

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)
LIFE SAVINGS ASSOCIATION)
Austin, Texas)
_____)

Re: Resolution No. DAL-92-52

Dated: July 2, 1992

STIPULATION AND CONSENT TO THE ENTRY
OF A CEASE AND DESIST ORDER

The Office of Thrift Supervision ("OTS"), by and through its Interim Regional Director for the Midwest Regional Office, OTS, and Life Savings Association, Austin, Texas ("Life Savings" or "Institution"), 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 Life Savings pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA"), 12 U.S.C. § 1818(b) (1988 & Supp. I 1989). Life Savings 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 Life Savings with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. JURISDICTION.

(a) Life Savings is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act, as amended by FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1813(c) (1988 & Supp. I 1989).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Life Savings 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, as amended by FIRREA, 12 U.S.C. § 1818(b) (1988 & Supp. I 1989).

3. CONSENT.

Life Savings 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, as amended by FIRREA, 12 U.S.C. § 1818(b) (1988 & Supp. I 1989). Upon its issuance by the Interim Regional Director for the Midwest Regional Office, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA, 12 U.S.C. § 1818(i) (1988 & Supp. I 1989).

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Re: Resolution No.: DAL-92-52

Dated: July 2, 1992

ORDER TO CEASE AND DESIST

WHEREAS, Life Savings Association, Austin, Texas ("Life Savings" or "Institution"), through its directors, has executed a Stipulation and Consent to Issuance of 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 Interim Regional Director for the Midwest Regional Office; and

WHEREAS, Life Savings, 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 ("FDIA"), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA"), 12 U.S.C. § 1818(b) (1988 & Supp. I 1989).

NOW THEREFORE, IT IS ORDERED that Life Savings and its directors, officers, employees, agents and service corporations shall cease and desist from any violation of, or the aiding and abetting of any violation of:

1. 12 C.F.R. §§ 215.4(a), 215.5, and 563.43 (by making loans to affiliated persons under terms involving more than normal risk and without the prior approval of the Board of Directors);

2. 12 U.S.C. §§ 371c and 371c-1 and 12 C.F.R. § 563.41(a) (by making impermissible payments on behalf of Life Savings' holding company);
3. 12 C.F.R. § 563.170(c) (by failing to obtain and maintain an attorney's opinion on the sale of loans and by accepting a VA Certificate of Reasonable Value on a non-insured loan);
4. 12 C.F.R. § 563.233(b) (by failing to maintain books and records to adequately support Thrift Financial Reports and by failing to readily permit reconciliation of such statements with books and records);
5. 12 C.F.R. § 567.2 (by failing to meet its minimum risk-based capital requirement at June 30, 1991, September 30, 1991, and December 31, 1991);
and
6. 12 C.F.R. § 567.10(f) (by failing to comply with the Institution's Capital Directive provisions pertaining to (i) growth restrictions exceeded during the December 31, 1991 quarter and (ii) failure to obtain take-out commitments on four construction loans).

IT IS FURTHER ORDERED that:

OUTSTANDING CAPITAL DIRECTIVE AND CAPITAL PLAN

1. (a) The Capital Directive executed by the Institution and the OTS on September 20, 1991 and any approved Capital Plan of the Institution shall remain in effect, and the Institution shall comply with the Capital Directive executed on September 20, 1991 and any Capital Plan the Institution submits which is approved by the OTS.
- (b) Where provisions of the Capital Directive, any approved Capital Plan, or this Order to Cease and Desist are in conflict, the Institution shall be subject to the strictest provision.

MANAGEMENT

2. (a) Within 90 days of the effective date of this Order, unless an extension is granted in writing by the OTS, the Institution's Board of Directors shall be expanded and restructured so that it will comprise a decision-making body independent from its holding company, Life Financial Corporation, Austin, Texas - OTS No. H-1140 ("LFC"). The Institution's Board of Directors shall outline a course of action to achieve such independent Board of Directors and submit it to the OTS along with monthly progress reports.
- (b) Within 90 days of the effective date of this Order, unless an extension is granted in writing by the OTS, the Institution's Board of Directors shall review its Management Review Evaluation ("MRE") report required by Paragraph 5 of its Capital Directive dated September 20, 1991, and specifically evaluate management performance and competence. Its review shall include a conclusion as to management competence and should focus on current management's responsibility for the deficiencies cited in the January 27, 1992 Report of Examination, as well as improvements shown in the areas of operations and reduction of seriously delinquent loans.

APPROVAL OF EXECUTIVE OFFICERS AND DIRECTORS

3. The Institution shall comply with Paragraph 4 of its Capital Directive dated September 20, 1991 concerning the requirements for the appointment of executive officers and directors.

TRANSACTIONS INVOLVING LIFE FINANCIAL CORPORATION

4. (a) The Institution shall cease from making any disbursements to or for the benefit of LFC, its stockholders, or affiliated parties.
- (b) With respect to the initial disbursement of \$44,174 to the benefit of LFC, the Institution shall immediately obtain independent counsel to review the transaction and determine what actions should be taken to recover funds from LFC, or determine why such actions would not be prudent. Within 90 days of the effective date of this Order, the recovery from LFC should be completed, or the Board of Directors should have sufficient documentation to support why recovery has not been obtained.
- (c) With respect to any disbursement of funds by the Institution for the benefit of LFC, its stockholders, or the affiliated parties after the initial transactions, the Institution's Board of Directors shall appoint a committee comprised of independent board members to determine the level of expenditures for such purpose. The review shall be completed within 60 days of the effective date of this Order. The Institution's Board of Directors shall obtain reimbursement of the funds disbursed for LFC's, its stockholders', or the affiliated persons' benefit which are identified by the committee within 90 days of the effective date of this Order. If reimbursement is not obtained from LFC, its stockholders, or the affiliated persons who derived benefit from the disbursement, then restitution shall be obtained within 90 days of the effective date of this Order from the Institution's

directors or officers who authorized the expenditures. Any reimbursement obtained shall include interest from the date of disbursement to the date of repayment at a minimum rate of at least the Institution's yield on earning assets.

- (f) The Institution's Board of Directors shall immediately adopt a resolution wherein a policy is established which prohibits any disbursement (exclusive of salaries, benefits, and directors' fees) of funds in excess of \$1,000 per annum for the benefit of an affiliate or affiliated person without prior OTS approval. As used within this provision, the term "benefits" shall include only disbursements to cover travel, lodging, meals, auto expenses (gas, insurance, repairs), seminars, insurance (health, dental, life, disability), professional fees, telephone usage, fax usage, carphone usage, and education. The effective date of the policy shall be the date this Order is executed. The OTS shall maintain the right to replace any officer or director who violates such policy.

CONFLICTS OF INTEREST

5. (a) The Institution's Board of Directors shall comply with the requirements of Paragraph 10 of its Capital Directive dated September 20, 1991.
- (b) The Institution's Board of Directors shall immediately establish a committee of independent directors to review and direct the Board of Directors to develop disclosure and approval policies and procedures with respect to the extension of any type of credit to the Institution's or LFC's affiliates, affiliated

persons, officers, directors, employees, those with a related interest, and their stockholders. The independent committee shall submit to the OTS a copy of the policies and procedures.

- (c) The committee of independent directors established pursuant to Paragraph 5(b) shall direct the Institution's Board of Directors to develop revised overdraft policies and procedures. The committee will submit a copy of the policies and procedures to the OTS.
- (d) The overdraft policies and procedures shall ensure compliance with 12 C.F.R. §§ 215.4, 215.5, and 563.43, and shall provide for the following:
 - (i) Adequate disclosure to the Institution's Board of Directors and segregation of duties as to who in management reviews overdrafts;
 - (ii) Prohibition of officer, director, or employee overdrafts in violation of 12 C.F.R. §§ 215.4, 215.5, and 563.43;
 - (iii) Proper treatment of the reversal of overdraft service charges and customer overdraft exceptions; and
 - (iv) Submission of the overdraft status report to the Institution's Board of Directors on interim occurrences of any duration for any employee or officer or director overdrafts.
- (e) The committee of independent directors established pursuant to Paragraph 5(b) shall direct the Institution's Board of Directors to review employment contracts of service corporation employees

who administer loan originations and determine whether in-house personnel would be more beneficial to the Institution. The committee shall also assess whether separate management functions with respect to loan approvals at the service corporation and Institution are independent. The committee shall document the amount of reasonable compensation in the current market considering that loan demand is high and considering the lending relationship of the Institution and LFC established over the preceding 3 years. The committee will submit to the OTS an analysis and course of action report.

GROWTH

6. (a) The Institution shall comply with Paragraph 2 of its Capital Directive dated September 20, 1991, which prohibits the Institution from increasing its adjusted total assets or liabilities in an amount greater than the amounts existing as of April 30, 1990.
- (b) The Institution's Board of Directors shall immediately appoint an independent committee to establish and implement policies and procedures to prevent the Institution from exceeding its growth restrictions in the future. The committee shall require the Board of Directors to direct management to maintain files of supporting documents and schedules. The committee shall submit to the OTS a copy of the policies and procedures adopted by the Board of Directors.

