

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION  
DEPARTMENT OF THE TREASURY

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In the Matter of )  
 )  
SUMMIT FIRST FEDERAL SAVINGS )  
AND LOAN ASSOCIATION, )  
Summit, Illinois )  
\_\_\_\_\_ )

Re: Enforcement Review  
Committee Resolution  
No. ERC 90-40  
  
Dated: May 4, 1990

TEMPORARY ORDER TO CEASE AND DESIST

WHEREAS, in accordance with Section 5(d)(1)(A) of the Home Owners' Loan Act ("HOLA"), as amended by Title III of 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. § 1464(d)(1)(A)), and Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by Title IX of the FIRREA (to be codified at 12 U.S.C. § 1818(b)), the Office of Thrift Supervision ("OTS"), being of the opinion that Summit First Federal Savings and Loan Association, Summit, Illinois, including its service corporations and subsidiaries ("Summit"), has engaged in unsafe and unsound practices, has issued a Notice of Charges and Hearing ("Notice") against Summit, incorporated by reference herein; and

WHEREAS, such Notice, on the basis of particular facts and circumstances contained therein, specifies unsafe and unsound practices engaged in by Summit; and

WHEREAS, the OTS has determined that the unsafe and unsound practices specified in the Notice, or the continuation thereof, is likely to cause significant dissipation of assets or earnings of Summit, or is likely to weaken the condition of Summit or otherwise prejudice the interests of its depositors prior to the completion of proceedings initiated by such Notice;

NOW THEREFORE, in accordance with Section 8(c) of the FDIA, as amended by Title IX of the FIRREA (to be codified at 12 U.S.C. § 1818(c)), the OTS hereby issues this Temporary Order to Cease and Desist. Accordingly,

IT IS ORDERED that Summit cease and desist from directly or indirectly, making or committing to make, purchasing or committing to purchase, disbursing or committing to disburse, rewriting or committing to rewrite, refinancing or committing to refinance, all or any part of any loan or extension of credit, however it may be described or structured, without the prior written approval of the Chicago District Director of OTS or his designee.

IT IS FURTHER ORDERED that 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 meaning as defined in the Code of Federal Regulations, Title 12, Chapter V, or as defined in FIRREA, the FDIA, or the 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.

THIS ORDER shall be and is effective upon service on Summit, and shall remain effective and enforceable until the completion of the administrative proceeding initiated by the Notice, incorporated by reference herein, served upon Summit and until such time as the OTS shall dismiss the charges specified in such Notice, or if a cease and desist order is issued against Summit, until the effective date of such order.

By the  
Enforcement Review Committee

151  
Rosemary Stewart  
Director of Enforcement and  
Secretary, Enforcement Review  
Committee



**I. JURISDICTION**

1. Summit is a federally-insured, federally-chartered mutual savings association and maintains its principal place of business in Summit, Illinois.

2. Summit is a "savings association" as defined by Section 2(4) of the HOLA, as amended by Section 301 of the FIRREA (to be codified at 12 U.S.C. § 1462(4)), and Section 3(b) of the FDIA, as amended by Section 204 of the FIRREA (to be codified at 12 U.S.C. § 1813(b)), and is an "insured depository institution" as defined by Section 3(c) of the FDIA, as amended by Section 204 of the FIRREA (to be codified at 12 U.S.C. § 1813(c)).

3. The Director of the OTS is the "appropriate Federal banking agency" as defined in Section 3(q) of the FDIA, as amended by Section 204 of the FIRREA (to be codified at 12 U.S.C. § 1813(q)).

4. The Director of the OTS has the authority to bring this administrative cease and desist proceeding against Summit pursuant to Section 5(d)(1)(A) of the HOLA, as amended by Title III of the FIRREA (to be codified at 12 U.S.C. § 1464(d)(1)(A)), and Section 8(b) of the FDIA, as amended by Title IX of the FIRREA (to be codified at 12 U.S.C. § 1818(b)).

**II. FACTS**

**A. Summit's Financial Condition**

5. On or before February 2, 1989 OTS examined Summit and assigned it a MACRO rating of "4" due largely to Summit's high risk loan portfolio. This portfolio has included a concentration of loans for used cars, furniture, home improvements, and second

mortgages.

6. On January 8, 1990 Summit submitted to OTS for approval a capital plan pursuant to Section 5(t) of the HOLA, as amended by FIRREA (to be codified at 12 U.S.C. § 1464(t)), and 12 C.F.R. § 567.10(a) ("Capital Regulations"). On March 6, 1990 OTS rejected said capital plan. By letter dated April 20, 1990 OTS notified Summit of this rejection.

7. As of January 31, 1990 Summit's tangible capital represented -2.4% of its tangible assets.

8. As of January 31, 1990 Summit's core capital represented -2.4% of its adjusted tangible assets.

9. As of January 31, 1990 Summit's risk-based capital represented -5.4% of total GAAP assets.

10. Since on or before January 31, 1990 Summit has failed to meet all capital requirements as set forth at Section 5(t) of the HOLA, as amended by FIRREA (to be codified at 12 U.S.C. § 1464(t)), and 12 C.F.R. § 567.10(a).

11. Summit failed to file timely an acceptable capital plan with OTS in accordance with the Capital Regulations, and is not entitled to any exceptions from the capital requirements referenced in paragraph 10 or to exemptions from any sanctions for failure to comply therewith.

#### B. Loans

12. Since on or before February 2, 1989 Summit included four wholly owned service corporations. One such service corporation is Commerce Acceptance Corporation, Bridgeview, Illinois ("CAC").

13. Since on or before February 2, 1989 a significant portion

of the loan portfolio referenced in paragraph 5 has consisted of loans originated or first acquired by the service corporations, referenced in paragraph 12.

14. Since on or before February 2, 1989 Summit has bought all the auto loans generated by CAC. This portion of the loan portfolio referenced in paragraph 5 has represented approximately \$4.9 million or 8.0% of Summit's total assets.

15. Since on or before February 2, 1989 approximately 90% of the auto loans maintained in Summit's loan portfolio have consisted of auto purchase paper. CAC has bought this paper from auto dealers and then sold it to Summit. The remaining 10% largely has consisted of "re-writes" by CAC, i.e., new loans to replace delinquent loans, that are sold to Summit.

16. The auto purchase paper referenced in paragraph 15 typically has reflected borrowers of low income status with poor or no credit histories. This paper also has been commonly undercollateralized by cars that are several years old.

17. The auto purchase paper described in paragraphs 15-16 also has provided for no recourse by Summit to dealers after Summit has received the first monthly payments due on the loans. Summit effectively has no recourse to dealers on these loans.

18. For the auto purchase paper described in paragraphs 15-17, Summit has permitted dealers to determine the interest rates. Summit then has remitted to the dealers any difference between the rates set by the dealers and the yield received by Summit. This policy has resulted in dealers setting very high rates, ranging from 15% to 66%, thereby increasing the likelihood

of defaults and loss for Summit.

19. Since on or before February 1989 the re-writes referenced in paragraph 15 frequently have extended additional loan proceeds to borrowers who are in default and who do not provide additional collateral.

20. The loans described in paragraphs 14-19 typically have involved borrowers who once they become delinquent do not overcome their delinquency.

21. During February to April 1990 OTS examined Summit and determined that Summit had extended approximately \$95,000 in connection with auto loans, described in paragraphs 14-20, since March 28, 1990.

22. Since April 1, 1990 Summit has made 52 oral commitments for auto loans described in paragraphs 14-20 totalling approximately \$148,000.

23. On or before February 2, 1989 and during February to April 1990 OTS examined Summit and determined that the lending practices described in paragraphs 14-22 have resulted in and/or are likely to result in significant losses for Summit.

### III. CHARGES

24. Paragraphs 1 through 23 are realleged and incorporated herein by reference.

25. Summit's failure to meet its capital requirements in compliance with the Capital Regulations is an unsafe or unsound practice.

26. Summit's lending practices, as described in paragraphs 14-22, reflect deficient underwriting and loan terms favoring auto dealers to the detriment of Summit. Accordingly, Summit's lending practices constitute an unsafe or unsound practice.

IV. NOTICE OF HEARING

Notice is hereby given that an administrative hearing will be held pursuant to Section 8(b) of the FDIA, as amended by Title IX of the FIRREA (to be codified at 12 U.S.C. § 1818(b)), and in accordance with the Rules of Practice and Procedure of the Office of Thrift Supervision ("Procedural Rules"), 54 Fed. Reg. 49446-49456 (1989) (to be codified at 12 C.F.R. pt. 509), to determine whether an Order to Cease and Desist should be issued against Summit for engaging in unsafe and unsound practices. The hearing is hereby fixed for commencement 60 days from the date of service of this Notice of Charges before a presiding officer to be designated by the Office of Thrift Supervision, subject to change by order of the presiding officer or the OTS.

Summit is directed to file an Answer to the allegations contained herein within twenty (20) days from the date of service hereof, as provided by Section 509.14 of the Procedural Rules. The requirements of the Answer, as well as the consequence of failure to file an Answer, are set forth in Section 509.14 of the Procedural Rules. Summit is directed to present, at the time its

Answer is filed, its written view on whether the scheduled hearing should be public or private. Summit is also directed to have its representatives, if any, file a Notice of Appearance as set forth in Section 509.5 of the Procedural Rules.

By the Enforcement Review  
Committee

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Rosemary Stewart  
Secretary, Enforcement  
Review Committee  
Director of Enforcement