

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of:

Life Financial Corporation,
OTS Docket No. H-2834

)
) OTS Order No.: SF-00-007
)

) Date: October 4, 2000
)
)

STIPULATION AND CONSENT TO ISSUANCE OF
ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision (OTS), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Life Financial Corporation (Life Financial), OTS Docket No. H-2834, pursuant to Section 8 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1818(b)(1).¹

WHEREAS, Life Financial desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, therefore, hereby stipulates and agrees to the following terms:

1. Jurisdiction.

- a) Life Financial owns one hundred percent (100%) of the outstanding common stock of Life Bank, F.S.B., Riverside, California, (the Institution), an insured savings association, and is a savings and loan holding company as that term is defined at 12 U.S.C. § 1467a(a)(1)(D).

¹ All references to the United States Code (USC) are as amended.

- b) Pursuant to 12 U.S.C. § 1818(b)(9), the “appropriate Federal banking agency” may initiate cease-and-desist proceedings against a savings and loan holding company in the same manner and to the same extent as savings associations for regulatory violations and unsafe or unsound acts or practices.
- c) Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with authority to initiate cease-and-desist proceedings against savings and loan holding companies. Accordingly, Life Financial is subject to the jurisdiction of the OTS to initiate and maintain such administrative proceedings pursuant to 12 U.S.C. § 1818(b).

2. OTS Findings of Fact.

The OTS finds that Life Financial has engaged in activities and practices that are unsafe and unsound, and caused the Institution to engage in activities and practices that are unsafe and unsound, and in violation of regulations and regulatory guidance, as follows:

- a) The December 31, 1999 sale to the Institution of \$5.2 million in residual assets to the Institution, the June 23, 1999 sale of \$25.5 million in residual assets to the Institution, and the October 15, 1999 sale of \$40.1 million in loans to the Institution, each exceeded ten percent of capital and surplus of the Institution, in violation of 12 C.F.R. 563.41 § (a)(1)(i). As a result of these transactions, Life Financial owed the Institution \$1.3 million as of June 23, 1999 and \$2.2 million as of October 15, 1999 (repaid on July 30, 1999 and November 26, 1999, respectively), which constituted unsecured advances by the Institution in violation of 12 C.F.R. § 563.41(c).
- b) In addition, the December 31, 1999 sale of \$5.2 million in residual assets to the

Institution was not supported by empirical data that showed this transaction was on terms and under circumstances that were substantially the same, or at least as favorable to the Institution as those prevailing at the time for comparable transactions with or involving nonaffiliated companies, in violation of 12 C.F.R. § 563.42. Likewise, Life Financial and the Institution failed to provide sufficient support to ensure that bonds and mortgage servicing rights the Institution sold to Life Financial on June 23, 1999 and October 15, 1999 met the qualitative requirements of 12 C.F.R. § 563.42. Life Financial and the Institution failed to demonstrate that these transactions were on terms and under circumstances that were substantially the same, or at least as favorable to the Institution as those prevailing at the time for comparable transactions with or involving nonaffiliated companies.

- c) Life Financial had outstanding accounts payable to the Institution of \$1.6 million and \$98,000 for December 31, 1999 and March 31, 2000, respectively, which constitute unsecured advances by the Institution in violation of 12 C.F.R. § 563.41(c).
- d) Further, the June 23, 1999 and October 15, 1999 sales of \$25.5 million and \$40.1 million, respectively, in assets to the Institution, each exceeded twenty percent of the Institution's capital and surplus in violation of 12 C.F.R. § 563.41(a)(1)(ii).
- e) During the fourth quarter of 1998, 1999, and the first quarter of 2000, the Institution paid Life Financial approximately \$4.3 million in fees for work performed by Life Capital Markets (LCM) division. Life Financial and the Institution failed to demonstrate that these transactions were on terms and under circumstances that were substantially the same, or at least as favorable to the Institution as those prevailing at the time for

comparable transactions with or involving nonaffiliated companies, in violation of 12 C.F.R. § 563.42.

- f) The Transactions With Affiliates Log maintained by Life Financial failed to properly identify all transactions with affiliates, and ensure compliance with applicable regulations by the Institution. The Transactions With Affiliates Log erroneously stated that several transactions between Life Financial and the Institution were not subject to the applicable regulations, and the Log was unclear with respect to outgoing and income cash flows.
- g) The Tax Sharing Agreement between Life Financial and the Institution fails to comply with applicable regulatory guidance in that it does not ensure that the tax payment by the Institution does not exceed the lesser of the Institution's tax liability or the combined tax liability of the consolidated entities to the taxing authorities.

3. Consent.

Without admitting or denying the findings contained herein, except as to the jurisdiction of the OTS over Life Financial, which is admitted, Life Financial hereby consents to the issuance by the OTS of the accompanying Order to Cease and Desist ("Order"). Life Financial further agrees to comply with all terms of the Order upon its issuance and stipulates that the Order complies with all requirements of law.

4. Finality.

The Order is issued pursuant to 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director for the West Region, or his designee, it shall be a final order, effective and fully enforceable by the OTS under 12 U.S.C. §1818(i).

5. Waivers.

- a) Life Financial hereby waives any and all rights to a written Notice of Charges and administrative hearing provided by 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by 12 U.S.C. § 1818(h), or otherwise challenge the validity of the Order.
- b) Life Financial acknowledges and agrees that the consent to the entry of the Order is for the purpose of resolving this OTS enforcement matter only, arising out of the findings described herein, and does not resolve, affect, or preclude any other civil or criminal proceeding that may be or has been brought by the OTS or any other governmental entity.
- c) Life Financial hereby waives 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 for the Order, whether arising under common law, the Equal Access to Justice Act (5 U.S.C. § 504), or 28 U.S.C. § 2412.

6. Signature of Directors.

Each director signing this Stipulation, without admitting or denying the findings contained herein, except as to the jurisdiction of the OTS over Life Financial, which is admitted, attests that he or she voted in favor of a resolution authorizing the execution of the Stipulation.

WHEREFORE, Life Financial, by a majority of its directors, executes this Stipulation and Consent to the Entry of an Order to Cease and Desist, intending to be legally bound thereby.

LIFE FINANCIAL CORPORATION

By a Majority of its Directors:

 /S/
Director

 9-25-00
Date

 /S/
Director

 9-25-00
Date

 /S/
Director

 9-25-00
Date

 /S/
Director

 9-25-00
Date

 /S/
Director

 9/25/00

**CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly appointed and qualified Secretary of Life Financial Corporation (the Corporation) here by certify as follows:

- a) A duly called meeting of the board of Directors ("the Board") of the Corporation was held on September 25, 2000;
- b) At that meeting a quorum was present and voting throughout;
- c) The following is a true copy of resolution duly adopted by the Corporation's board, which resolutions have not been rescinded or modified and are now in full force and effect;

WHEREAS, the board of the Corporation wishes to cooperate with the Office of Thrift Supervision (OTS) and to demonstrate that the board and the Corporation have the intent to: (1) comply with all applicable laws and regulations; and (2) engage in safe and sound practices;

WHEREAS, the directors of the Corporation have read and considered (1) the Order to Cease and Desist (the Order) and (2) the Stipulation and Consent to the Order to Cease and Desist (the Stipulation) attached to the minutes of the Board meeting held on September 25, 2000; and

WHEREAS, after due consideration, the Board has determined to stipulate and consent to the issuance of the Order in the interests of regulatory compliance and cooperation;

NOW, THEREFORE, IT IS RESOLVED that the attached Stipulation, the provisions of which are incorporated herein by this reference, be and is hereby approved by the Board,

FURTHER RESOLVED that the directors and officers of the Corporation are directed and authorized to take all necessary steps to implement immediately the terms of the Order and to comply, in all material respects with such Order.

All members of the Board were present and voted at the meeting except N/A
and all members of the Board except N/A voted in favor of the
resolution.

INWITNESS THEREOF, I have hereto subscribed my name and affixed the seal of the Corporation on this 25th day of September, 2000.

D. S.

/S/

Roy L. Painter
Corporate Secretary

LIFE FINANCIAL CORPORATION

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of:)

Life Financial Corporation,)
OTS Docket No. **H-2834**)
_____)

OTS Order No.: SF-00-007

Date: October 4, 2000

ORDER TO CEASE AND DESIST

WHEREAS, Life Financial Corporation ("Life Financial"), OTS Docket No. H-2834, owns one hundred percent (100%) of the outstanding common stock of Life Bank, F.S.B., Riverside, California, ("the Institution"), an insured savings association; and

WHEREAS, Life Financial is a savings and loan holding company as that term is defined at 12 U.S.C. § 1467a(a)(1)(D); and

WHEREAS, Life Financial, by and through its Boards of Directors (the Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

WHEREAS, Life Financial, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, the Director of the Office of Thrift Supervision (OTS) has delegated to the Regional Directors of the OTS the authority to issue an Order to Cease and Desist on behalf of the OTS where entities subject to OTS jurisdiction have consented to the issuance of the Order.

NOW, THEREFORE, IT IS ORDERED that:

A. CAPITAL INFUSION

1. By no later than December 31, 2000, Life Financial shall contribute to the Institution capital in the amount of \$5.2 million, which represents reimbursement to the Institution of the amount the Institution paid to Life Financial for its residual assets; provided, however, that in the event the OTS determines that Life Financial is making satisfactory progress towards such capital raising efforts, then Life Financial shall not be deemed to be in violation of this Order. The tax refunds, if any, due the Institution shall not be counted in this required infusion. Life Financial shall provide satisfactory evidence of such infusion to the OTS within five (5) days after the infusion is complete.

B. TRANSACTIONS-WITH-AFFILIATES

1. Life Financial shall not enter into any transaction, or otherwise engage in any action, which would cause, directly or indirectly, the Institution to violate or be in violation of 12 C.F.R. §§ 563.41 and 563.42.
2. Life Financial shall provide the OTS with at least 30 days prior written notice of any transaction that would constitute a "covered transaction" from the perspective of Life Bank. The term "covered transaction" shall have the meaning as set forth at 12 C.F.R. § 563.41(b)(7).
3. Life Financial shall provide the OTS with at least 30 days prior written notice of any transaction, or series of transactions, between Life Bank and any third party where: (a) Life Financial, or any affiliate, holder of 5.0 percent of the company's stock, officer, or director of Life Financial, has a financial interest in the third party; (b) Life Financial, or any affiliate, shareholder, officer, or director of Life Financial, participates in the

transaction; or (c) any of the proceeds of the transaction are used for the benefit of, or transferred to, directly or indirectly, Life Financial, or any affiliate, holder of 5.0 percent of the company's stock, officer, or director of Life Financial. For purposes of this paragraph, the term "affiliate" as it relates to Life Financial shall have the meaning as set forth at 12 C.F.R. § 563.41(b)(1) with "Life Financial" substituted for "savings association."

4. Upon written notice of objection by OTS during the notice period set forth in paragraphs (B) 1-3, above, Life Financial shall not enter into the transactions identified in the notice.
5. The Board shall take all necessary measures to cause the procedures governing the Transactions With Affiliates Log to be revised to ensure compliance with all applicable laws, regulations or regulatory guidance. Beginning July 31, 2000, and monthly thereafter, the Board shall submit the Transactions With Affiliates Log to the Assistant Regional Director for review.

C. BOOKS AND RECORDS

1. In accordance with 12 C.F.R. § 563.170(c), Life Financial shall at all times maintain adequate books and records to enable management, outside auditors, and examiners to adequately and timely review Life Financial's operations and activities. This requirement, at a minimum, includes maintenance of accurate and reliable minutes of meetings, certified by the secretary, or assistant secretary, of the corporation.
2. The Board shall meet at least monthly. The Board shall prepare in advance and shall follow a detailed written agenda at each meeting, which shall include consideration of actions of any committees. A chronological file of all written agendas shall be maintained. Notwithstanding the foregoing, the Board shall not be precluded from

considering matters other than those contained on the agenda. Detailed written minutes of all Board meetings shall be timely maintained and recorded. Within 10 days following each meeting of the Board, Life Financial shall submit the official certified minutes of that meeting to the Assistant Regional Director.

D. TAX SHARING

1. Life Financial shall not cause the Institution to upstream any tax payment (nor accept any such payment) that exceeds the lesser of the Institution's tax liability or the combined tax liability of the consolidated entities to the taxing authorities.
2. Within 60 days from the Effective Date, Life Financial shall approve and submit to the ARD for review and non-objection a revised Tax Sharing Agreement. The revised Tax Sharing Agreement shall be in compliance with all regulatory guidance and shall govern the relationship between the Institution and Life Financial. The revised Tax Sharing Agreement shall require complete documentation of any calculation utilized by the Institution or Life Financial to upstream funds for the payment of any tax liability.
3. Within 15 days of receipt of the ARD's objection, if any, to any aspect of the revised Tax Sharing Agreement, Life Financial shall submit a revised agreement to the ARD addressing any such objections or comments of the ARD.
4. Once the revised Tax Sharing Agreement is submitted pursuant to this Order and all objections from the ARD, if any, have been satisfactorily resolved, Life Financial may not amend, suspend, or revoke the agreement without the prior written non-objection from the ARD.

5. Within 15 days of receiving notice of the ARD's non-objection to the revised Tax Sharing Agreement, Life Financial shall implement the agreement and ensure that all signatories adhere to it.
6. Within 60 days following the end of each calendar quarter, Life Financial shall approve and submit a report to the ARD detailing its progress in implementing the revised Tax Sharing Agreement.

E. FINANCIAL STATEMENTS

1. Within 60 days from the Effective Date, Life Financial shall prepare and submit to the Assistant Regional Director a comprehensive, report on Life Financial's condition on a pro forma unconsolidated basis (Financial Statement) for the immediately preceding four quarters.
2. Thereafter, Life Financial shall monthly submit a Financial Statement to the Assistant Regional Director.

F. SEPARATE CORPORATE EXISITENCE

1. Within 60 of the Effective Date, Life Financial shall approve and submit to the ARD for review and non-objection revised policies and procedures governing separate corporate existence (the Separate Corporate Existence Policy) that address the concerns identified in the Institution's Report of Examination dated April 3, 2000. At a minimum, the Separate Corporate Existence Policy should ensure that the Institution is being operated with an adequate degree of separation such that the Institution is insulated from operations of the holding company, and demonstrate to the public the separate corporate existence of the Institution and its holding company.

2. Within 15 days of receipt of the ARD's objection, if any, to any aspect of the Separate Corporate Existence Policy, Life Financial shall submit a revised policy to the ARD addressing any such objections or comments of the ARD.
3. Once the Separate Corporate Existence Policy is submitted pursuant to this Order and all objections from the ARD, if any, have been satisfactorily resolved, Life Financial may not amend, suspend, or revoke the policy without the prior written non-objection from the ARD.
4. Within 15 days of receiving notice of the ARD's non-objection to the Separate Corporate Existence Policy, Life Financial shall implement the agreement and ensure that all signatories adhere to it.
5. Within 60 days following the end of each calendar quarter, Life Financial shall approve and submit a report to the ARD detailing its progress in implementing the Separate Corporate Existence Policy.

G. COMPLIANCE WITH ORDER

1. The Board and the officers of Life Financial shall take immediate action to cause Life Financial to comply with the terms of this Order and shall take all actions necessary or appropriate thereafter to cause Life Financial to continue to comply with this Order.
2. The Board, on a quarterly basis, shall adopt a Board resolution (the Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding quarter, Life Financial complied with each provision of this Order, except as otherwise stated. The Compliance Resolution shall: (a) specify in detail

how, if at all, full compliance was not found to exist; and (b) identify all notices of exemption issued by the OTS that were outstanding as of the date of its adoption.

3. The minutes of the meetings of the Board shall set forth the following information with respect to the adoption of the Compliance Resolution: (1) the identity of each director voting in favor its adoption; and (2) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasons for opposing or abstaining.
4. By November 30, 2000 (for calendar quarter ending September 30, 2000), and within 60 days following the end of each calendar quarter thereafter, Life Financial shall provide to the Assistant Regional Director a certified true copy of the Compliance Resolution adopted at the respective Board meeting. The Board, by virtue of Life Financial's submission of a certified true copy of each such Compliance Resolution to the OTS, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, provided however, that in the event that one or more directors do not agree with the representations set forth in the Compliance Resolution, such disagreement shall be noted in the minutes of Life Financial.
5. The Board shall promptly respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Order.

H. STIPULATION

1. The Stipulation is incorporated by reference into this Order.

I. DEFINITIONS

1. All technical words or terms used in this Order, and the Stipulation, for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as

applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), FDIA, or OTS publications. Any such technical words or terms used in this Order and the Stipulation and undefined in the Code of Federal Regulations, HOLA, FDIA, or OTS publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

J. SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

1. Any references in this Order and Stipulation to provisions of statutes, regulations, OTS publications, and OTS regulatory guidance shall be deemed to include references to all amendments to such provisions as have been made as of the date of this Order and references to successor provisions as they become applicable.

K. NOTICES

1. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Order to be made upon, given or furnished to, delivered to, or filed with the OTS or Life Financial shall be in writing and mailed, first class or overnight courier, or by facsimile transmission, or physically delivered, and addressed as follows:

OTS: OTS-West Region
Attn: Michael Buting, ARD
1551 N. Tustin Ave., Suite 1050
Santa Ana, CA 92705-8635

Life Financial Corp.
Attn: Chief Executive Officer
10540 Magnolia Avenue, Suite B
Riverside, CA 92505-1814

Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service, or facsimile, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Order, then, in the event such notice was sent by the U.S. mail, there shall be a presumption that the notice

was received two (2) business days after the date of the postmark on the envelope in which the notice was enclosed.

L. DURATION, TERMINATION OR SUSPENSION OF ORDER

1. This Order shall: (a) become effective upon its execution by the OTS, acting through its authorized representative whose signature appears below; and (b) remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director or Regional Director (including any authorized designee thereof).
2. The Regional Director of the OTS, in his or her sole discretion, may, by written notice, suspend, modify, or terminate any or all provisions of this Order.

M. TIME LIMITS

1. Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted.

N. EFFECT OF HEADINGS

1. The section headings herein are for convenience only and shall not affect the construction hereof.

O. SEPARABILITY CLAUSE

1. In case any provision of this 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.

P. NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY
STATEMENT AUTHORIZED; OTS NOT RESTRICTED

1. Nothing in this Order shall be construed as: (a) allowing Life Financial or the Institution to violate any law, rule, regulation, or policy statement to which it is subject; or (b) restricting or estopping the OTS from taking any action(s) that it deems appropriate in fulfilling the responsibilities placed upon it by law.

O. SUCCESSORS IN INTEREST/BENEFIT

1. 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. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto, and the Federal Deposit Insurance Corporation, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Order.

SO ORDERED this the 4th day of October 2000 (Effective Date).

OFFICE OF THRIFT SUPERVISION

By: /S/
Charles A. Deardorff
Regional Director, West Region