

2. Jurisdiction. Garnett is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act of 1933, 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. Section 1813(c)) and, 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, Garnett 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 (to be codified at 12 U.S.C. Section 1818(b)).

3. Consent. Garnett consents to the issuance by the OTS, by and through its ERC, of the Order. It further agrees to comply with its terms upon its 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 (to be codified at 12 U.S.C. Section 1818(b)), and upon its issuance shall be a "cease-and-desist order which has become final", as defined in Section 8(k)(1) of the FDIA, 12 U.S.C. Section 1818(k)(1) (1982), as amended. The Order is fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. 1818(i)).

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

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

WHEREFORE, in consideration of the foregoing, the OTS, by and through its ERC, and Garnett, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

THE GARNETT SAVINGS AND LOAN ASSOCIATION
by a majority of its directors

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Rosemary Stewart
Secretary, Enforcement Review
Committee and Director
of Enforcement

By _____

- b. Section 563.17-5 of the Insurance Regulations, (12 C.F.R. Section 563.17-5 (1989));

IT IS HEREBY FURTHER ORDERED that:

1. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided for by the provisions of this Order, shall, insofar as applicable, have meaning as defined in Chapter V of Title 12 of the Code of Federal Regulations or as such definition is amended after the execution of this Order, 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 their best custom and usage in the savings and loan industry. However, for the purposes of this Order, except as otherwise indicated, the following definitions shall apply:

a. a "set" is a group of loans, participations, investments, securities, or other assets related, by being sold or pledged to, purchased from, or exchanged with any persons, entities, or institutions acting together in a single transaction;

b. "invest in" means to make, originate, purchase, acquire, guarantee, refinance, modify, extend, renew, or to commit to do any of these;

c. "transfer" means any form of conveyance from one person or entity to another person or entity, including but not limited to selling, assigning, pledging, exchanging, or committing to do any of these;

d. "real estate investment" means the net book value of real estate purchased, acquired by foreclosure or deed in lieu

thereof, or owned in any manner, inclusive of any expenditures incurred in connection with holding or improving such real estate and following adjustment for any loss reserves or allowances.

2. Except for existing legally binding commitments and investments that qualify as liquid assets under Section 523.10 of the Regulations for the Federal Home Loan Bank System, 12 C.F.R. Section 523.10 (1989), or its successor regulation, without prior written approval of the Supervisory Agent for the Office of Thrift Supervision, Topeka District (Supervisory Agent), the Institution shall not, and shall not allow any wholly-owned or majority-owned subsidiary or affiliate of the Institution to:

(a) invest in any loans or contracts secured by real estate or participations therein (including any acquisition, construction, and development loans) or any set of such loans or participations, except loans made at current market interest rates and terms which are:

(1) to finance the bona fide purchase of, or custom construction of pre-sold, 1-4 family residences secured by first liens on such properties that do not exceed Two Hundred Fifty Thousand Dollars (\$250,000); or

(2) to refinance loans on existing 1-4 family residences secured by first liens on such properties that do not exceed Two Hundred Fifty Thousand Dollars (\$250,000); or

(3) to be secured by second liens on existing 1-4 family residences where the loan to value ratio of the first and second liens combined does not exceed 80

percent and the combined debt does not exceed Two Hundred Fifty Thousand Dollars (\$250,000); or

(4) to finance residential real estate other than 1-4 family residences where the loan-to-value ratio does not exceed 80 percent of the loan and such loan does not exceed Five Hundred Thousand Dollars (\$500,000); provided, however, such loans shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA (to be codified at 12 U.S.C. Section 1464(u)); or

(5) to refinance residential real estate other than 1-4 family residences if such loan does not exceed Five Hundred Thousand Dollars (\$500,000); provided, however, such loans shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA (to be codified at 12 U.S.C. Section 1464(u)); or

(6) to finance nonresidential real estate where the loan-to-value ratio does not exceed 80 percent of the loan and such loan does not exceed Five Hundred Thousand Dollars (\$500,000); provided, however, such loans shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA (to be codified at 12 U.S.C. Section 1464(u)); or

(7) to refinance nonresidential real estate if such loan does not exceed Five Hundred Thousand Dollars (\$500,000); provided, however, such loans shall not

exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA (to be codified at 12 U.S.C. Section 1464(u));

(b) invest in any real estate investment or set of such investments unless such investment or set of investments is made in compliance with 12 C.F.R. Section 563.9-8 (1989), as amended and continued by OTS or any successor regulations;

(c) transfer any real estate investment (i.e., real estate owned) or set of such investments in excess of Five Hundred Thousand Dollars (\$500,000), or the loss to be recognized upon transfer exceeds the greater of 15 percent of the net book value or Ten Thousand Dollars (\$10,000);

(d) invest in or transfer any security or set of securities in excess of Twenty Thousand Dollars (\$20,000);

(e) transfer any loan secured by real estate or participation therein or any set of such loans or participations if any such loan or participation exceeds Five Hundred Thousand Dollars (\$500,000);

(f) invest in or transfer commercial loans or letters of credit, whether secured or unsecured, with a book value in excess of Fifty Thousand Dollars (\$50,000); provided, however, such investments shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA (to be codified at 12 U.S.C. Section 1464(u));

(g) invest in or transfer any consumer or education loans in excess of Twenty-Five Thousand Dollars (\$25,000);

(h) borrow any money other than from a Federal Home Loan Bank; except as otherwise authorized by this Order;

(i) enter into any lease or contract for the purchase of real estate or of any interest therein except in the ordinary and usual course of its business; provided, that the lease of 1-4 family dwellings shall be considered in the ordinary or usual course of business;

(j) encumber any of its property or other assets except as security for advances from the Federal Home Loan Bank of Topeka;

(k) enter into any contract or any agreement for the purchase, sale, or lease of goods, materials, equipment, supplies, services, or capital assets except in the ordinary and usual course of its business;

(l) incur any material obligation or liability except in the ordinary and usual course of its business;

(m) enter into any joint venture agreements;

(n) except for individual merit increases in accordance with its standard personnel policy in effect at the time this Order is presented by the Supervisory Agent for execution, and normal periodic employee salary and wage increases scheduled prior to the effective date of this Order and that comply with Section 563.17 of the Insurance Regulations, 12 C.F.R. Section 563.17 (1989), and OTS Memorandum R-42, make any increase in excess of 5 percent, on an annualized basis, in the rate of compensation to any of its directors, officers, employees, agents, or other representatives, or agree to do so. Notwithstanding any other

provision of this subparagraph, the Institution may increase the compensation of nonofficer employees if the compensation of such employee before any increase does not exceed Thirty Thousand Dollars (\$30,000) and the aggregate increase or increases for any employee do not exceed 10 percent during any calendar year;

(o) employ or appoint any person to serve as an officer, director, or senior manager who is not so employed or appointed as of the date this Order is presented for execution by the Supervisory Agent; employ any person at a rate of compensation which, on an annualized basis, exceeds Thirty Thousand Dollars (\$30,000) per year; employ any person pursuant to an agreement that is not terminable at the will of the employer and that otherwise does not comply with Section 563.39 of the Insurance Regulations, 12 C.F.R. Section 563.39 (1989), as amended and continued by OTS; or enter into or amend or renew any collective bargaining agreements, pension or profit sharing, bonus, severance pay, retirement, fringe benefit, or other employee benefit plans, or other employment contracts with any employee, director, or officer;

(p) enter into, renew, or revise any contractual arrangement with any officer, director, controlling person, affiliate, subsidiary, affiliated person, consultant or agent for or of the Institution or any of its subsidiaries;

(q) amend or permit to be amended its charter or bylaws except as directed by the Agent and approved by the board of directors of the Institution;

(r) make any material change in accounting method;

(s) invest in any service corporation or any subsidiary thereof or finance subsidiary. For the purposes of this subparagraph, "invest in" shall include, but is not limited to, the making of investments in securities issued by such entities, and the extensions of credit to, or the guaranteeing of the debt of, such entities;

(t) enter into any purchase or repurchase agreement obligation arising from a transfer of government securities except as may otherwise be permitted by this Order;

(u) enter into any binding agreement to merge, consolidate, or otherwise be acquired, or to reorganize except in connection with a plan of combination or reorganization recommended or approved by the OTS or its Agent;

(v) enter into any material transaction except as provided in this Order or other than in the ordinary and usual course of business;

(w) increase its liabilities during any quarter in excess of the amount of interest credited on savings accounts during the quarter (or, in the case of share accounts, earnings credited) and the amount necessary to fund during the quarter any loans in process obligations or legally binding commitments existing as of the date of this Order;

(x) declare or pay cash or stock dividends on common or preferred stock, if in the stock form of organization;

(y) purchase, invest in, commit to invest in, or otherwise deal in securities which are not rated as being at least

BBB by Standard and Poors', or Baa by Moody's (i.e., high yield or "junk" bonds); and

3. Within thirty (30) days after the execution of this Order, the Institution shall provide to the Supervisory Agent a list of all loans-in-process obligations ("Obligations") and legally binding commitments ("Commitments") that exist as of the date of this Order and provide a schedule of the monthly estimated disbursements for outstanding Commitments and Obligations.

The list of Commitments or Obligations shall include:

- a. the type of Commitment or Obligation;
- b. the date of Commitment or Obligation;
- c. the total amount;
- d. the identity of the borrower, if applicable;
- e. the identity of the seller, if applicable;
- f. the effective date;
- g. the date of anticipated funding.

The Institution shall submit with this list a written opinion from independent legal counsel that he/she has reviewed the terms of each unfunded Commitment or Obligation in excess of Two Hundred Fifty Thousand Dollars (\$250,000) and address whether or not such commitment or obligations constitutes a legally binding Commitment or obligation of the Institution that could be enforced in a court of law by the party to whom the Commitment or Obligation is made. In retaining independent legal counsel to review the terms of the Commitment or Obligation, the Institution shall only retain counsel licensed in the jurisdiction where any real property which relates to the Commitment or Obligation is located, or in the

state in which the home office of the Institution is located, and said counsel shall not have been retained or employed by the Institution during any part of a period of three (3) years prior to the date of the request for review.

4. The Institution shall use its best efforts to discourage the acceptance or renewal of any uninsured deposit.

5. With respect to business ethics, conflicts of interest and directors' and officers' responsibilities:

(a) The directors and officers of Garnett shall review and familiarize themselves with Sections 563.41, 563.43, 571.7, and 571.9 of the Insurance Regulations, 12 U.S.C Sections 563.41, 563.43, 571.7, and 571.9 (1989), and OTS Memoranda R-19a and R-62 all as amended and continued by the OTS.

(b) Within 90 days after the effective date of this Order, the directors shall submit for the Supervisory Agent's review, and written notice of no objection, comprehensive plans and guidelines for the Institution regarding business ethics, conflicts of interest, and directors' and officers' responsibilities. Such plans and guidelines shall be compatible with the above-referenced regulations and memoranda. The directors and officers shall certify to the Supervisory Agent that they have read such regulations and memoranda. To the extent that the officers and directors have any questions about the meaning of such regulations and memoranda, they shall make specific inquiry thereon to the Supervisory Agent. At a minimum, such plans and guidelines shall:

- (1) list any director or officer whose occupation or business interests may create possible conflicts of

interest with the Institution, including therewith a thorough explanation as to the nature and circumstances regarding such occupation and business interest and why they may create possible conflicts of interest;

- (2) to the extent not addressed above, the directors and officers shall make a good faith effort to identify specific areas in which corporate opportunity abuses or conflicts of interest could occur;
- (3) to the extent not otherwise addressed in an existing plan to which the Supervisory Agent has not given notice of objection, Garnett shall describe specific policies and actions that the Institution will adopt to avoid potential conflicts of interest and corporate abuses;
- (4) set forth the specific procedures to be utilized to eliminate any conflicts of interest or appearances of such conflicts or corporate opportunity abuses of directors and management officials who violate the Institution's policies and guidelines on such conflicts and abuses;
- (5) provide for quarterly disclosure and review by the board, as well as semiannual disclosure to the Supervisory Agent, of the remuneration actually received by affiliated entities or individuals in

connection with all transactions between Garnett and such entities or individuals.

(c) Within 30 days of written notice of no objection by the Supervisory Agent of such plans and guidelines, Garnett shall adopt such plans and guidelines by formal resolution of the board, and the Institution shall ensure that such plans and guidelines are implemented and fully complied with thereafter.

6. The Institution shall not engage in forward commitments, futures transactions, or financial options transactions as defined in Sections 563.17-3, 563.17-4, and 563.17-5 of the Insurance Regulations, 12 C.F.R. Sections 563.17-3, 563.17-4, and 563.17-5 (1989) as amended and continued by the OTS, or any successor regulations.

7. Within fourteen days of the date of this Order, Garnett shall retain counsel acceptable to the Supervisory Agent for the purpose of determining what action, if any, should be taken against B. C. Christopher and Company, Peter Zuck, Dennis Gartman, Stotler and Company and employees and consultants of Garnett with regard to any trading program involving futures or options, or any combination thereof, entered into by the Institution in or after September 1988. Employment of such counsel shall require the prior written approval of the Supervisory Agent. The report of counsel shall be transmitted to the Institution and made available to the Supervisory Agent by Garnett.

8. Within forty-five (45) days of the date of this Order, the Institution shall file with the Agent a plan for the reorganization and/or augmentation of the Institution's management

("Management Plan"). Such Management Plan shall provide for the replacement of senior and middle management, as appropriate, with new officers with experience in, and knowledge of, the savings and loan business or related businesses with the attendant commitment to safe and sound banking practices. The Management Plan shall also contain an organizational chart of the proposed management of the Institution, including the identity of all officers, a description of their respective responsibilities, and the specific qualification of each of the proposed officers. The Management Plan, before being implemented, shall be subject to the review and approval of the Supervisory Agent.

9. The board shall ensure that the Managing Officer of Garnett ("Managing Officer") prepares a monthly compliance report for review by the directorate at each regularly scheduled board meeting. This report shall detail the Institution's compliance with the terms of this Order. The Managing Officer shall present this report in its entirety to the directorate at each regularly scheduled meeting. The board shall also ensure that the Managing Officer's report is entered into the minutes of each meeting, and that the Supervisory Agent is provided with a copy of the subject minutes no later than ten business days following the end of each board meeting.

10. The Institution shall file all financial reports required by the OTS including monthly and quarterly reports by the required due date and such other reports requested by the Supervisory Agent by the requested due date.

11. Although Garnett is required by this Order to submit certain proposed actions, policies, procedures and guidelines for review or approval of the Supervisory Agent, the board shall at all times continue to have the ultimate responsibility for the proper and safe and sound operation and management of the Institution.

12. The board shall take steps to ensure full compliance by Garnett with the requirements of this Order. A summary of such compliance shall be reported in the minutes of the directors' meeting following each calendar quarter for the preceding quarter. It shall summarize the monthly compliance reports presented by the President in the previous quarter, with any additional comments of the full board. Each official minute book copy of the minutes of the board's meetings shall be signed and dated by each director.

13. The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

14. This Order shall remain in effect until terminated by the OTS.

FOR THE ENFORCEMENT REVIEW COMMITTEE

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Rosemary Stewart
Director, Office of Enforcement
Secretary, Enforcement Review Committee

RESOLUTION

WHEREAS, the Board of Directors of The Garnett Savings and Loan Association, Garnett, Kansas, has been required to make certain certifications regarding the activities as outlined in the Order to Cease and Desist dated _____, 1989, and

WHEREAS, the Board of Directors have reviewed certain activities and transactions with the officers of the Institution occurring during the month of _____, 1989;

NOW, THEREFORE, BE IT RESOLVED, that the members of the Board of Directors hereby certify that, to the best of our knowledge and belief, The Garnett Savings and Loan Association has complied with all conditions of the Order to Cease and Desist during the month of _____, 19__.

DATE: _____