappropriate claim denials, Highland Federal, within 45 days of the date of this Order, shall review all denials made within two years of March 25, 1991, and reimburse customers where the Institution cannot document that it met its burden of proof after full consideration and appropriate investigation of the consumer's claim.

22. Within sixty (60) days of the date of this Order, Highland Federal shall submit a plan for Senior Management (for purposes of this Order, any officer with a position above Vice President) succession. The plan shall include the qualifications of each individual and relevant biographical data. At no time while this Order is in force shall Highland Federal replace or add any individual to Senior Management or the Board of Directors without obtaining the prior written approval of the ARD.

23. Highland Federal shall, within 30 days following the end of each calendar quarter, beginning with the quarter ended June 30, 1991, certify in writing to the ARD that each requirement of this Order has been met for the prior quarter. Such certification shall

be signed by each member of the Board of Directors. The initial certification shall cover the period from the date of this Order through June 30, 1991, and shall include a detailed report on what actions were taken to ensure that each requirement has been, or is being, met.

24. 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 FIRREA, the FDIA, or the Home Owners' Loan Act of 1933 ("HOLA"), and any such words or terms undefined in the foregoing shall have meanings that accord with the best custom and usage in the savings association industry.

25. For good cause shown, the ARD may extend the time to complete any act required by this Order, specifically,

(a) If the ARD disapproves any policy, plan, or act under the terms of this Order, the Institution shall revise the policy, plan, or act within 15 days after receiving written notice of disapproval. 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 ARD may be amended, suspended, or revoked without the prior written approval of the ARD. However, the ARD may terminate any requirement imposed on the Institution by this Order after receiving a written request to do so and if the Institution has been in substantial compliance with the provision.

26. This Order is effective immediately upon execution by the Regional Director.

27. This Order shall remain effective and enforceable until such time as the OTS shall dismiss this final Order. All requests for termination of the Order shall be submitted to the ARD. Upon review of any such request, the ARD may 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, Highland Federal has satisfactorily complied with the terms of this Order for an appropriate period of time.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Director for the West Region, OTS, and

Highland Federal, by and through its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist and Order to Cease and Desist.

Date: 17 June 1991

HIGHLAND FEDERAL SAVINGS, FSB  
by its Board of Directors:

/S/

G. Piercy

/S/

B. Karmelich

/S/

J. Johnston

/S/

X. Andrews

/S/

W. Dyess

/S/

W. DeWitt

/S/

B. Arnds, Jr.

R. Cross

P. Jebbia

OFFICE OF THRIFT SUPERVISION

Date: 6/28/91 By: \_\_\_\_\_

/S/

Michael Patriarca  
Regional Director  
West Region  
Office of Thrift Supervision

(highland.c&d)

AGREEMENT

This Agreement is made and is effective this 28th day of June 1991, by and between Paul M. Jebbia ("the Shareholder") and the Office of Thrift Supervision ("OTS"), a Bureau of the Department of Treasury of the United States, acting through its Regional Director in the West Region.

WHEREAS, the OTS has determined that the Shareholder violated provisions of the Change in Bank Control Act ("Control Act"), 12 U.S.C. 1817(j), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989. Pub. L. 101-73, 103 Stat. 183 (August 9, 1989) ("FIRREA") and the regulations ("Control Regulations") contained in 12 C.F.R. Part 574 (1990), by purchasing the stock of Highland Federal Bank, F.S.B., Los Angeles, California, (the "Institution") and that such violations may provide grounds for the initiation of judicial and/or administrative proceedings against the Shareholder, and

WHEREAS, the Shareholder is presently a member of the board of directors of Institution and,

WHEREAS, the Shareholder, while denying any intent to commit violations of any laws, rules or regulations, is willing to enter into this Agreement in the interest of regulatory compliance and cooperation; and

WHEREAS, the OTS is willing to forbear from the initiation of proceedings related to the Shareholder's purchases of the Institution stock that occurred prior to the execution of this Agreement if the Shareholder hereafter complies with the provisions of this Agreement;

NOW, THEREFORE, in consideration of the OTS's forbearance recited above, it is agreed between the parties as follows:

1. Unless otherwise authorized by the OTS in the form of acceptance of a rebuttal of control determination filed in accordance with 12 C.F.R. Part 574.4(e), within one hundred twenty (120) days of the date of execution of this Agreement, the Shareholder will sell, or cause those presumed to have been acting in concert with the Shareholder ("related parties") to sell, a sufficient number of shares of the Institution (hereafter the "Excess Shares") so that the total shares of the Institution held by the Shareholder and related parties shall be less than 10% of the total outstanding shares of Institution. If the Shareholder is unable to cause consummation of the sale of the Excess Shares within the stated period, he may request an extension of time to do so if he makes such a request to the Assistant Regional Director, in writing, at least 10 days prior to the date provided herein for the completion of such sale. The Assistant Regional Director may then grant a reasonable extension of time, if the Assistant Regional Director determines that the Shareholder has

diligently and in good faith attempted to cause the sale of the stock but has been unable to do so. The Assistant Regional Director, in determining whether to grant an extension request, shall consider, among other things, the present market for the shares and the amount of shares sold by the Shareholder and related parties up to the time of the extension request.

2. The Shareholder will cause the sale of the shares as provided in the preceding paragraph in accordance with the following requirements:

(a) The Shareholder and related parties shall not sell stock to individuals or companies that are "institution-affiliated parties" as that term is defined in 12 U.S.C. 1813(u), as amended by FIRREA.

(b) The shares shall not be sold by the Shareholder or related parties to any individual purchaser or a group of purchasers acting in concert, who, by reason of such purchase, would become the owner of 25% or more of the common stock of the Institution unless such purchaser or group of purchasers received prior regulatory approval for such purchases.

(c) Such purchaser shall have no understandings, arrangement or agreements with the Shareholder or related parties, written or oral, relating to any repurchase or any future voting or disposition of shares of the Institution.

3. Until such time as the Shareholder causes disposal of the Excess Shares pursuant to this Agreement, the Shareholder shall ensure that the unsold portion of the Excess Shares are voted on a pro rata basis in accordance with the votes cast by the other stockholders of the Institution. In order to effect this requirement, the Shareholder or a representative thereof shall provide written instructions to the Secretary of Highland Federal Bank that the Excess Shares shall be voted on this basis and a copy of such instructions shall be furnished to the Assistant Regional Director.

4. The Shareholder agrees to withdraw immediately from his position on the board of directors of the Institution and to neither seek nor accept any other position or relationship with the Institution including, but not limited to, consultant, employee, independent contractor or director emeritus. Within five (5) days of the date of this Agreement, the Shareholder shall furnish to the Assistant Regional Director a copy of the letter sent to the board of directors informing them of his withdrawal from the board of directors.

5. The Shareholder agrees not to violate or aid and abet violations of the Bank Control Act and/or the Control Regulations in the future.



COUNSEL CERTIFICATION

I, William K. Black, Senior Deputy Chief Counsel for the West Regional Office of the Office of Thrift Supervision, on this 21<sup>st</sup> day of June, 1991, hereby certify the following as true and accurate:

1. Highland Federal Bank, FSB, Los Angeles, California ("Institution") is a savings association as that term is defined in Section 2(4) of the Home Owners' Loan Act ("HOLA") as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L No. 101-73, 103 Stat. 183, 277 ("FIRREA") (12 U.S.C. 1462(4)).

2. Based on the information derived from a regular examination, grounds exist for the imposition of the following type of order: Consent Cease and Desist Order against Institution.

3. The grounds for this order are: deficiencies in the compliance and consumer areas and appraisal and asset classification policies and procedures.

4. In support of the above conclusion, I have examined the following documents and/or spoken with the following individuals: (a) April 22, 1991, Recommendation to Enforcement Review Committee and (b) discussions with Suzanne Elkins and Michael W. Buting.

5. Based on the information cited above, it is my legal opinion that the attached consent order is legally sufficient and enforceable in an appropriate court of law. It is further in compliance with any guidelines or guidance issued by the Office of Thrift Supervision, including any guidance issued by Headquarters Enforcement.

/S/

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William K. Black  
Senior Deputy Chief Counsel  
West Region Office  
Office of Thrift Supervision