

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

In the Matter of  
TOPA SAVINGS BANK  
Los Angeles, California

Re: Resolution No. SF-91-036  
Dated: August 13, 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 West Region Office, OTS, and TOPA SAVINGS BANK, Los Angeles, California, 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 TOPA 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). TOPA 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 TOPA with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) TOPA 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, TOPA 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. TOPA 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 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 (12 U.S.C. § 1818(i)).

5. Waivers. TOPA waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the

FDIA, as amended by FIRREA, 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, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

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

Dated: August 12, 1991

TOPA SAVINGS BANK  
By its Board of Directors:

ISI

Robert B. Hollman

Dated: 8-12-91

ISI

Richard D. Young

Dated: August 12, 1991

ISI

John E. Anderson

Dated: \_\_\_\_\_

Richard A. Kayne

Dated: \_\_\_\_\_

Paul Litz

Dated: \_\_\_\_\_

Kurt Mann

THE OFFICE OF THRIFT SUPERVISION

Dated: 8/13/91

ISI

By: \_\_\_\_\_

Michael Patriarca  
Regional Director  
West Region

(topestip.c&d /edw)

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

TOPA SAVINGS BANK  
By its Board of Directors:

Dated: _____	_____
	Robert R. Hollman
Dated: _____	_____
	Richard D. Young
Dated: _____	_____
	<i>John E. Anderson</i>
	/S/
Dated: <u>August 12, 1991</u>	/ _____
	Richard A. Kayné
Dated: _____	_____
	Paul Litz
Dated: _____	_____
	Kurt Mann

THE OFFICE OF THRIFT SUPERVISION

Dated: \_\_\_\_\_ By: \_\_\_\_\_  
Michael Patriarca  
Regional Director  
West Region

(topastip.cld /adu)

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

\_\_\_\_\_  
In the Matter of )  
 )  
 )  
TOPA SAVINGS BANK, )  
Los Angeles, California )  
\_\_\_\_\_ )

Re: Resolution No. SF-91-036  
Dated: August 13, 1991

ORDER TO CEASE AND DESIST

WHEREAS, TOPA SAVINGS BANK, Los Angeles, California ("TOPA" or "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 West Region Office;

WHEREAS, TOPA SAVINGS BANK, 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); and

NOW THEREFORE, IT IS AGREED and ORDERED that TOPA 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: Title 12 C.F.R. Sections 563.93; 563.160; 563.170; 563.174; 563.234; 571.18; and 571.26.

IT IS FURTHER ORDERED that:

ASSET QUALITY - INTERNAL ASSET REVIEW

1. Within 30 days from the effective date of this Order, TOPA will adopt and fully implement an amended Internal Asset Review ("IAR") Policy and Procedure that results in the timely, reasonable, and accurate self-classification of assets to conform with the requirements of 12 CFR Section 563.160 and 571.26. Without diminishing the importance of implementing an effective overall IAR program, TOPA shall require that:
  - a. Pursuant to the revised asset classification procedures, the assets that TOPA identifies as unlikely to be liquidated in a timely manner shall be classified Substandard in accordance with 12 CFR Section 571.26(a), even if there is little likelihood of loss, unless the Institution demonstrates, with supporting documentation, that extraordinary 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 CFR Section 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 CFR Section 563.160(e)) until such time as the weakness is cured.

In addition, within the same 30-day period, to ensure that the IAR System produces and maintains a complete record of all quarterly or more frequent periodic asset reviews deemed necessary by the Institution's management, directorate, and/or IAR Committee meetings, and plans of action, TOPA will adopt a comprehensive documentation strategy that demonstrates implementation of the IAR Policy and Procedures. This strategy should include, at a minimum, the following:

- c. Enhancement of the IAR worksheet ("Risk Management Report") and supporting schedules which (1) document each asset reviewed and (2) summarize the IAR Committee's determination of the quality of each asset reviewed. At a minimum, the Risk Management Report shall include (i) a brief 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 Committee, (v) a narrative explanation of the basis for the classification, (vi) an analysis of the asset's net realizable value or fair value as each case dictates, (vii) a narrative description of the Committee's instructions and/or requests to the reviewer to provide further information or analysis, and (viii) the current and ongoing status of the correction of deficiencies.

- d. Maintenance of 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.
2. Within 30 days from the effective date of this Order, TOPA will provide evidence that as of July 31, 1991, TOPA had internally classified assets in accordance with the examination findings set forth in the March 25, 1991, Report of Examination.
3. TOPA shall analyze the adequacy of its specific reserves and general valuation allowances as of March 31, 1991, in accordance with this Office's recommendations as presented in the March 25, 1991, Report of Examination, and properly record the prescribed amount on its books. TOPA shall further modify, adjust, and revise its GVA methodology to ensure that adequate levels of reserves are maintained on an ongoing basis. At a minimum, such GVA methodology shall reflect the most current examination findings such that TOPA allocates a reserve (excluding the investment in service corporation asset) equal to 50.0 percent of Doubtful assets, 5.0 percent of Substandard assets, and 2.0 percent of Special mention assets. With respect to the GVA requirement attributable to the investment in service corporation asset TOPA shall allocate a reserve equal to 100.0 percent for the Doubtful and Loss portions identified, a 10.0 percent allocation for the

Substandard portion of the asset, and a 1.0 percent allocation for the portion of the asset meriting the Special Mention criticism. Within 30 days from the effective date of this Order, TOPA will submit journal vouchers to this Office evidencing the \$7,965,000 increase in GVA, and the establishment of the specific reserves described in the March 25, 1991, Report of Examination, in the amount of \$1,482,866.

4. To ensure that all losses are identified and recorded, TOPA will perform net realizable value and fair value analyses for all problem assets presently and hereafter identified by TOPA's management and/or the IAR Committee.
5. TOPA shall plan a staged reduction of classified assets to occur within the first 12 months of this Order, and shall continue to monitor, manage, and bring to resolution its distressed assets as a regular function of its IAR system.

#### APPRAISAL POLICIES AND PROCEDURES

6. Within 30 days of the effective date of this Order, the Board shall develop, adopt, and implement an amended Appraisal Policy and Procedure (Appraisal Policy) designed to comply with the requirements of 12 CFR Section 564. TOPA 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 14 minimum appraisal standards set forth in 12 CFR 564.4(a). The Institution's responsibility to comply with the aforementioned

regulation shall place special emphasis on ensuring that appraisals:

- a. Utilize the appropriate definition of "market value" as set forth in 12 CFR Section 564.2(f);
- b. Contain a complete itemization of all adjustments to comparable sales and support for each adjustment. At a minimum, the appraisal report should address all adjustments that have a potential effect on the value of the subject property including, but not limited to, size, quantity, quality, topography, condition, location, accessibility, vacancy rate, estimated net income and source, cash price or terms of financing and sales price expressed as a cash equivalent;
- c. Indicate the appraiser's certification of compliance with the appraisal standards;
- d. Evidence management's review of the appraisal reports and concurrence with or alternate estimate of value of the property, along with the inclusion of sufficient documentation to support any alternate estimate;
- e. Analyze and report in reasonable detail (1) the current revenues, expenses, and vacancies for the property being appraised if such property is and/or will continue to be income-producing, and (2) the current market conditions and trends that will affect projected income, discounted over a reasonable market period; and

- f. Include consideration of Net Realizable Value and Fair Value calculations computed periodically as required pursuant to generally accepted accounting principles.
7. TOPA shall immediately prepare annual performance reviews of all approved appraisers used within the preceding 12-month period, for compliance with (i) the savings institution's appraisal policies and procedures, and (ii) the reasonableness of the value estimates reported as required by 12 CFR Section 564.8(c)(3). The Institution's Board of Directors shall certify in writing to the Assistant Regional Director, West Region, ("ARD"), within 90 days of the date of this Order, that an initial appraiser evaluation has been completed and is available for OTS review.
8. In conjunction with the implementation of an amended Appraisal Policy and Procedure, TOPA shall adopt an Environment Risk Policy in accordance with Thrift Bulletin 16.

MANAGEMENT AND INTERNAL CONTROLS

9. TOPA shall develop and implement a comprehensive Conflict of Interest and Affiliated Transaction Policy acceptable to the ARD, and in compliance with the appropriate documentation requirements set forth in Federal Reserve Act Sections 23A, 23B, and 22(h) ("statutory requirements"). TOPA shall further identify all existing affiliated transactions or transactions with related parties, evaluate the transactions pursuant to the statutory requirements, and document compliance with said

requirements, specifically identifying any terms and conditions adverse to the savings bank.

10. Robert R. Hollman shall serve as the full-time managing officer of TOPA. In his capacity as managing officer, Mr. Hollman shall have exclusive overall responsibility for TOPA's daily operations and procedures. Mr. Hollman's duties and responsibilities as TOPA's managing officer shall not overlap or coincide with those of any other affiliated entity, business or firm, and shall be clearly distinguishable from all other TOPA affiliates or related parties. Notwithstanding the preceding sentence, Mr. Hollman may continue to serve as the president of Topa Management Company ("TMC"), provided that his duties at TMC shall consist of only the following: (i) review of financial statements for the projects managed by TMC; (ii) attendance at regular quarterly meetings of TMC's board of directors; and (iii) attendance at weekly staff meetings. Such duties shall not in the aggregate require more than 15 hours per month. In addition, Mr. Hollman's duties at TMC shall not in any manner conflict with or impair his ability to perform his responsibilities for TOPA.
11. Within 60 days of the effective date of this Order, the Board of Directors of TOPA shall submit a plan ("Restructuring Plan") acceptable to the ARD. To the extent the Restructuring Plan contemplates a merger, consolidation or similar transaction between TOPA and Topa Thrift, an application to

effectuate such a transaction shall be filed with all appropriate regulatory bodies within 180 days of the effective date of this Order. During such period that an application to effectuate such a transaction is pending before the appropriate regulatory bodies, the present management structure and prescribed duties of senior management of TOPA and Topa Thrift may remain in place, subject to compliance with TOPA's Affiliated Transactions/Conflicts of Interest Policy and Procedures and Code of Personal and Business Conduct. To the extent that the Restructuring Plan does not contemplate a merger, consolidation or similar transaction or at any time the Board of Directors determines not to proceed with such a transaction, then within 120 days from the effective date of this Order, the Board of Directors shall be restructured such that at a minimum a majority of the members are not affiliated or in any way associated with Topa Thrift and that TOPA senior management is separate and independent from the senior management of Topa Thrift, so as to make separate and independent each aspect of the management and operation of TOPA from that of Topa Thrift.

12. TOPA shall include sufficient detail in the minutes of the Board of Directors and principal operating committee meetings such that independent third parties may track and review the documentation of discussions, proposals, decisions, and

reasoning supporting the decisions of the Board and principal committees.

13. TOPA shall refile the quarterly Thrift Financial Report dated March 31, 1991, indicating the corrected figures for classified and slow paying/distressed assets as recommended by this Office's asset classification designations presented in the Report of Examination dated March 25, 1991.
14. TOPA shall comply with the recordkeeping requirements associated with prudent hedging activity as outlined in 12 CFR Section 563.174(f), and include in its underwriting analysis for financial futures contracts, sufficient documentation describing the assets and liabilities being hedged, the hedge ratio, the correlation analysis of each transaction, and a "trade sheet," documenting the opening and closing of hedged positions taken in the financial futures and/or options market.
15. TOPA shall comply with its Board-approved Interest Rate Risk ("IRR") Policy; shall document the assumptions used in the monitoring and measuring of the Institution's IRR; and shall conduct a periodic review and possible revision of its net interest income and market value portfolio equity tolerance levels to ensure the reasonableness of the levels. TOPA shall also provide the Board a report which (1) compares the Institution's IRR results on a quarter-by-quarter basis, (2)

documents the variances, and (3) summarizes the overall conclusions of the IRR results.

MISCELLANEOUS

16. For good cause shown, the ARD may extend the time to complete any act required by this Order;
  - a. More specifically, if the ARD disapproves any policy, plan or act submitted for approval under the terms of this Order, upon receipt of written notice of disapproval, TOPA will have 30 days to submit a revision of the policy, plan or act, to the ARD. 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, if TOPA has been in substantial compliance with any requirement imposed by this Order for a reasonable period of time, the ARD may terminate such requirement upon written request.
17. 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).
18. 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.

19. 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.
20. This Order shall be effective as of the date it is issued and shall remain in effect until terminated by the OTS. All requests for termination of the Order shall be submitted to the ARD. Upon review of any such request, the ARD 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, TOPA 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.

WHEREFORE, in consideration of the foregoing, the OTS, by and through the Regional Director for the West Region, OTS, executes this Consent Order to Cease and Desist.

THE OFFICE OF THRIFT SUPERVISION

Dated: 8/13/91

By: /S/  
Michael Patriarca  
Regional Director  
West Region

(topoerd.c&d)