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SUPERVISORY AGREEMENT
BETWEEN THE
OFFICE OF THRIFT SUPERVISION
AND
TRACY FEDERAL BANK, F.S.B.

This Supervisory Agreement ("Agreement") is made and is effective this 18th day of November 1992, by and, between Tracy Federal Bank, F.S.B., Tracy, California (hereinafter "Tracy" or the "Institution") and the Office of Thrift Supervision ("OTS"), an office of the United States Department of the Treasury. References in this Agreement to the Institution shall be understood to include all wholly owned or majority owned subsidiaries of the Institution unless a contrary meaning is apparent.

WHEREAS, the OTS is of the opinion that Tracy has engaged in practices or failed to take certain actions in operating the business of the Institution that warrant supervisory correction;

WHEREAS, in the interest of regulatory compliance and cooperation, Tracy is willing to enter into this agreement,

NOW THEREFORE, it is agreed that:

1. Immediately the Board of Directors of Tracy ("Board") shall use its best efforts to strengthen, and thereafter maintain, the composition of the Board through the addition of two new independent outside members to the Board who have experience and expertise in the financial services industry. In the event that the Board's best efforts fail to add at least one such new member within 90 days of the effective date of this Agreement, the Board shall hire an additional outside independent professional consultant or advisor who has experience and expertise in the financial services industry to advise and assist the Board with its oversight of the operations of the Institution until such time that such a new member is added. Service on or for the Board by such members are subject to the prior written approval of OTS.

2. Within 90 days of the effective date of this Agreement the Board shall develop, submit to the OTS for approval, implement within 15 days of OTS approval, and thereafter adhere to, a plan ("Oversight Plan") to improve the quality of its direction and oversight over the Institution's management, financial condition, operations, and corrective actions to address the various issues and concerns raised in the Institution's Report of Examination, dated June 15, 1992 ("Examination").

3. Within 90 days of the effective date of this Agreement the Board shall develop, submit to the OTS for approval, implement within 15 days of OTS approval, and thereafter adhere to, a plan ("Management Plan") to strengthen the Institution's senior management. The Management Plan is to include, but not be limited to, action plans to:

- a) lessen the Board's reliance on its chief executive officer in managing each major area of the Institution's operations and overseeing its day-to-day operations;
- b) provide for management succession; and
- c) delineate the specific delegated responsibilities and authorities of each its senior management officials and Board committees.

4. The Board shall adhere to its conflicts of interest and transactions with affiliates policies, as adopted at its October 1992 meeting, and comply with all OTS regulations regarding conflicts of interest and transactions with affiliates.

5. Within 90 days of the effective date of this Agreement, the Board shall revise its internal audit function to provide that, at a minimum:

- a) the Audit Committee shall take a more aggressive role in directing, monitoring and expanding the internal audit function;
- b) the audit plan be prioritized in order to focus more time and resources on higher risk operational areas;
- c) audit scopes be expanded to ensure that internal controls, policies, procedures and regulatory requirements are adhered to;
- d) the Audit Committee shall be responsible for evaluating the performance and determining the compensation of the Internal Audit department, and ensuring adequate resources and staff are allocated to effectively implement the Institution's internal audit program;
- e) there is a formal independent structure, reporting and staffing of the internal audit function, including procedures governing the approval and assignment of special projects; and
- f) the minutes of the Audit Committee meetings adequately reflect sufficient detail of its discussions, review, and oversight of the audit function.

6. Within 90 days of the effective date this Agreement the Board shall develop, submit to the OTS for approval, implement within 15 days of OTS approval, and thereafter monitor (at least quarterly) and adjust as necessary, a criticized assets reduction plan ("Reduction Plan") that reduces the Institution's current high level of criticized assets. The Reduction Plan shall, include, but not be limited to, provisions for:

- a) an overall strategy to reduce the level of criticized assets;
- b) specific steps to be taken to reduce the level of criticized assets;
- c) quarterly target gross dollar and percentage amount reductions;
and
- d) individual asset reduction plans ("Individual Asset Plans"),
specifying at a minimum:
 - (i) the date initially criticized;
 - (ii) reasons for criticism/classification;
 - (iii) date of and reasons for any changes to the
classification decision;
 - (iv) paid-to date;
 - (v) dates of financial or property inspection
requests;
 - (vi) number of extensions;
 - (vii) current status of the asset;
 - (viii) anticipated actions with time frames and
designated personnel accountable; and
 - (ix) analysis of net realizable value and fair market
value of classified assets in accordance with OTS
policies.

7. Within 90 days of the effective date of this Agreement the Board shall formulate, implement within 15 days of OTS approval, and thereafter adhere to, revised internal asset review policies and procedures to expand the scope of the function to provide a more comprehensive and effective review of the Institution's asset portfolio. Such revised policies and procedures shall include, but not be limited to:

- a) allocation of appropriate/sufficient resources to make the function effective;
- b) quarterly internal asset reviews;
- c) procedures to provide higher priority to higher risk assets in reviewing/sampling the asset portfolio;
- d) periodic assessments of the percentage of assets reviewed during the year to determine whether the coverage of review is satisfactory;
- e) asset reviews that include an analysis of financial statements and inspection reports that result in an overall assessment and conclusion of quality of the asset;
- f) responsibility for the internal asset review function regarding mortgage and SBA lending to be centralized and assigned to an independent reviewer;
- g) clarification of the role of the Real Estate and SBA Classification Review Committees and the Loan Policy Committee; and
- h) preparation of net realizable value and fair market value analysis on all classified assets, including loans, on a quarterly basis, in accordance with OTS policies.

8. Within 90 days of the effective date of this Agreement, the Board shall develop, submit to the OTS for approval, implement within 15 days of OTS approval, and thereafter adhere to, a plan that, at a minimum, raises and maintains the Institution's capital levels at 6% tangible, 6% core and 10% risked-based, to be more commensurate with the Institution's overall risk profile.

9. Within 90 days of the effective date of this Agreement, the Board shall develop, submit to the OTS for approval, implement within 15 days of OTS approval, and thereafter monitor (at least quarterly) and adjust as necessary, a comprehensive business and operations plan ("Business Plan") to improve the level, quality and stability of the Institution's earnings and address the specific concerns and issues raised in the ROE. The Business Plan shall include, but not be limited to, provisions which:

- a) support and justify existing levels of general and administrative expenses in each profit center, or reduce general and administrative expenses to supportable and justifiable levels;
- b) lower its overall portfolio risk exposure in reasonable increments;
- c) provide for consistent positive core earnings;
- d) reduce reliance on gains on sale for earnings;
- e) detail the strategy to make the Institution's real estate lending profitable; and
- f) provide for full analysis of business lines (old and new), including the feasibility, strategy and effects on overall interest rate risk.

10. Within 90 days of the effective date this Agreement the Board shall conduct and submit to the OTS a comprehensive line-of-business profitability analysis of its SBA operations and portfolio. Such analysis shall include, but not be limited to:

- a) detailed analysis regarding the operational, credit, interest rate, market and other risks associated with its SBA operations and portfolio; and

- b) detailed cost/benefit analysis of the alternatives for its SBA operations--such as continuing, streamlining or selling the operations.

11. Throughout the term of this Agreement, the Board shall submit to the OTS by the tenth day following each regularly scheduled monthly board meeting a report detailing the progress, status and/or adherence to each of Paragraphs 1 through 10 of this Agreement. Included in such monthly report shall be sufficient detail of the evidence the Board reviewed to establish the progress, status and/or adherence to each of Paragraphs 1 through 10.

12. Where provided for in this Agreement, the development or revision of policies and procedures shall incorporate all appropriate OTS rules, regulatory bulletins, regulations and laws, and shall include provisions beyond the minimum standards set by the appropriate OTS rules, regulatory bulletins, regulations and laws to address the needs of the Institution. Such needs include, but are not limited to, the deficiencies cited in the Institution's Examination.

13. Except as provided for in this Agreement, all plans, policies, procedures, or evidence of corrective or other actions required by this Agreement shall be implemented and maintained by the Institution for review by OTS for compliance with this Agreement.

14. For good cause shown, the Assistant Regional Director of the OTS ("ARD") may extend the time to complete any act required by this Agreement, specifically:

- a) If the ARD disapproves any policy, plan or act submitted for approval under the terms of this Agreement, The ARD will provide written notice of the disapproval, with indications of the deficiencies. The Institution will submit a revision of

the policy, plan, or act, to the Assistant Regional Director within 30 days after it receives written notice of disapproval;

- b) No policy, plan, or act, approved by the ARD may be amended, suspended, or revoked without the prior written approval of the Assistant Regional Director. However, if the Institution has been in substantial compliance with any requirement imposed by this Agreement for a reasonable period of time, the ARD may terminate such requirement upon written request.

15. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to the Institution as a result of this Agreement. The Institution acknowledges that it has not received any oral or written representations to the contrary by OTS or any of its agents or employees.

16. References in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to: 1) 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 2) successor provisions as they become applicable.

17. All technical words or terms used in this Agreement, for which meanings are not defined or otherwise provided by the provisions of this Agreement, 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 Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings industry.

18. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement

of Institution and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the OTS, as that term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. Section 1818).

19. This Agreement constitutes the entire agreement between the OTS and the Institution, but does not supersede any prior order, directive or agreement imposed upon, or agreed to, by the Institution. No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and the Institution.

20. The terms and provisions of this Agreement shall be binding upon, and insure to the benefit of, the parties hereto, their successor in interest, and respective assigns.

21. This Agreement shall remain in effect until terminated by the OTS. All requests for termination of the order shall be submitted to the ARD. The ARD may grant a written request for termination or modification of the Agreement if the ARD is of the opinion that the Institution has satisfactorily complied with the terms of this Agreement for an appropriate period of time. The ARD's grant of such written request shall only be evidenced by the issuance of a written amendment to this Agreement executed by a duly authorized representative of the OTS and the Institution.

22. A certified copy of the Board's resolution authorizing the execution of this Agreement, evidencing its intent to be bound thereby and requiring action to be taken to comply with its terms, shall be attached hereto as Exhibit A and made part thereof.

IN WITNESS WHEREOF, the OTS, acting through the Assistant Regional Director and the Institution, acting through its duly elected directors, have executed this Agreement as of the date first above written.

OFFICE OF THRIFT SUPERVISION

TRACY FEDERAL BANK. F.S.B.
BOARD OF DIRECTORS

By:

LS/
Edwin L. Chow
Assistant Regional Director
West Region

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