

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: CN 10-23
)	
HOME SAVING OF AMERICA)	Effective Date: June 2, 2010
)	
Little Falls, Minnesota)	
OTS Docket No. 03052)	
_____)	

ORDER TO CEASE AND DESIST

WHEREAS, Home Savings of America, Little Falls, Minnesota, OTS Docket No. 03052 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, pursuant to delegated authority, the OTS Regional Director for the Central Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Association and its directors, officers, and employees shall cease and desist from any action (alone or with others) for or toward, causing, bringing about, participating in, counseling,

or aiding and abetting the unsafe or unsound practices that resulted in the Association operating with: (a) an excessive level of adversely classified and delinquent loans, (b) an inadequate level of capital protection for the volume, type and quality of assets held by the Association, and (c) inadequate earnings to fund growth and augment capital as described in the OTS Report of Examination of the Association dated October 19, 2009 (2009 ROE).

Capital.

2. By July 31, 2010, the Association shall meet and maintain: (i) a Tier 1 (Core) Capital Ratio equal to or greater than seven percent (7%) and (ii) a Total Risk-Based Capital Ratio equal to or greater than eleven percent (11%)¹.

Business and Capital Plan.

3. (a) By July 31, 2010, the Association shall submit to the Regional Director an updated business plan for the period beginning July 31, 2010 through September 30, 2012 (Business and Capital Plan) that is acceptable to the Regional Director. The Business and Capital Plan shall take into consideration the requirements of this Order and address all recommended corrective actions set forth in the 2009 ROE. In addition, the Business and Capital Plan shall include, at a minimum:

- (i) the specific sources and methods by which additional capital will be raised to achieve and maintain the Association's capital at the levels prescribed in Paragraph 2 above;
- (ii) operating strategies to increase core deposits, realistic core earnings and net income levels, which will result in consistent profitability throughout the term

¹ The requirement in Paragraph 2(a) above to meet and maintain a specific capital level means that the Association may not be deemed to be "well-capitalized" for purposes of 12 U.S.C. §1831o and 12 C.F.R. Part 565, pursuant to 12 C.F.R. §565.4(b)(1)(iv).

of the Business and Capital Plan;

(iii) quarterly financial projections, including Tier 1 (Core) and Total Risk-Based Capital Ratios, for the period beginning July 31, 2010 and ending September 30, 2012;

(iv) strategies to stress test and adjust earnings forecast based on operating results and economic conditions; and

(v) the key assumptions used for the financial projections.

(b) Upon receipt of written notification from the Regional Director that the Business and Capital Plan is acceptable, the Association shall implement the Business and Capital Plan. A copy of the Business and Capital Plan shall be provided to the Regional Director within five (5) days after Board approval.

(c) Once the Business and Capital Plan is implemented, the Association shall operate within the parameters of its Business and Capital Plan. Any proposed material deviations² from or changes to the Business and Capital Plan shall be submitted for the prior, written non-objection of the Regional Director. Requests for any material deviations or changes must be submitted at least sixty (60) days before a proposed change is implemented.

(d) By September 30, 2011, and each September 30th thereafter while this Order is effective, the Business and Capital Plan shall be updated and submitted to the Regional Director pursuant to this Paragraph 3 incorporating the Association's budget plan and

² A deviation shall be considered material under this Paragraph of the Order when the Association: (a) engages in any activity, line of business, or operation that is inconsistent with the Business and Capital Plan; (b) exceeds the level of any activity or growth contemplated in the Business and Capital Plan by more than ten percent (10%); or (c) falls below or fails to meet the target amounts established in the Business and Capital Plan by more than ten percent (10%).

profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

4. (a) Within forty-five (45) days after the close of each quarter, beginning with the quarter ending September 30, 2010, the Board shall review written quarterly variance reports on the Association's compliance with its Business and Capital Plan (Variance Reports). The Board's review of Variance Reports and compliance with the Business and Capital Plan shall include the internal and external risks affecting the Association's ability to successfully implement the Business and Capital Plan. The minutes of the Board meeting shall fully document the Board's review and discussion. The Variance Reports shall:
 - (i) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business and Capital Plan;
 - (ii) contain an analysis and explanation of identified variances; and
 - (iii) discuss the specific measures taken or to be taken by the Association to address identified variances.
- (b) Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2010, the Board shall provide the Regional Director with a copy of the Variance Report required by this Paragraph.
5. (a) Within thirty (30) days after: (i) the Association fails to meet the capital requirements prescribed in Paragraph 2; or (ii) the Association fails to comply with the Business and Capital Plan prescribed in Paragraph 3; or (iii) any written request from the Regional Director, the Association shall submit a written Contingency Plan that is

acceptable to the Regional Director.

(b) The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (i) merger with or acquisition by another federally insured depository institution or holding company thereof; or (ii) voluntary dissolution by filing an application with OTS in conformity with federal laws and regulations.

(c) Upon receipt of written notification from the Regional Director, the Association shall implement the Contingency Plan immediately. The Board shall provide the Regional Director with written status reports detailing the Association's progress in implementing the Contingency Plan by no later than the first (1st) and fifteenth (15th) of each month following implementation of the Contingency Plan (Contingency Status Reports).

Internal Loan Review Policy.

6. (a) Within thirty (30) days, the Association shall submit to the Regional Director revisions to its internal loan review procedures and asset classification/internal loan policy to: (i) ensure compliance with OTS CEO Memo 128, Uniform Retail Credit Classification Policy; (ii) incorporate recommendations from the 2009 ROE that pertain to the Association's process for assessing the fair value of all 1-4 family mortgage loans on the Association's books that are more than 180 days past due; and (iii) require the prompt establishment of either a specific valuation reserve or charge off amount on the Association's books, if appropriate, after assessing the fair value of such loans (Internal Loan Review Procedures).

- (b) Upon receipt of written notification from the Regional Director that the revised Internal Loan Review Procedures are acceptable, the Association shall implement them.
- (c) For purposes of estimating the fair value of a loan on the Association's books that is more than 180 days past due, the Association shall consider the loan balance in excess of the fair value of the property securing a loan when:
 - (i) the loan is 180 days or more past due, as calculated according to the requirements described below in Subparagraph (d); and
 - (ii) the current value of the collateral, less liquidation costs, is less than the unpaid balance of the loan, provided, however, the amount of any loss may be reduced by objective and verifiable cash flow attributable to borrowers who pay off their loans in full or who otherwise make payments on their loans, as established to the satisfaction of the Regional Director.
- (d) The Association's valuation estimate and applicable valuation assumptions shall comply with Generally Accepted Accounting Principles.

Real Estate Owned.

- 7. (a) Within thirty (30) days, the Association shall submit to the Regional Director all revisions to its REO Policy Statement, including addressing all applicable comments required by the 2009 ROE.
- (b) Upon receipt of written notification from the Regional Director that the revised REO Policy Statement is acceptable, the Association shall implement and adhere to the revised REO Policy Statement.

Allowance for Loan and Lease Losses.

8. By June 30, 2010, the Association shall submit to the Regional Director a revised ALLL Policy that includes policies, procedures, and methodology to ensure the timely establishment and maintenance of an adequate ALLL level in accordance with applicable laws, regulations, and regulatory guidance. The ALLL Policy shall:

- (a) address all recommended corrective actions set forth in the 2009 ROE relating to ALLL;
- (b) incorporate the results of all internal loan reviews and classifications;
- (c) address the historical loan loss rates of the Association in compliance with regulatory guidance to cover an expanded segmentation of the Association's loan portfolio by property location concentrations, which shall be updated quarterly with heavier weighting assigned to rates of the most recent quarters; and
- (d) consider current and prospective market and economic conditions, including specific property location concentrations.

Loan Modifications.

9. (a) Within forty-five (45) days, the Association shall submit to the Regional Director all revisions to its Loan Modification Policy, including addressing all applicable comments required by the 2009 ROE.
- (b) Upon receipt of written notification from the Regional Director that the revised Loan Modification Policy is acceptable, the Association shall implement and adhere to the revised Loan Modification Policy.

Liquidity.

10. The Association shall continue to submit a liquidity and cash flow analysis acceptable to the Regional Director on a monthly basis, or more frequently if requested by the Regional Director, until such time as the Regional Director releases the Association from this reporting requirement.

Brokered Deposits and Interest Rate Restriction.

11. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b).

Growth.

12. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director. The growth restriction imposed by this Paragraph shall remain in effect until the Regional Director reviews and approves the Association's Business and Capital Plan as required under Paragraph 3 of this Order.

Dividends.

13. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for approval should be submitted to the Regional Director at least sixty (60) days prior to the anticipated date of the proposed declaration of dividend or distribution of capital.

Severance and Indemnification Payments.

14. Effective immediately, the Association shall not make any golden parachute payment³ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

15. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁴ set forth in 12 C.F.R. Part 563, Subpart H.

Employment Contracts and Compensation Arrangements.

16. Effective immediately, the Association shall not enter into any new contractual arrangement or renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such Senior Executive Officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Third Party Contracts.

³ The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

⁴ The term “Senior Executive Officer” is defined at 12 C.F.R. § 563.555.

17. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association⁵ or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (c) received written notice of non-objection from the Regional Director.

Effective Date, Incorporation of Stipulation.

18. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

Duration.

19. This Order shall remain in effect until terminated, modified, or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

20. Calculation of time limitations for compliance with the terms of this Order run from the Effective Date and shall be based on calendar days, unless otherwise noted.

21. The Regional Director or an OTS authorized representative may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

⁵ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital.

22. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

23. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

(a) **To the OTS:**

Regional Director
Office of Thrift Supervision
One South Wacker Drive, Suite 2000
Chicago, Illinois 60606
Facsimile: (312) 917-5001

(b) **To the Association:**

Chief Executive Officer
Home Savings of America
35 East Broadway
Little Falls, Minnesota 56345
Facsimile: (320) 632-5463

No Violations Authorized.

24. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: _____ /s/
Daniel T. McKee
Regional Director, Central Region

Date: See Effective Date on page 1

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	Order No.: CN 10-23
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HOME SAVINGS OF AMERICA)	Effective Date: June 2, 2010
)	
Little Falls, Minnesota)	
OTS Docket No. 03052)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Home Savings of America, Little Falls, Minnesota, OTS Docket No. 03052 (Association) that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

WHEREAS, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

WHEREAS, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or

denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs 1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

Jurisdiction.

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is an “insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).

2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

OTS Findings of Fact.

3. Based on a comprehensive examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound banking practices, including operating with: (a) an excessive level of adversely classified and delinquent loans, (b) an inadequate level of capital protection for the volume, type and quality of assets held by the Association, and (c) inadequate earnings to fund growth and augment capital as described in the OTS Report of Examination of the Association dated October 19, 2009.

Consent.

4. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

Finality.

5. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

Waivers.

6. The Association waives the following:

- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and
- (d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes or otherwise.

OTS Authority Not Affected.

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

8. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

11. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

Signature of Directors/Board Resolution.

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting.

WHEREFORE, the Association, by its directors, executes this Stipulation.

**HOME SAVINGS OF AMERICA
Little Falls, Minnesota**

Accepted by:
Office of Thrift Supervision

By: _____ /s/
Dirk S. Adams, Chairman

By: _____ /s/
Daniel T. McKee
Regional Director, Central Region

_____/s/
James R. Causey, Director

Date: See Effective Date on page 1

_____/s/
Gary L. Olson, Director

_____/s/
Steven E. Stern, Director

_____/s/
David C. Welch, Director