OFFICE OF THRIFT SUPERVISION

APPROVAL OF AN APPLICATION FOR CONVERSION TO
FEDERAL SAVINGS ASSOCIATION CHARTER AND
HOLDING COMPANY APPLICATION

Order No.: 2000-48
Date: June 16, 2000

Affinity Bank, Ventura, California (the Bank), has applied to the Office of Thrift Supervision (the OTS), pursuant to 12 U.S.C. § 1464 and 12 C.F.R. § 552.2-6 for permission to convert from a California-chartered industrial loan company to a federal savings bank (the New FSB). In addition, Affinity Bank Holdings, LLC, Ventura, California (the Applicant), seeks approval under 12 U.S.C. § 1467a(e) and 12 C.F.R. § 574.3 to acquire the New FSB. Also, the New FSB has filed notice, pursuant to 12 U.S.C. § 1828(m) and 12 C.F.R. § 559.11, to establish an operating subsidiary, AB Chestnut, Inc., Ventura, California. The foregoing are collectively referred to herein as the Applications.

The OTS has considered the Applications under the factors set forth in 12 U.S.C. §§ 1464 and 1467a(e) and 12 C.F.R. §§ 552.2-6 and 574.3, and 12 C.F.R. Part 559 and other applicable statutes and regulations. The OTS also has considered the Applications under the Community Reinvestment Act, 12 U.S.C. § 2901 et seq., and the OTS regulations thereunder at 12 C.F.R. Part 563e. The OTS has considered a digest from the West Regional Office, an analysis prepared by the Office of Examination and Supervision and a legal opinion from the Business Transactions Division (collectively, the Staff Memoranda). For the reasons set forth in the Staff Memoranda, the OTS finds that the Applications satisfy the applicable approval standards, provided that the following conditions are complied with in a manner satisfactory to the West Regional Director, or his designee (Regional Director). Accordingly, the Applications are hereby approved, subject to the following conditions:

1. The Applicant and the Bank must receive all required regulatory approvals prior to consummation of the proposed transaction with copies of all such approvals provided to the West Regional Office;

2. The proposed transaction must be consummated no later than 120 calendar days after the date of this approval order;

3. On the business day prior to the date of consummation of the proposed transaction, the chief financial officers of the Applicant and the Bank must certify in writing to the Regional Director that no material adverse events or material adverse changes have occurred with respect to the financial condition or operation of the Applicant and the Bank as disclosed in the Applications. If additional information having an adverse bearing on any feature of the Applications is brought to the attention of the Applicant, the Bank, or the OTS since the date of the financial statements submitted with the Applications, the transaction must not be consummated unless the information is presented to the Regional Director, and the Regional Director provides written non-objection to consummation of the transaction;
4. The Applicant and the New FSB must advise the Regional Director in writing within five (5) calendar days after the effective date of the proposed transaction: (a) of the effective date of the proposed transaction; and (b) that the transaction was consummated in accordance with all applicable laws and regulations, the Applications, and this Order;

5. The New FSB must maintain an 8 percent core capital ratio. This condition can be modified at the discretion of the Regional Director;

6. Prior to consummation of the proposed transaction, the New FSB must submit to the Regional Director a revised business plan with supporting financial schedules incorporating the capital requirement set forth in condition 5 of this Order;

7. The New FSB must operate within the parameters of its business plan. The Applicant and the New FSB must submit any proposed major deviations or material changes from the plan (including changes resulting from decisions made by the Applicant), and in particular, those pertaining to cross-marketing of products of the New FSB and any affiliates, for the prior written non-objection of the Regional Director. The request for change must be submitted a minimum of 60 calendar days before the proposed change is implemented;

8. Any additional debt incurred by the Applicant is subject to the prior approval of the Regional Director;

9. Within 30 calendar days after the consummation of the proposed transaction, the New FSB must submit copy of the final Tax Allocation Agreement to the Regional Director promptly following its execution by the New FSB and the Applicant;

10. At least 40 percent of the New FSB’s board of directors must be individuals who are not officers or employees of the Applicant or affiliates thereof or have otherwise been determined by the Regional Director to lack sufficient independence, and at least one member of the New FSB’s board of directors must be an individual who is not an officer, director or employee of the Applicant or any affiliate and who is not an officer or employee of the New FSB or has otherwise been determined by the Regional Director to lack sufficient independence. At least 50 percent of the audit committee established by the New FSB must be directors who are not officers or employees of the New FSB, the Applicant or any affiliates. If compliance with this condition involves the selection of additional directors, each director must receive the prior written approval of the Regional Director;

11. Within 30 calendar days after the consummation of the proposed transaction, the New FSB must submit to the Regional Director for his review and approval, an enhanced compliance management program that includes, at a minimum, the following components:

   a. The assignment of specific compliance responsibilities to individuals who are knowledgeable and experienced in administering consumer protection, nondiscrimination, and other compliance laws administered by the OTS;
b. Regular and comprehensive self-assessment reviews to ensure compliance on a day-to-day basis;

c. Periodic compliance audits;

d. Comprehensive training for all affected staff;

e. An ongoing system for assuring compliance with Federal fair lending statutes and regulations, and for handling consumer inquiries or complaints; and

f. Appropriate written policies and procedures;

12. No later than 30 calendar days after the end of each calendar quarter, the New FSB must submit a status report, in a form acceptable to the Assistant Regional Director, that details the implementation of its compliance management program and fair lending programs and the results of its compliance monitoring efforts as required by the compliance management program. This quarterly report is required until such time as the Regional Director deems it no longer necessary; and

13. No later than 30 calendar days after the end of each calendar quarter, the New FSB must submit a status report, in a form acceptable to the Assistant Regional Director, detailing:

a. The results of its various lending programs and initiatives in both Northern and Southern California; and

b. Its level of lending to low- and moderate-income individuals, to low- and moderate-income communities and to small businesses;

This quarterly report is required until such time as the Regional Director deems it no longer necessary.

Any time period specified herein may be extended by the Regional Director, for good cause, for up to 120 calendar days.

By order of the Director of the Office of Thrift Supervision, or her designee, effective