

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

In the Matter of  
UNIVERSITY SAVINGS BANK,  
Newport Beach, California

Re: Resolution No. SF-91-045

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 Regional Office, OTS, and UNIVERSITY SAVINGS BANK, Newport Beach, 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 UNIVERSITY 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") (12 U.S.C. § 1818(b)). UNIVERSITY 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 UNIVERSITY SAVINGS BANK with respect to the matters covered

in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) UNIVERSITY 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 (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, UNIVERSITY SAVINGS BANK 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. UNIVERSITY SAVINGS BANK 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 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 (12 U.S.C. § 1818(i)).

5. Waivers. UNIVERSITY SAVINGS BANK 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 Regional Office, OTS, and UNIVERSITY SAVINGS BANK, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

Dated: 9-26-91

Dated: 9-26-91

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

UNIVERSITY SAVINGS BANK  
By the Board of Directors:  
\_\_\_\_\_  
/s/  
Donald Dauer  
\_\_\_\_\_  
/s/  
Richard Downs  
\_\_\_\_\_  
Bryson Randolph

THE OFFICE OF THRIFT SUPERVISION

Dated: 10/11/91

By: \_\_\_\_\_  
/s/  
Michael Patriarca  
Regional Director  
West Region

(univstip.CSD /edw)

5. Waivers. UNIVERSITY SAVINGS BANK 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 Regional Office, OTS, and UNIVERSITY SAVINGS BANK, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

UNIVERSITY SAVINGS BANK  
By its Board of Directors:

Dated: \_\_\_\_\_  
Dated: \_\_\_\_\_  
Dated: Sept 26 1991 \_\_\_\_\_  
Donald Dauer  
Richard Thorne  
/s/  
Bryson Randolph

THE OFFICE OF THRIFT SUPERVISION

Dated: 10/11/91 By: \_\_\_\_\_  
Michael Patriarca  
Regional Director  
West Region

(univstip.C&D /adv)

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

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In the Matter of )  
UNIVERSITY SAVINGS BANK, )  
Newport Beach, California )  
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Re: Resolution No. SF-91-045

ORDER TO CEASE AND DESIST

WHEREAS, UNIVERSITY SAVINGS BANK, Newport Beach, California ("UNIVERSITY" 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 Regional Office; and

WHEREAS, UNIVERSITY 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));

NOW THEREFORE, IT IS AGREED and ORDERED that:

1. The Board of Directors of UNIVERSITY ("Board") will comply with the OTS standards which require that each director avoid placing himself or herself in a position which creates, leads to or could lead to a conflict of interest or the appearance

of a conflict of interest, and will require the prompt discontinuance of any practice or condition which gives rise to a conflict of interest or the appearance of a conflict of interest. In addition, within 30 days of the execution date of this Order (for purposes of this Order, the "execution date" shall be the date upon which this Order is signed by the Board or July 15, 1991, whichever occurs first), UNIVERSITY shall develop and submit a comprehensive Conflict of Interest policy acceptable to the Assistant Regional Director of the Office of Thrift Supervision, West Region ("ARD"). Upon written notice of acceptance of the policy by the ARD, UNIVERSITY shall implement the policy immediately. Such policy will, at a minimum, meet the concerns and standards set forth in 12 C.F.R. 571.7 which states, in pertinent part:

"Among the practices and conditions which have such adverse effects are conflicts between the accomplishment of the purposes of the Home Owner's Loan Act . . . and the personal financial interests of directors, officers and other affiliated persons of savings associations. Conflicts of this type which have demonstrably resulted in such adverse effects are considered by the Office to be inherently unsafe and unsound practices and conditions. The Office accordingly holds that each director, officer, or other affiliated person of a savings association has a fundamental duty to avoid

placing himself in a position which creates, or which leads to or could lead to, a conflict of interest or appearance of a conflict of interest having such adverse effects."

The Conflict of Interest policy will require each director and senior officer (Vice President or above) to make an annual disclosure to UNIVERSITY in accordance with 12 C.F.R. 563.45, and will require updates whenever a material change occurs, including, but not limited to, the following:

- (a) all real property ownership, corporate ownership, partnership interests and joint venture interests of each director or senior officer (except for interests held in mortgaged-backed securities or real property held free and clear of monetary liens) and securities traded over the AMEX, NYSE and NASDAQ; and
- (b) the status of any director or senior officer as an affiliate or affiliated person (as those terms are defined in 12 C.F.R. 561.4 and 561.5).

The policy shall include and address any additional requirements and concerns of Regulation O, Federal Reserve Board regulations parts 215.1 through 215.23.

2. Thomas J. Bernard ("Mr. Bernard") resigned from his positions as Chairman of the Board, Chief Executive Officer and President prior to the execution and effective date of this

Order. UNIVERSITY and its Board of Directors hereby agrees that without prior, written approval of the ARD they will not allow Mr. Bernard to:

- a. participate in the day-to-day operations of UNIVERSITY and/or its subsidiaries in any manner whatsoever;
- b. serve or function in any management, employment or consulting capacity for UNIVERSITY and/or its subsidiaries;
- c. serve or function as a member of the Board of Directors of UNIVERSITY and/or its subsidiaries;
- d. manage, direct, or conduct the affairs of UNIVERSITY and/or its subsidiaries; or
- e. maintain an office or place of business on UNIVERSITY's and/or its subsidiaries' business premises.

3. Immediately upon execution of this Order, UNIVERSITY shall take steps to replace all vacant Board of Director positions with qualified Board members acceptable to the OTS and unaffiliated with Mr. Bernard or any entities controlled or owned by Mr. Bernard, or in which he serves in the capacity of manager, consultant or employee. Immediately upon execution of this Order, UNIVERSITY shall further take steps available under UNIVERSITY's bylaws to create a minimum of two new Board positions and, by December 31, 1991, UNIVERSITY shall further take steps available under UNIVERSITY's bylaws to fill a minimum of two additional Board positions, all of which shall

be filled with directors unaffiliated with Mr. Bernard or any entities controlled or owned by Mr. Bernard or in which he serves in the capacity of manager, consultant or employee. All proposed directors are subject to the prior review and approval of the ARD.

4. Notwithstanding the provisions of paragraphs two and three of this Order, new management of UNIVERSITY may work and/or consult with Mr. Bernard during a transition period deemed appropriate by new management of UNIVERSITY. The ARD shall be kept apprised of the length of, nature of, and compensation for such interim employment (as neither an officer or director) and/or consultations between new management and Mr. Bernard, and shall orally approve of same.
5. While still employed at UNIVERSITY, Mr. Bernard shall not have the sole authority to sign on any checks, authorize any withdrawals from any depository accounts held by UNIVERSITY or its subsidiaries, or authorize any disbursements by UNIVERSITY or its subsidiaries.
6. Without the prior approval of the ARD, UNIVERSITY and its subsidiaries shall not fund or commit to fund any employee bonuses, other than commitments made before July 1, 1991 and which the Institution is advised in writing by its legal counsel are legally binding, pre-existing commitments. All bonus recommendations must be approved by UNIVERSITY's Board of Directors and submitted to the ARD with the Board

resolution for OTS approval.

7. Until otherwise required by law, by regulation and/or by the OTS, the Board will take steps so that UNIVERSITY will compute the adequacy of its general valuation allowances ("GVAs") in accordance with the methodology described in the April 22, 1991 Report of Examination ("Report") and properly record the resulting amount on its books in accordance with the formula described in the Report. Specifically, UNIVERSITY shall establish \$612,000 as a minimum GVA as of March 31, 1991. UNIVERSITY shall adopt the OTS-approved GVA factors used to derive this amount and will be required to obtain prior approval from OTS before reducing said factors. Furthermore, UNIVERSITY will fully document its monthly GVA calculations in accordance with the Report requirements and retain copies of journal vouchers in its GVA file.
8. UNIVERSITY will immediately implement the Internal Asset Review ("IAR") Policy and Procedures as restated by the Board during October, 1990. Management of UNIVERSITY and the Board of Directors will take appropriate actions to provide for UNIVERSITY's adherence to, and compliance with, the IAR Policy and Procedures. Additionally, UNIVERSITY will immediately adopt a comprehensive documentation strategy which demonstrates implementation of the IAR Policy and Procedures, to ensure that its IAR system produces and maintains a complete record of: (a) all monthly or more frequent asset

reviews deemed necessary by the Institution's management and/or directors, and (b) IAR Committee meeting discussions and plans of action. This IAR documentation strategy shall include, at a minimum, the following:

- a. Development and consistent utilization of an IAR worksheet which documents each and every asset reviewed and summarizes the determination of the asset reviewer and the IAR Committee as to the quality of each asset reviewed. At a minimum, the IAR worksheet shall include the following: (1) a description of the asset reviewed, (2) the identity of the individual who performed the review, (3) the date of the review and the date of IAR Committee discussion of the review, (4) the classification assigned by the reviewer and the Committee, (5) a narrative explanation of the basis for the classification, (6) an analysis of realizable value of the asset, (7) a narrative description of Committee instructions and/or requests to the reviewer to provide further information or analysis, and (8) the current and ongoing status of the correction of deficiencies.
- b. Maintenance of an IAR file, which includes documentation covering the scope of review, the minutes of the IAR Committee meetings, the IAR findings, all individual IAR worksheets and any other information supporting the classification decisions.

- c. Development of a formal reporting standard in order for management to provide to the IAR Committee on a timely basis all pertinent information as identified in the IAR Policy and require management to notify the IAR Committee of all known or potential problems with asset quality. Senior officers (Vice President and above) will provide training to management regarding the IAR Policy and the "flags" which trigger the reporting of assets to the IAR Committee. The Audit Committee shall perform a quarterly review of the IAR Committee.
- d. Development of procedures which provide that timely and accurate information is submitted to and reviewed by the IAR Committee.
- e. Within 30 days of the execution date of this Order, the Board shall develop and implement procedures so that UNIVERSITY shall require updated financial statements on borrowers and operating statements and rent rolls (collectively referred to as "financial data") on the real property security for any new, modified or extended non-residential loans (as to any delinquent non-residential loans, UNIVERSITY shall, depending upon the terms of the loan instruments, require or request such financial data) and shall keep a log of replies received. In addition, UNIVERSITY should request such financial data pertaining to existing current non-residential

loans. Such procedures shall require that management analyze the financial data to identify loans which require review by the IAR Committee. With regard to any slow or non-performing loan, the updated financial data should be compared with the original loan application and related financial information to determine material changes in the borrower's financial condition. The Board's policy shall require the review and analysis of updated financial data as a condition precedent to the extension and/or modification of any non-residential loan. The Board shall ensure that the analysis is adequate on all new, modified or extended non-residential loans in excess of \$250,000.00 and Board minutes shall confirm the same.

9. Within 45 days of the execution date of this Order, the Board shall develop and submit a comprehensive Internal Control System and Policies and Procedures for the accounting department, acceptable to the ARD, in order to maintain reliable financial records. The policies and procedures shall include, but are not limited to, the following: a clear delineation of authority and responsibility, input and verification procedures for monetary and nonmonetary processing and authority for modifications and changes. The Internal Control System and Policies and Procedures shall address those deficiencies noted in the Report. Upon written

notice of acceptance of the Policies and Procedures, UNIVERSITY shall implement the Policies and Procedures immediately.

10. Within 45 days of the execution date of this Order, the Board shall evaluate the internal audit needs of UNIVERSITY and shall develop and submit an Internal Audit Policy and an Audit Plan acceptable to the ARD, which contains, at a minimum, various departmental and functional audit programs. Upon written notice of acceptance of the Internal Audit Policy and Audit Plan by the ARD, UNIVERSITY shall implement the Internal Audit Policy and Audit Plan immediately. The Audit Plan should initially include the risk areas identified by the Board and/or Audit Committee and shall be phased in during the remainder of 1991. The Board shall evaluate the resources of UNIVERSITY to determine whether the goals of the Audit Plan can be completed by a current employee or whether outside assistance is required. The Policy and Plan shall be re-evaluated thereafter by the Board on an annual basis to determine adequacy and to identify additional areas to be included.
11. Within 30 days of the execution date of this Order, the Board shall revise UNIVERSITY's Interest Rate Risk Policy in a manner acceptable to the ARD. The policy should include a detailed interest rate risk strategy under various rate scenarios and the Board's rationale with regard to

establishing new assumptions and acceptable limitations under differing interest rate environments. UNIVERSITY shall comply with all provisions of OTS Thrift Bulletin 13 ("TB 13").

12. 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. The failure to submit a revised policy acceptable to the ARD within 15 days after receiving written notice of disapproval shall be considered to be a violation of this Order unless the ARD has provided UNIVERSITY with prior written approval to extend the resubmission timeframe;
  - b. With respect to the development and submission of any policy required herein, UNIVERSITY shall be considered to be in compliance with the development and submission requirement so long as UNIVERSITY develops and submits the policy to the ARD within the required time frame; and
  - c. 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 UNIVERSITY by this Order after receiving a written request to do so and if UNIVERSITY has been in substantial compliance with the provision.

13. 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 meaning 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 which accord with the best custom and usage in the savings and loan industry.
14. Notwithstanding any other provision of this Order, no act or omission occurring after August 21, 1991 and allegedly in violation of the provisions of this Order, shall constitute a violation hereof or establish grounds for the imposition of civil money penalties based upon the violation of this Order against the Board signatories of this Order or UNIVERSITY unless the ARD, in his or her sole discretion, determines that the alleged violation(s), individually or collectively, were material, or represent a pattern of reckless disregard of the

provisions of this Order, when considered in the light of all facts and circumstances in existence at the time of the occurrence thereof. As used in the immediately preceding sentence, the word "material" shall mean a state of facts of which the ARD would reasonably expect the Board and/or Institution management to be informed in arriving at a determination as to whether UNIVERSITY was being operated in a safe and sound manner.

15. This Order shall remain in effect until terminated by the OTS. All requests for termination of the Order, in whole or in part, shall be submitted in writing to the ARD. Upon review of any such request, the ARD may recommend that the Regional Director deny or approve the request. The Regional Director may grant a written request for termination, in whole or in part, or modification of the Order if, in the opinion of the Regional Director, UNIVERSITY has satisfactorily complied with the terms of this Order. The grant of such written request by the

Regional Director shall be evidenced only by the issuance of a written amendment to this Order executed by a duly authorized representative of the OTS.

UNIVERSITY SAVINGS BANK  
By its Board of Directors:

Dated: 9-26-91

ISI  
~~Donald Dauer~~

Dated: 9-26-91

ISI  
Richard Downs

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

\_\_\_\_\_  
Bryson Randolph

THE OFFICE OF THRIFT SUPERVISION

Dated: 10/11/91

By: ISI  
Michael Patriarca  
Regional Director  
West Region

(univord.c) (2/2/91)

Regional Director shall be evidenced only by the issuance of a written amendment to this Order executed by a duly authorized representative of the OTS.

UNIVERSITY SAVINGS BANK  
By its Board of Directors:

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

\_\_\_\_\_  
Donald Dauer

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

\_\_\_\_\_  
Richard Downs

Dated: 9/20/91

\_\_\_\_\_  
/S/

\_\_\_\_\_  
Bryson Randolph

THE OFFICE OF THRIFT SUPERVISION

Dated: 10/1/91

By: \_\_\_\_\_  
/S/

Michael Patriarca  
Regional Director  
West Region

(univord.c&adv)