

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)

Inland Savings and Loan)
Association)
Hemet, California)
)

Re: Resolution No. SF-91-011

4/5/91

STIPULATION AND CONSENT ORDER TO CEASE AND DESIST

WHEREAS, Inland Savings and Loan Association ("Inland" or "Association") is a "savings association" within the meaning of Section 3 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)) and Section 2 of the Home Owners' Loan Act, as amended by FIRREA ("HOLA"). Accordingly, Inland 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)). Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of the Office of Thrift Supervision ("OTS") is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, Inland 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)).

WHEREAS, the OTS, based upon information disclosed in the Report of Examination dated November 26, 1991, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against Inland pursuant to Section 8(b) of the FDIA as amended by FIRREA (12 U.S.C. 1818 (b)).

WHEREAS, Inland, by and through its Board of Directors, without acknowledging the accuracy of the violations described herein or in the Report of Examination dated November 26, 1990, desires to cooperate with the OTS with respect to the matters covered in this Order to Cease and Desist (this "Order"), and therefore, consents to the issuance by the OTS of this Order. Inland, by and through its Board of Directors, stipulates that it has read, understood, and agrees to abide by the terms and intent of this Order.

WHEREAS, Inland waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (12 U.S.C. 1818(b)), and further waives any right to seek judicial review of this Order, including any such right provided by Section 8(h) of the FDIA, as amended by FIRREA (12 U.S.C. 1818(h)), or otherwise to challenge the validity of this Order, and further waives any claims that this Order does not comply with all requirements of law.

WHEREAS, in consideration of the foregoing, the OTS, by and through its Regional Director for the West Region, OTS, and Inland, by its Board of Directors, executes this Consent to Issuance of Order to Cease and Desist.

ORDER

NOW THEREFORE, IT IS ORDERED that:

1. Inland and its Board of Directors, officers, employees, agents and service corporations and any other institution affiliated party, as defined by FDIA as amended by FIRREA (12 U.S.C. 1818(u)) ("Institution Affiliated Party") shall cease and desist from any violation of, or the aiding and abetting of any violation of:
 - (a) 12 C.F.R. Section 563.40 dealing with restrictions on loan procurement fees;
 - (b) 12 C.F.R. Section 563.41 dealing with restrictions on property transactions with affiliated persons;
 - (c) 12 C.F.R. Section 571.7 dealing generally with conflicts of interest;
 - (d) 12 C.F.R. Section 563.43 dealing with restrictions on loans and other investments involving affiliates and affiliated person;
 - (e) 12 C.F.R. Part 215 (Regulation "O") dealing with loans to executive officers, directors and principal shareholders;
 - (f) 12 C.F.R. Section 563.93 dealing with loans-to-one-borrower limitations;
 - (g) 12 C.F.R. Section 563.170 regarding establishment and maintenance of records;
 - (h) 12 C.F.R. Section 571.19(d) regarding investment portfolio and accounting guidelines;
 - (i) 12 C.F.R. Section 563.176 regarding interest rate risk;

- (j) 12 C.F.R. Section 202.9 regarding notifications under the Equal Credit Opportunity Act;
2. Within 60 days from the effective date of this Order Inland shall develop and submit to the Assistant Regional Director ("ARD"), for prior written approval, a plan or plans, including revisions to, drafting of and implementation of policies and procedures, which shall address internal controls as specified in the Report of Examination dated November 26, 1990, and specifically as such controls relate to:
- (a) Conflicts of interest;
 - (b) Lending policies and procedures, including but not limited to letters and lines of credit, construction disbursement practices, loan underwriting and documentation, loans to affiliates and affiliated persons and any Institution Affiliated Party, and environmental risk;
 - (c) Internal classification of assets and the establishment of general valuation allowances;
 - (d) Financial reporting;
 - (e) Cash and cash items;
 - (f) Savings accounts;
3. Inland shall not issue letters of credit for the benefit of, or extend lines of credit to, any party, whether affiliated or not, without the prior written approval of the ARD, except for lines of credit in the form of overdraft protection on deposit accounts which shall not exceed \$5,000;
4. Without prior written approval of the ARD, Inland shall not:
- (a) Increase its assets as calculated on a consolidated basis above the amount of total assets as of January 1, 1991 (Section 5(t)(6)(b)(i) of the HOLA, prohibits any asset growth of an association not in compliance with its capital requirements);
 - (b) Make or commit to make any new loans or investments except for:
 - (i) new loans with balances not to exceed \$250,000 and loan to value ratios not to exceed 80 percent (maximum loan to value ratio of 70 percent on cash-out refinancings and 90 percent on owner-occupied loans which conform to Federal National Mortgage Association standards) which are secured by first trust deeds on single family residences;

- (ii) loans for the purpose of constructing single family residences with balances not to exceed \$250,000 and loan to value ratio not to exceed 80 percent;
- (iii) loans secured by single lots in the Mountain Shadows Recreational Vehicle Park ("Mountain Shadows");
- (iv) those loans or investments which provide essential liquidity; or
- (v) those which are used to fund legally binding commitments and loans-in-process existing on or before the receipt date of the Regulatory Bulletin 3a-1 letter from the OTS dated January 31, 1991, including, but not limited to, the funding of or investment in mortgage loans and securities, nonmortgage loans and leases, U.S. government securities, mortgage derivative products, interest rate swaps and caps, financial futures and options, and financial guarantees.

Other than those funds needed to meet essential cash requirements, all receipts and cash flows must be used to reduce Inland's liabilities;

- (c) Sell, transfer, modify or exchange any single loan in excess of \$250,000 or any pool of loans in excess of \$1 million, any participation, investment, security, or other asset except where the counterparty is a United States Government Agency or Government-sponsored agency;
- (d) Enter into any lease or contract for the purchase or sale of real estate or of any interest therein or buy or sell any real estate or any interest therein;
- (e) Make or commit to make any capital expenditure in excess of \$10,000;
- (f) Invest in, or extend advances or any other loans to, any service corporation or subsidiary, or in any group of subsidiaries, except for those advances necessary for the normal monthly operating expenses, not to exceed \$30,000 a month, of Mountain Shadows;
- (g) Pay any Board or committee fees to directors;
- (h) Make or agree to make any increase in the rate of compensation or in any other benefits to any of its directors or officers, or to any employee, agent, or other representative earning combined compensation and benefits over \$50,000 per year;
- (i) Pay any employee bonuses;

- (j) Engage in any transaction with any Institution Affiliated Party, including but not limited to, affiliates, affiliated person, or principal shareholders, or engage in any transaction, except for the acceptance of deposits, in which such a person has, directly or indirectly, an interest, financial or otherwise;
 - (k) Engage the services, directly or indirectly, of any affiliate, affiliated person, or principal shareholder;
5. Inland shall take immediate steps to reconstitute the Board of Directors and management of the Association. Within 30 days of the effective date of this Order, Inland shall submit a Management and Board Reconstitution Plan for written approval from the ARD, which Plan shall describe, at a minimum, actions taken or to be taken by the Board to effect such reconstitution. Within 90 days of the effective date of this Order, Inland shall submit a Management Plan, for written approval of the ARD, which shall, at a minimum, clearly identify all necessary positions within the institution, define job responsibilities, reporting relationship, and approval levels for all personnel, and discuss the relevant qualifications of each position's current or anticipated incumbent. The Board of Directors of Inland shall take all necessary actions to ensure the immediate implementation of the Management Plan;
6. Inland shall immediately either (a) revise any and all existing agreements with EPIC Insurance, Inc., doing business as EPIC Financial Insurance Services ("EPIC") so that (i) the activity is conducted through Inland's service corporation, and (ii) Inland does not indemnify EPIC but, rather, EPIC fully indemnifies Inland's service corporation and Inland for any liability arising from negligence, recklessness or intentional conduct of EPIC or its employees and which sets forth operating, marketing, compensation, and other relevant terms; or (b) discontinue its relationship with EPIC;
7. Concurrent with its execution of this Order, Inland shall execute the National Marketing Assistance Authorization (the "Authorization") attached hereto as Exhibit A and incorporated herein by reference, and shall take all steps necessary to comply with all terms of the Authorization.

DEFINITIONS

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 Code of Federal Regulations, Title 12, Chapter V; or as defined in FIRREA; the FDIA; or HOLA; and any such words or terms undefined in the foregoing shall have meanings that accord with the best custom and usage in the savings association industry.

EFFECTIVENESS

This Order is effective immediately.

This Order shall remain effective and enforceable until such time as the OTS shall dismiss this final Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through the Regional Director for the West Region, OTS, on the one hand, and Inland S&LA, by and its Board of Directors, on the other hand, execute this Stipulation and Consent to Order to Cease and Desist.

BOARD OF DIRECTORS
Inland Savings and Loan Association

Office of Thrift Supervision

/S/

Joseph P. Pehl

Date:
3/21/91

/S/ _____ 4/5/91
Michael Patriarca
Regional Director
Office of Thrift Supervision
West Region

/S/

Ralph Praciado

3/21/91

/S/

Jerry R. Uecker

3/21/91

/S/

James A. Barrondo

3/21/91

I concur:

/S/

William Record

3/21/91

/S/ _____ 4/5/91
William K. Black
Senior Deputy Chief Counsel
Office of Thrift Supervision
West Region

James S. Agnew

3/21/91

/S/

Richard L. Shirek

/S/

Frank C. Donahoe

3/21/91

