

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made effective this 23 day of October 1991, by and between Secure Savings Bank, F.S.B., Fontana, California ("Institution"), for itself and any wholly-owned or partly-owned subsidiary, and the Office of Thrift Supervision ("OTS"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. Sections 1818(b)(1) and (i)(2), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), Pub. L. No.101-73, Sections 902 and 907 (1989).

WHEREAS, the OTS is of the opinion that the Institution has not complied with certain regulations to which the Institution is subject in conducting the business of the Institution, and has engaged in unsafe or unsound practices in conducting the business of the Institution, thereby providing grounds for the initiation of cease and desist proceedings and/or the assessment of civil money penalties against the Institution by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings and/or the assessment of civil money penalties against the Institution for its failure to comply with certain regulations to which the Institution is subject, and those unsafe or unsound practices identified in the July 15, 1991, Report of Examination ("ROE") of the Institution, so long as the Institution is in compliance with this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, the Institution is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings and/or the assessment of civil money penalties:

NOW, THEREFORE, in consideration of the above-stated forbearance by the OTS from the initiation of cease and desist proceedings and/or the assessment of civil money penalties against the Institution, it is agreed between the parties hereto as follows:

A. BOARD OF DIRECTORS

As of the effective date of this Agreement, the Board of Directors of the Institution ("Board") shall begin immediate efforts to retain at least one new independent director. The prospective director must be a local resident of the Institution's market area and must receive prior approval by the Assistant Regional Director ("ARD") before being formally appointed. The Board shall submit quarterly progress reports to the ARD, on its efforts to retain a new director.

In addition, due to the considerable monitoring and oversight that will be necessary to correct the deficiencies noted in the July 15, 1991, ROE, the Board, as of the effective date of this Agreement, shall meet at least monthly until this Office is satisfied that the outstanding concerns have been corrected.

B. OVERDRAFTS

Within 15 days of the effective date of this Agreement, the Board shall have adopted a resolution, and shall have submitted a copy of said resolution to the ARD, that prohibits checking account overdrafts, or extensions of credit similar in nature to overdrafts, between the Institution and any director, officer, and/or employee of the Institution. Any and all violations of this resolution subsequent to the effective date of this Agreement shall be reported in writing to all members of the Board and the ARD. In addition, at its next regularly scheduled meeting, the Board shall adopt specific policies and procedures which, at a minimum; 1) incorporate the above resolution into the Institution's written policies and procedures, and 2) establish guidelines regarding actions to be taken in the event that this policy is not adhered to by directors, officers, or employees.

C. MANAGEMENT OF BRANCH OPERATIONS

Within 30 days of the effective date of this Agreement, the Board must develop and submit a plan, acceptable to the ARD, to enhance management and oversight of the institution's operations. This plan should address, as applicable; 1) reassessment or reassignment of staff and/or duties, 2) necessary policy development and enhancement for the various areas disclosed in the July 15, 1991, ROE, and 3) routine procedural changes as necessary. In addition, the above plan must include specific measures to be taken to improve internal controls over the Institution's operations.

D. ELECTRONIC FUND TRANSFER PROCEDURES

Within 30 days of the effective date of this Agreement, the Board shall adopt written policies and procedures governing all incoming and outgoing wire activities at the Institution. The policies shall include, but not necessarily be limited to:

- 1) the identification of individuals authorized to participate in wire transfer activity;
- 2) the authorized dollar limits for each authorized individual; and,
- 3) the establishment of minimum transaction documentation requirements;

E. INTERNAL AUDIT FUNCTION

Within 30 days of the effective date of this Agreement, the Board shall develop an audit policy statement(s) covering all aspects of the Institution's branch operations. The statement will contain, at a minimum, the following provisions:

- 1) identification of the audits to be performed on branch related operations for the period of one fiscal year from the date of this Agreement;
- 2) specify that the scope of the audit in each area shall include a quality review of the related policies and procedures;
- 3) require that each audit of a designated area be documented by a report of findings and conclusions addressed to the Board and the employee responsible for the area audited;
- 4) require that all audit reports include a request that the individual(s) responsible for corrective action must respond directly, and in writing, to the Board; and,
- 5) require that audit reports include a timetable for follow-up in the area audited to determine the effectiveness of corrective action taken.

F. POLICIES AND PROCEDURES

Within 60 days of the effective date of this Agreement, the Board shall amend the institution's existing policies and procedures in the following areas to remedy the deficiencies identified in the July 15, 1991, ROE:

- 1) Basic Lending;
- 2) Construction Lending; and,
- 3) Appraisals.

G. INTERNAL ASSET REVIEW

Within 60 days of the effective date of this Agreement, the Board shall revise the Institution's existing Internal Asset Review procedures to: 1) remedy the deficiencies disclosed during the July 15, 1991, examination, and 2) conform with the provisions of Thrift Bulletin 3 (Classification of Assets: Guidelines for Internal Loan Review Systems).

#### H. INTEREST RATE RISK MANAGEMENT

Within 60 days from the effective date of this Agreement, the Board shall revise the institution's interest rate risk ("IRR") policy to correct deficiencies noted during the July 15, 1991, examination. At a minimum, the policy shall be revised to:

- 1) identify specific assets and liabilities in the Institution's portfolio which exhibit the greatest sensitivity or volatility to interest rates;
- 2) establish IRR exposure limits for the Institution's market value of portfolio equity ("MVPE") which are consistent with the actual sensitivity and performance of the Institution's asset/liability structure; and,
- 3) identify potential corrective actions that will be considered in the event that the Institution's risk position exceeds the exposure limits established by the Board.

#### I. GENERAL PROVISIONS

At each regular meeting, the Board shall formally resolve that, to the best of its knowledge and belief and based on a prudent review of management reports, the Institution and its subsidiaries complied with each condition of this Agreement, except as otherwise stated, during the previous calendar month. The resolution shall specify in detail how full compliance was determined or found not to exist and shall set forth any exception to any condition of this Agreement. Within 15 days of each regular meeting, the Board shall submit to the ARD a copy of 1) the above resolution, 2) the minutes of the Board meeting, 3) minutes of each Board committee meeting, and 4) the management report(s) of the Institution.

As used in this Agreement, the term "subsidiary" includes all service corporations as defined in 12 C.F.R. Section 561.45 and subsidiaries of such service corporations.

As used in this Agreement, the term "Savings Association" shall have the meaning set forth in Section 2(4) of the HOLA, as amended by FIRREA.

Reference in this Agreement 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 and references to successor provisions as they become applicable.

All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in chapter V of Title 12 of the Code of Federal Regulations, HOLA, and Federal Deposit Insurance Act ("FDI Act"), as amended. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDI Act, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings association industry.

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

This Agreement shall remain in full force and effect until terminated or suspended by the OTS, acting through the ARD.

IN WITNESS WHEREOF, the OTS, acting through the ARD, and the Institution, by its duly elected directors, have executed this Agreement on the date first above written.

By: 151  
Director

Director 151

Director 151

Director 151

Director 151

Director 151

OFFICE OF THRIFT SUPERVISION

By: 151  
Assistant Regional Director

CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified secretary of Secure Savings Bank, F.S.B. (OTS No. 7858) ("Institution") hereby certify that the following is a true copy of the resolution duly adopted by its Board of Directors at a meeting duly called and held on *October 16*, 1991; that at said meeting a quorum was present and voting throughout; and that said resolution has not been rescinded or modified and is now in full force and effect;

RESOLUTION

WHEREAS, the directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the Institution violated certain of the regulations to which the Institution is subject and has engaged in unsafe and unsound practices and that such violations and practices provide grounds for the initiation of cease and desist proceedings and/or the assessment of civil money penalties against the Institution by the OTS; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on *OCT 16*, 1991, and

WHEREAS, after due consideration, the directors of the Institution have determined to enter into the proposed Agreement in the interest of regulatory compliance and cooperation: Now, therefore be it

RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement and to comply with such Agreement.

IN WITNESS THEREOF, I have hereto subscribed my name and affixed the seal of Secure Savings Bank, F.S.B., this *18* day of *OCTOBER*, 1991.

*18*  
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Secretary