

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)
FIRST FEDERAL SAVINGS)
OF HEGEWISCH)
Chicago, Illinois)
)
_____)

Re: Resolution No. CHI-92-07

Date: February 18, 1992

STIPULATION AND CONSENT TO THE ISSUANCE
OF AN ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the Central Region, OTS, and FIRST FEDERAL SAVINGS OF HEGEWISCH ("HEGEWISCH"), hereby stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against HEGEWISCH pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b). HEGEWISCH desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation and, without admitting or denying that such grounds exist, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative cease and desist litigation against HEGEWISCH with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").
2. Jurisdiction. (a) HEGEWISCH is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of the OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, HEGEWISCH is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b).

3. Consent. HEGEWISCH consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.
4. Finality. The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director for the Central Region, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).
5. Waivers. HEGEWISCH waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Director for the Central Regional Office, OTS, and HEGEWISCH by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

FIRST FEDERAL SAVINGS
OF HEGEWISCH
by a majority of its
directors

By: /S/
Stuart M. Brafman
Regional Director
Central Region

/S/
Director Vincent Ginalski

/S/
Director Stanley Aniol

/S/
Director Bernard Dzialakiewicz

/S/
Director Paul Jacobs

/S/
Director Stanley Kubicki

/S/
Director Anthony Lesniewski

/S/
Director Edward Petlak

UNITED STATES OF AMERICA

Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of
FIRST FEDERAL SAVINGS
OF HEGEWISCH
CHICAGO, ILLINOIS

Re: Resolution No. CHI-92-07

Date: February 18, 1992

ORDER TO CEASE AND DESIST

WHEREAS, FIRST FEDERAL SAVINGS OF HEGEWISCH, CHICAGO, ILLINOIS ("Hegewisch"), through its Board of Directors ("Board"), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist, which is incorporated herein by reference ("Stipulation") and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Central Region; and

WHEREAS, Hegewisch, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act 12 U.S.C. § 1818(b).

NOW THEREFORE, IT IS ORDERED THAT Hegewisch and its directors, officers, employees, agents, and service corporations shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of any violation of:

1. 12 C.F.R. § 545.113(b), pertaining to the maintenance of a complete record of business transactions;

12 C.F.R. § 563.161(a), pertaining to the maintenance of safe and sound management and the pursuit of financial policies that are safe and consistent with economical home financing and the purposes of federal savings associations and are appropriate to their respective types of operation;

12 C.F.R. § 563.161(b), pertaining to the compensation to officers, directors, and employees;

12 C.F.R. § 563.170(c), pertaining to the establishment and maintenance of books and records that provide an accurate and correct record of all business transactions; and

12 C.F.R. § 563.233, pertaining to accounting principles and procedures.

IT IS FURTHER ORDERED THAT:

Management Study

2. Within ninety (90) calendar days from the date of this Order, the non-officer members of the Board ("Outside Board") shall complete a comprehensive analysis and assessment of Hegewisch's management structure and staffing requirements ("Management Plan") for the purpose of providing qualified management. The findings and recommendations of the Outside Board shall be submitted to the full Board in writing and shall include, at a minimum:
 - (a) identification of both the type and number of officer positions needed to properly manage and supervise the affairs of Hegewisch;
 - (b) detailed written job descriptions which include the minimum qualifications for all officer positions;
 - (c) a detailed evaluation describing each officer and staff member's qualifications and abilities to perform the duties and responsibilities of his/her position, including adherence to Board established policies and practices, and restoration and maintenance of Hegewisch in a safe and sound condition;
 - (d) a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer positions identified by Article 2(a) of this Order;
 - (e) a detailed evaluation of current and proposed lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
 - (f) a recommended organizational chart that clearly reflects areas of responsibility and lines of authority for all officers, including the chief executive officer and the chief operating officer; and
 - (g) identification and establishment of committees as are needed to provide guidance and oversight to management.

3. Within twenty (20) calendar days of the receipt of the Management Plan, the full Board shall adopt an action plan ("Action Plan") which sets forth specific time frames to eliminate the deficiencies in Hegewisch's management, staffing and supervision of management by the Board, and establish respective policies and procedures.
4. Within ten (10) calendar days of the Board's adoption of the Action Plan required in Article 3, the Board shall submit it, along with the Management Plan required in Article 2, to the OTS Manager for written approval.
5. Upon receipt of written approval from the OTS Manager, the Board shall implement and adhere to the Action Plan in all respects.

Accounting for Losses

6. Hegewisch, under the direction of the Board, shall classify as loss all unreconcilable differences from the following three bank accounts for the financial reporting period ended December 31, 1991:
 - (a) the Federal Home Loan Bank of Chicago DID Account #201-41222;
 - (b) the Harris Bank Demand Account #258-1700; and
 - (c) the Harris Bank NOW Account #258-0256.
7. Within thirty (30) calendar days of the recognition of the loss as required in Article 6, Hegewisch shall submit computations of its revised tangible, core and risk based capital positions to the OTS Manager.
8. As of December 31, 1991, Hegewisch shall book in a special asset account ("Special Asset Account") any loan which the Board and senior management have determined has a high probability of workout, by either payoff or rewriting the loan, by March 31, 1992.
9. At March 31, 1992, Hegewisch must classify the remaining balance in the Special Asset Account identified in Article 8, which has not been approved by the OTS in accordance with Article 15 of this Order, as loss on the March 31, 1992 Thrift Financial Report.
10. As of the date of this Order, any future recoveries on the fraudulent loans and disbursements funded by David J. Orchowski's misappropriation of Hegewisch's funds, which are approved by the OTS as outlined in Article 15 of this Order, shall be taken into income.
11. As of the date of this Order, Hegewisch, under the direction of the Board, shall expense all legal fees, audit fees, and any other fees associated with the misappropriation of funds perpetrated by former officer, David J. Orchowski.

Fraudulent Loans

12. Within forty-five (45) calendar days from the date of this Order, the Board shall develop, adopt and maintain written work-out plans for any of the fraudulent loans in excess of \$200,000 that have been classified as loss by Hegewisch as of March 31, 1992. These plans shall include, at a minimum:
 - (a) an identification of the specific sources of repayment identified by promissory notes;
 - (b) appraisals supporting the collateral value and the security position of Hegewisch's lien on such collateral as well as title policies and/or tract searches evidencing the recorded mortgage liens;
 - (c) a review of current credit information;
 - (d) evidence of real estate taxes and evidence of current homeowners insurance; and
 - (e) the time frame for the Board to successfully accomplish the elements of the work-out plan.
13. The Board, or a delegated committee under the direction of the Board, shall conduct a review of each of the approved work-out plans, pursuant to Article 12, on at least a quarterly basis, to determine:
 - (a) the status of the fraudulent loans referred to in Article 12 compared to the work-out plans goals;
 - (b) Hegewisch's adherence to the Board approved work-out plans; and
 - (c) the need to revise the work-out plans or take alternative action.
14. A copy of each review, referred to in Article 13, shall be forwarded to the OTS Manager within fifteen (15) calendar days following the quarter-end.
15. As of the date of this Order, prior to a change in asset classification, Hegewisch must submit a written request to the OTS Manager for review and approval. Included with the request shall be copies of documents detailed in Articles 12(a) through (e). Hegewisch must receive a "no supervisory objection" opinion from the OTS Manager prior to recording any of these loans as an asset.

16. No modifications to the work-out plans required in Article 12 shall be made without the prior written approval of the OTS Manager.
17. As of the date of this Order, Hegewisch, under the direction of the Board, shall not extend additional credit, directly or indirectly, including renewals, to any borrower whose loans were originally fraudently funded by David J. Orchowski's misappropriation of Hegewisch's funds.

Internal Controls

18. Within forty-five (45) calendar days from the date of this Order, the Board shall submit to the OTS for written approval an Internal Control Policy designed to strengthen the accounting controls of Hegewisch. The Internal Control Policy shall include, at a minimum:
 - (a) segregation of duties, in particular the segregation of duties between accounting and lending personnel;
 - (b) procedures for the monthly reconciliation of bank accounts which addresses the recognition of appropriate adjustments for any and all unallocated differences;
 - (c) wire transfer procedures;
 - (d) cash disbursement procedures, including the requirement of two officer signatures on all Hegewisch checks in excess of \$50,000;
 - (e) investment and security accounting procedures, including the verification of investments and securities to the minutes of the investment committee meetings;
 - (f) procedures on the practice of changing interest rates of loans which necessitates a periodic review of all loans to determine if interest rates were changed without prior Board approval;
 - (g) procedures for dormant accounts;
 - (h) a system of authorization and recording procedures that assures reasonable control of assets, liabilities, income, and expenses; and
 - (i) procedures for the monthly reconciliation of subsidiary ledgers to the general ledger, including the maintenance of supportive documentation pertaining to reconciling items.

19. Within thirty (30) calendar days from the receipt of written approval from the OTS Manager, The Board shall adopt the Internal Control Policy, incorporating any comments from the OTS Manager. Thereafter, Hegewisch, under the direction of the Board, shall implement and adhere to the Internal Control Policy in all respects.

Third-Party Servicing Contracts

20. As of the effective date of this Order, Hegewisch shall immediately cease all third-party servicing. This activity shall cease until Hegewisch enters into written agreements with all parties indemnifying Hegewisch from lawsuits resulting from the third-party servicing activities and the provisions of Articles 21 and 22 of this Order are achieved.
21. Within forty-five (45) calendar days from the date of this Order, the Board shall submit to the OTS Manager for written approval a Third-Party Contract Policy designed to establish procedures to ensure proper handling of payments and adequate documentation and maintenance of files for Hegewisch's third-party contract activity.
22. Within thirty (30) calendar days from receipt of written approval from the OTS Manager, the Board shall adopt the Third-Party Contract Policy, incorporating any comments from the OTS Manager. Thereafter, Hegewisch, under the direction of the Board, shall implement and adhere to the Third-Party Contract Policy in all respects.

Business Plan

23. Within ninety (90) calendar days from the date of this Order, the Board shall submit to the OTS Manager for written approval a written three-year business plan which shall include, at a minimum:
 - (a) a projection of major balance sheet and income statement components;
 - (b) a written profit plan and detailed budget;
 - (c) contemplated strategies;
 - (d) major capital expenditures;
 - (f) specific market segments which the Board intends to promote and develop; and
 - (e) procedures to monitor Hegewisch's actual results against the projections and to provide for appropriate revisions to the budget and profit plan.

24. Upon receipt of written approval from the OTS Manager, the Board shall adhere to the business plan in all respects.
25. Within thirty (30) calendar days following each quarter-end, beginning with the quarter following approval from the OTS Manager, the Board shall submit to the OTS Manager a quarterly variance report, comparing actual results to the budgeted projections outlined in the business plan. Included with this report shall be a detailed explanation of any variance in excess of ± 10%.

Annual Audit

26. As of the date of this Order, the Board shall engage an independent public accounting firm to conduct Hegewisch's annual audit for the fiscal year ended June 30, 1991, pursuant to the requirements set forth in OTS Statement of Policy 12 C.F.R. § 571.2.
27. The independent audit required in Article 26 shall commence no later than May 1, 1992.

Closings

28. Any report or other document required by this Order to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 111 East Wacker Drive, Suite 800, Chicago, IL 60601, Attn: Katrinka Markowitz. All reports and other documents shall be deemed filed when received by the OTS.
29. Although the Board is by this Order required to submit certain proposed actions and programs for the review or approval of the OTS Manager, the Board has the ultimate responsibility for proper and sound management of Hegewisch.
30. It is expressly and clearly understood that if, at any time, the OTS deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America to undertake any action affecting Hegewisch, nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the OTS from doing so.
31. Any time limitations imposed by this Order shall begin to run from the effective date of this Order, unless otherwise provided for. Such time limitations may be extended by the OTS Manager or Regional Director for good cause upon written application by the Board.

32. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in the rules and regulations adopted by the OTS (including, without limitation, 12 C.F.R. § 500.1 et seq., § 541.1 et seq., and § 561.1 et seq. (1991)). Any such technical words or terms used in this Order and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.
33. The provisions of this Order are effective upon issuance of this Order by the OTS, through its authorized representative whose hand appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated by the OTS.
34. 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.
35. It is understood that the execution of this Order shall not be construed as an approval of any application or notices that are being contemplated by Hegewisch.
36. In the event any provision of this Order shall be declared invalid, illegal, or unenforceable; the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.
37. The section headings used in this Order are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Order.
38. This Order shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director of his designee.

IT IS SO ORDERED, this 18 day of February 1992.

THE OFFICE OF THRIFT SUPERVISION

By: /S/

Stuart M. Brafman
Regional Director
Chicago District Office