

OTS DOCKET # 2570

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SUPERVISORY AGREEMENT BETWEEN
PACIFIC FIRST BANK, A FEDERAL SAVINGS BANK
AND
THE OFFICE OF THRIFT SUPERVISION

This Supervisory Agreement ("Agreement") is made and is effective this 18th day of February, 1992, by and between Pacific First Bank, a Federal Savings Bank, Seattle, Washington (hereinafter "PFB" or the "Institution") and the Office of Thrift Supervision ("OTS"), a bureau of the Department of the Treasury, an agency of the United States.

WHEREAS, the OTS is of the opinion that PFB has engaged in acts and practices in operating the business of the Institution that warrant corrective action, and

WHEREAS, PFB desires to improve its operations and to strengthen its management as requested by the OTS;

NOW THEREFORE, in the interest of resolving OTS's supervisory concerns in a cooperative manner, PFB and OTS agree as follows:

1. Management.

(a) PFB agrees to retain qualified management acceptable to the OTS. Each member of management shall have qualifications and experience commensurate with his or her duties at PFB.

(b) The qualifications of management shall be assessed on its ability to:

- 1) correct all deficiencies in PFB's operations;

- ii) operate PFB in a safe and sound manner;
- iii) comply with applicable laws and regulations; and
- iv) comply with the requirements of this Agreement.

2. Board of Directors. PFB shall have, and continually maintain, a Board of Directors having at least a majority of independent, outside directors.

3. Internal Asset Review. PFB shall ensure that its assets are accurately classified and categorized in accordance with the requirements of all applicable reports to its Board of Directors, the OTS and the public. PFB shall improve its internal asset review system by undertaking an analysis of its current system. With respect to deficiencies noted, a plan to correct the deficiencies shall be promptly prepared and implemented. Among other things, the plan shall specify procedures and modify reporting relationships to promote and enhance the independence of the credit review function.

4. Problem Assets. Within 45 days from the date of this Agreement, PFB shall develop written plans for the collection of all of its current problem assets. Thereafter, within 30 days after any asset becomes a problem asset, PFB shall adopt a written plan for each such problem asset, which shall then be immediately implemented. For the purposes of this Agreement, a "problem asset" shall mean any asset (including unfunded commitments) involving a commitment or an amount due PFB in excess of \$500,000 that:

- 1) has been adversely classified or criticized by the OTS as a result of its examination of PFB conducted as of June 3, 1991

or is adversely classified or criticized by either the FDIC or the OTS as a result of any subsequent examination of PFB; or

ii) has been accorded a sub-investment quality rating and/or has been designated a work-out or watch-list asset, or some equivalent designation, as the result of an internal asset review and rating procedure performed by PFB or by another party on behalf of PFB; or

iii) is past due in excess of 90 days and/or has been placed in either a non-accrual or non-earning status by PFB; or

iv) has been partially charged-off.

Each such plan shall include, at a minimum, an assessment of the status of each problem asset, the proposed action to eliminate the cause or causes of such asset being a problem, and the time frame for the collection of any amounts determined to be due PFB.

5. Matured Loans.

(a) No later than 30 days from the date of this Agreement, PFB shall review all loans currently on its books that have matured and have not been extended. Such review shall be undertaken in order to determine the appropriate reporting for such loans. PFB shall then promptly submit any necessary reporting revisions to the OTS.

(b) PFB shall further develop and implement a plan with appropriate policies and procedures to prevent a future recurrence of a material volume of such matured loans.

6. General Valuation Allowances ("GVAs"). PFB shall maintain an adequate level of GVAs at all times, which shall be reflected on

all periodic financial reports filed with the OTS and any other regulatory agency. To this end, PFB shall promptly prepare a plan containing a revised GVA methodology. Such plan shall outline how PFB intends to determine an appropriate level of GVAs. It shall further indicate how PFB will ensure that an adequate amount of GVAs is continually maintained and appropriately reflected on all future periodic financial reports.

7. Corrective Action. PFB shall ensure that all of the deficiencies cited in the OTS Report of Examination conducted as of June 3, 1991 regarding the real estate appraisal function (including weaknesses found in the review of fee appraisals), interest rate risk analysis and monitoring processes, and asset pricing are promptly corrected.

8. Capital. In addition to the tangible and risk-based capital requirements required by the OTS, PFB shall be required to maintain a core capital ratio of 5.0 percent at all times. Adherence to such core capital requirement at any given time shall be determined by calculating PFB's core capital ratio after giving effect to all applicable phase-outs and exclusions from capital at such time.

9. Capital Distributions. PFB agrees not to pay or otherwise make any capital distribution in cash or in kind to its shareholder unless it is authorized to make such capital distribution under 12 C.F.R. § 563.134, after giving effect to the core capital requirement imposed by paragraph 8 of this Agreement. The foregoing restriction

does not preclude PFB from seeking authorization from the OTS to make any capital distribution where such authorization is specifically required and must first be obtained under 12 C.F.R. § 563.134.

10. Investigations. PFB agrees to conduct an independent investigation regarding the adequacy of its corporate accounting policies and procedures with respect to general ledger account reconciliation and reporting. It shall further conduct an audit of its Operations Services Department for the purpose of determining whether it has adequate internal controls. Such audit shall include a review of PFB's general ledger controls, procedures and practices, and transactions involving Automated Clearing House and Federal Reserve Bank Accounts. Detailed audit testing shall also be performed of journal entries, supervisory approval of journal entries, computer passwords granting employees access to general ledger accounts, and of any other matter that may be deemed appropriate. With respect to any adverse findings, a plan to correct same shall be prepared.

11. Reporting. PFB agrees to take whatever steps it deems necessary to ensure that all applicable Thrift Financial Reports submitted to the OTS are complete and accurate, contain no material omissions, and are filed with the OTS on a timely basis.

12. No Waiver by OTS. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to PFB as a result of this Agreement. PFB acknowledges that

it has not received any oral or written representations to the contrary by OTS or any of its agents or employees.

13. Terms; Words and Phrases. 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 have meanings as defined in the pertinent regulations of the OTS in effect as of the date of this Agreement, and any such technical words or terms used in this Agreement and undefined in said regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

14. Authorization; Binding Written Agreement Under FDIA; Amendments. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement between PFB and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the agency, as that term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. Section 1818). No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and PFB.

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

16. Termination of Agreement. The OTS, acting through its Assistant Regional Director ("ARD") of the Western Region of San Francisco, shall have the power to terminate this Agreement at any

time. The ARD shall grant written requests for termination of the Agreement, if, in his or her opinion, PFB has satisfactorily complied with the terms of this Agreement for a period of time deemed appropriate by the ARD. The ARD shall only grant a modification of this Agreement if such modification is deemed necessary or desirable, in his or her sole discretion.

17. Board Resolution. A certified copy of the Board's resolution unanimously authorizing a senior executive officer of PFB to execute this Agreement, evidencing PFB's intent to be bound thereby and requiring action to be taken to comply with its terms, is attached hereto as Exhibit A and made a part hereof.

Approved:

OFFICE OF THRIFT SUPERVISION

PACIFIC FIRST BANK
A ~~FEDERAL~~ SAVINGS BANK

By: 15/
Kathleen M. McNulty
Assistant Regional Director
West Region

15/
John C. Dean
Chief Executive Officer

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EXHIBIT A

**to the Supervisory Agreement
between Pacific First Bank, a Federal Savings Bank
and the Office of Thrift Supervision**

I, Mark D. Bradner, being the duly elected Secretary of Pacific First Bank, a Federal Savings Bank (the "Bank"), hereby certify that the following resolutions were adopted unanimously by those directors present at a special meeting of the Board of Directors of the Bank that was duly held on February 14, 1992, that such resolutions have not since been modified or rescinded and that they continue in full force and effect, and that Exhibit I referred to in those resolutions is an unexecuted but otherwise identical copy of the Agreement to which this Exhibit A is attached:

WHEREAS, the Office of Thrift Supervision has requested that Pacific First Bank, a Federal Savings Bank (the "Bank") execute a Supervisory Agreement in the form attached hereto as Exhibit I (the "Agreement"); and

WHEREAS, the majority of the obligations that would be imposed by entering into the Agreement are included in management action plans which the management of the Bank already has been instructed by this Board of Directors to implement and the progress of such implementation is being reported to the Board of Directors, both directly and through the Regulatory Action Plan Committee that has been established by the Board of Directors; and

WHEREAS, management of the Bank has informed the Board of Directors of management's confidence that the Bank can fulfill all of the terms and conditions of the Agreement and the Board of Directors understands that entering into the Agreement is not in itself an admission that the Bank has violated any law, rule or regulation or otherwise engaged in any unsafe or unsound practice;

NOW, THEREFORE, IT IS RESOLVED, that the Bank is hereby authorized and directed to enter into the Agreement and the Chief Executive Officer of the Bank is authorized to execute the Agreement on behalf of the Bank;

RESOLVED FURTHER, that senior management of the Bank is hereby directed to take such steps as are necessary to

ensure compliance with the terms of the Agreement by the Bank and to report to the Board of Directors and to the appropriate committees of the Board the measures to be taken to ensure such compliance and the progress in implementing those measures.

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Mark D. Bradner
Secretary

February 4, 1992

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