

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)
ENCINO SAVINGS BANK,)
Van Nuys, California)
_____)

Re: Resolution No. SF-91-023

Dated June 28, 1991

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the West Regional Office, OTS, and ENCINO SAVINGS BANK, Van Nuys, California, 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 ENCINO SAVINGS BANK 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)). ENCINO SAVINGS BANK 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 ENCINO SAVINGS BANK with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) ENCINO SAVINGS BANK 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)).

(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, ENCINO SAVINGS BANK 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)).

3. Consent. ENCINO SAVINGS BANK 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)). Upon its issuance by the Regional Director for the West 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)).

5. Waivers. ENCINO SAVINGS BANK 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 the 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 the Order.

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

ENCINO SAVINGS BANK
By its Board of Directors:

Dated: June 5, 1991

/S/

Arthur Feinfield

Dated: June 3, 1991

/S/

Martin P. Sanders

Dated: June 5, 1991

/S/

Branton

Dated: June 5, 1991

/S/

Ruth Colman

Dated: June 5, 1991

/S/

Nahum Lainer

Dated: June 5, 1991

/S/

Doris E. Meyer

Dated: JUNE 5, 1991

/S/

Kenneth D. Simon

Dated: _____

/S/

Mel Enzer

THE OFFICE OF THRIFT SUPERVISION

Dated: 6/28/91 By: _____

/S/

Michael Patriarca
Regional Director
West Region

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of
ENCINO SAVINGS BANK,
Van Nuys, California

Re: Resolution No. SF-91-023

Dated June 28, 1991

ORDER TO CEASE AND DESIST

WHEREAS, ENCINO SAVINGS BANK, Van Nuys, California ("ENCINO" 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 Regional Director for the West Regional Office;

WHEREAS, ENCINO SAVINGS BANK, 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, 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

WHEREAS, the OTS agrees that it will not assess civil money penalties, as provided for in 12 U.S.C. § 1818(i)(2), against the undersigned directors arising solely from information currently known to the OTS in consideration of the undersigned directors' execution of the Stipulation and cooperation with the OTS.

NOW THEREFORE, IT IS AGREED and ORDERED that:

1. The Board of Directors of ENCINO ("Board") will comply with the OTS standards which require that each director avoid placing himself or herself in a position which creates, leads to or could lead to a conflict of interest or the appearance of a conflict of interest, and will require the prompt discontinuance of any practice or condition which gives rise to a conflict of interest or the appearance of a conflict of interest. In addition, within 30 days of the execution date of this Order (for purposes of this Order, the "execution date" shall be the date upon which this Order is signed by the Board or June 3, 1991, whichever occurs first), ENCINO shall develop and submit a comprehensive Conflict of Interest policy acceptable to the Assistant Regional Director of the Office of Thrift Supervision, West Region ("ARD"). Upon written notice of acceptance of the policy by the ARD, ENCINO shall implement the policy immediately. Such policy will, at a minimum, meet the concerns and standards set forth in 12 C.F.R. 571.7.

12 C.F.R. 571.7 states, in pertinent part:

"Among the practices and conditions which have such adverse effects are conflicts between the accomplishment of the purposes of the Home Owner's Loan Act . . . and the personal financial interests of directors, officers and other affiliated persons of savings associations. Conflicts of this type which have demonstrably resulted

in such adverse effects are considered by the Office to be inherently unsafe and unsound practices and conditions. The Office accordingly holds that each director, officer, or other affiliated person of a savings association has a fundamental duty to avoid placing himself in a position which creates, or which leads to or could lead to, a conflict of interest or appearance of a conflict of interest having such adverse effects."

The Conflict of Interest policy will require each director and senior officer (Vice President or above) to make an annual disclosure to ENCINO in accordance with 12 C.F.R. 563.45, and will require updates whenever a material change occurs, including but not limited to:

- (a) all real property ownership, (except for interests held in mortgaged-backed securities or real property held free and clear of monetary liens) and
- (b) all affiliates and affiliated persons (as those terms are defined in 12 C.F.R. 561.4 and 561.5).

The policy shall include and address any additional requirements and concerns of Regulation O, Federal Reserve Board regulations parts 215.1 through 215.23.

2. The Board shall ensure that former Director Charles F. Nielsen ("Nielsen") shall not, directly or indirectly, manage, direct, or conduct the affairs of ENCINO and/or its subsidiaries.

Nothing in this section shall prohibit ENCINO (by and through its directors, officers, agents or employees) from seeking and/or securing restitution from Nielsen or from securing any other appropriate remedies from Nielsen with respect to the alleged breach of fiduciary duty by Nielsen as more specifically set forth in that Office of Thrift Supervision Report of Federal Regular Examination commenced March 4, 1991 (the "Report").

3. Immediately upon execution of this Order, the Board shall take steps to replace Nielsen with a qualified Board member, acceptable to the OTS, and unaffiliated with Nielsen or any entities controlled or owned by Nielsen or in which he serves in the capacity of manager, consultant or employee. In addition, the Board shall fill the remaining available Board position, if any, with a director unaffiliated with ENCINO; the proposed directors are subject to the prior review and approval of the ARD.
4. Within 60 days of the execution date of this Order, ENCINO shall develop and submit an Organization Plan acceptable to the ARD. The Organizational Plan shall, at a minimum, clearly define and delineate management job responsibilities, communication channels, reporting lines of authority, and approval levels at the Institution. Immediately after the Organizational Plan has been completed, copies of the Organizational Plan shall be provided to the ARD, accompanied

by the Board of Director's resolution approving such plan.

Upon written notice of acceptance of the Organization Plan by the ARD, ENCINO shall immediately implement and continually adhere to it throughout the Institution at every level, and the Board shall take all necessary actions to ensure that the Organizational Plan is continually updated to reflect the needs of the Institution. The minutes of the Institution's Board meetings shall detail the Board's involvement in the monitoring and implementation of the Organizational Plan.

5. Within 60 days of the execution date of this Order, ENCINO shall develop and submit a Management Plan acceptable to the ARD. Upon written notice of acceptance of the Management Plan by the ARD, ENCINO shall implement the Management Plan immediately. The Management Plan shall, at a minimum, have as its major goal the strengthening and enhancement of senior management, especially in the areas of internal audit, accounting/finance and loan administration. The Management Plan shall include a procedure for the succession and supplementation of senior and middle management. The Management Plan shall also contain an organizational chart of the management of ENCINO, including the identity of all officers, and a description of their respective responsibilities.
6. Within 30 days of the execution date of this Order, the Board shall develop and submit a policy acceptable to the ARD, by

which employees are made aware when Board member(s) and/or senior officers (Vice President or above) terminate their relationship with ENCINO. Upon written notice of acceptance of the policy by the ARD, ENCINO shall implement the policy immediately. Such policy shall ensure that any and all contact by former Board members and/or senior officers is brought to the attention of the Chief Executive Officer for his/her response, except for contact in the ordinary course of business about deposit or savings accounts maintained at ENCINO.

7. Within 30 days of the execution date of this Order, the Board will revise the personnel policy in order to add, at a minimum, the following procedures:
 - a. A comprehensive annual written performance review of all senior officers (Vice President or above) by the Chief Executive Officer.
 - b. A comprehensive annual written performance review of the Chief Executive Officer by the Board or at the Board's direction, the Personnel Committee.
 - c. A requirement that interim performance comments of a substantive nature be documented in writing and maintained in the personnel files of all senior officers.
8. Until otherwise required by law or by the OTS, the Board will take steps so that ENCINO will compute the adequacy of its

general valuation allowances ("GVAs") in accordance with the methodology described in the Report and properly record the resulting amount on its books in accordance with the formula described in the Report. Furthermore, ENCINO will fully document its monthly GVA calculations in accordance with the Report requirements and retain copies of journal vouchers in its GVA file.

9. Within 60 days of the execution date of this Order, ENCINO will implement the Internal Asset Review ("IAR") Policy and Procedures as restated by the Board on September 26, 1990. Management of ENCINO and the Board of Directors will take appropriate actions to provide for ENCINO's adherence to and compliance with the IAR Policy and Procedures. In addition, within the same 60 day period, ENCINO will adopt a comprehensive documentation strategy that demonstrates implementation of the IAR Policy and Procedures, to ensure that its IAR system produces and maintains a complete record of: (a) all monthly or more frequent asset reviews deemed necessary by the Institution's management and/or directors, and (b) IAR Committee meeting discussions and plans of action. This IAR documentation strategy shall include, at a minimum, the following:
 - a. Development of an IAR worksheet that documents each and every asset reviewed and summarizes the asset reviewer's and the IAR Committee's determination of the quality of

each asset reviewed. At a minimum, the IAR worksheet shall include: (1) a description of the asset reviewed, (2) the individual who performed the review, (3) the date of the review and the date of IAR Committee discussion of the review, (4) the classification assigned by the reviewer and the committee, (5) a narrative explanation of the basis for the classification, (6) an analysis of the asset's net realizable value, (7) a narrative description of the Committee's instructions and/or requests to the reviewer to provide further information or analysis, and (8) current and ongoing status of correction of deficiencies.

- b. Maintenance of an IAR file, which includes documentation covering the scope of review, minutes of the IAR Committee meetings, IAR findings, all individual IAR worksheets, and any other information supporting the classification decisions.
- c. Development of a formal reporting standard in order for management to provide the IAR Committee with all pertinent information as identified in the IAR Policy on a timely basis and require management to notify the IAR Committee of all known or potential problems with asset quality. Senior officers (Vice President and above) will provide training to management regarding the IAR Policy and the "flags" which trigger the reporting of assets to

the IAR Committee.

- d. Development of procedures which provide that timely and accurate information is submitted to and reviewed by the IAR Committee.
10. The Board shall promptly develop and implement procedures so that ENCINO shall require updated financial statements on borrowers for any new, modified or extended non-residential loans (as to any delinquent non-residential loans, ENCINO shall, depending upon the terms of the loan instruments, require or request financial statements) and shall keep a log of replies received. Such policy shall require that management analyze the financial statements to determine loans which require review by the IAR Committee. With regard to slow loans or non-performing loans, the updated financial statements should be compared with the original loan application and related financial information to determine material changes in the borrower's financial condition. The Board's policy shall require that review and analysis of updated financial statements shall be a condition precedent to the extension and/or modification of any non-residential loan. The Board shall ensure that the analysis is adequate on all new, modified or extended non-residential loans in excess of \$1,000,000 and Board Minutes shall confirm same.
11. Within 60 days of the execution date of this Order, the Board shall develop and submit an amended Appraisal Policy and

Procedures acceptable to the ARD, that is designed to comply with the requirements set forth in 12 C.F.R. 564.1 through 564.8. The Appraisal Policy will also require feasibility studies for all proposed projects except for proposed single-family developments consisting of four or less units. Upon receipt of the ARD's written acceptance, the Board shall adopt and implement the approved Appraisal Policy and Procedures.

12. Within 60 days of the execution date of this Order, the Board shall review and adopt any necessary amendments or document why amendments are not necessary to provide that the Lending Policy and Procedures for all areas of lending comply with the requirements of 12 C.F.R. 563.170. In addition, the Board shall take appropriate action with regard to loan originations, modifications, assumptions and extensions, to provide that:

- a. Specific procedures for the completion of written financial analysis of loan applicants are implemented and that weaknesses in the financial condition of applicants will be specifically presented in writing to the officer or committee with approval authority prior to the approval of any loan or loan modification;
- b. The primary and secondary sources of repayment will be noted in writing and presented to the officer or committee with approval authority prior to the approval of any loan or loan modification;

- c. The deficiencies noted in the lending policy section of the Report will be addressed and changes implemented in the Loan Policy.
13. Immediately upon execution of this Order, ENCINO shall no longer do new business in any manner whatsoever, after the date of this Order, with Betty L. Storm, BST Escrow, Inc. or any affiliated entities thereof.
14. Within 90 days of the execution date of this Order, the Board shall develop and submit a comprehensive Internal Control System and Policies and Procedures for the accounting department, acceptable to the ARD, in order to maintain reliable financial records. The policies and procedures shall include but are not limited to: a clear delineation of authority and responsibility, input and verification procedures for monetary and nonmonetary processing and authority for modifications and changes. The Internal Control System and Policies and Procedures shall address those deficiencies noted in the Report. Upon written notice of acceptance of the Policies and Procedures, ENCINO shall implement the Policies and Procedures immediately.
15. Within 90 days of the execution date of this Order, the Board shall evaluate the internal audit needs of the Institution and shall develop and submit an Internal Audit Policy and an Audit Plan acceptable to the ARD, which contains at a minimum various departmental and functional audit programs. Upon

written notice of acceptance of the Internal Audit Policy and Audit Plan by the ARD, ENCINO shall implement the Internal Audit Policy and Audit Plan immediately. The Audit Plan should initially include the risk areas identified by management and shall be phased in during the remainder of 1991. The Board shall evaluate the resources of the Institution to determine whether the Audit Plan's goals can be completed by a current employee or whether outside assistance is required. The Policy and Plan shall be re-evaluated thereafter by the Board on an annual basis to determine adequacy and to identify additional areas to be included.

16. Within 30 days of the execution date of this Order, the Board shall revise ENCINO's Interest Rate Risk Policy in a manner acceptable to the ARD including, at a minimum, the following guidelines which were requested to be included in the policy by the Office in the letter dated October 10, 1989, items 2, 4, and 6. The guidelines include but are not limited to:
 - a. A list of assumptions that are used to compile the quarterly report to the Board.
 - b. Explanations why the assumption provided by the OTS would be used as opposed to the assumptions of the Institution; and
 - c. An explanation of the Board's rationale with respect to limits for the maximum allowable changes in net interest income and market value of portfolio equity.

17. Within 30 days of the execution of this Order, the Board shall develop and submit a policy and procedures for real estate owned ("REO") which are acceptable to the ARD. The REO policy and procedures shall include, but are not limited to:

- a. REO appraisal procedures;
- b. accounting treatment;
- c. guidelines for holding and selling REO;
- d. internal review process for REO and
- e. policies for the selection and compensation of firms and/or individuals retained by ENCINO to complete rehabilitation work on REO properties.

Immediately upon written notice of acceptance by the ARD, the Board shall implement the approved REO policies and procedures.

18. Within 60 days of the execution date of this Order, the Board shall submit an amendment to its currently approved Capital Plan for review by the ARD. The amended Capital Plan shall at a minimum project ENCINO's capital growth and operations through the deadline for fully phased-in risk-based capital, which occurs on December 31, 1992, and the Board's plan for compliance with the Qualified Thrift Lender regulations. The amended plan should be in substantially the same form as the current approved plan.
19. For good cause shown, the ARD may extend the time to

complete any act required by this Order, specifically,

- a. If the ARD disapproves any policy, plan, or act under the terms of this Order, the Institution shall revise the policy, plan, or act within 15 days after receiving written notice of disapproval. Any notice of disapproval shall state the basis and reasons for disapproving the policy, plan, or act. The failure to submit a revised policy acceptable to the ARD within 15 days after receiving written notice of disapproval shall be considered to be a violation of this Order unless the ARD has provided ENCINO with prior written approval to extend the resubmission timeframe;
- b. With respect to the development and submission of any policy required herein, ENCINO shall be considered to be in compliance with the development and submission requirement so long as the Institution develops and submits the policy to the ARD within the required timeframe; and
- c. No policy, plan, or act approved by the ARD may be amended, suspended, or revoked without the prior written approval of the ARD. However, the ARD may terminate any requirement imposed

on the Institution by this Order after receiving a written request to do so and if the Institution has been in substantial compliance with the provision.

20. All technical words or terms used in this Order, for which meanings are not defined or otherwise provided by the provisions of this Order, shall, insofar as applicable, have the meaning set forth in Chapter V of Title 12 of the Code of Federal Regulations and any such technical words or terms used in this Order and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.
21. This Order shall remain in effect until terminated by the Office of Thrift Supervision. All requests for termination of the Order, in whole or in part, shall be submitted to the ARD in writing. Upon review of any such request, the ARD may make a recommendation to the Regional Director for denial or approval of the request. The Regional Director may grant a written request for termination, in whole or in part, or modification of the Order if, in his opinion, ENCINO has satisfactorily complied with the terms of this Order. The Regional Director's grant of such written request shall only be

Dated:

June 5, 1991

Dated:

JUNE 5, 1991

Dated:

JUNE 5, 1991

Dated:

Nahum Lainer
Nahum Lainer

Doris B. Meyer
Doris B. Meyer

Kenneth D. Simon
Kenneth D. Simon

RESIGNED MAY 31, 1991
Mel Enzer

THE OFFICE OF THRIFT SUPERVISION

Dated:

6/28/91

By:

Michael Patriarca
Michael Patriarca
Regional Director
West Region

25/1 encnord.cld

evidenced by the issuance of a written amendment to this Order executed by a duly authorized representative of the Office of Thrift Supervision.

ENCINO SAVINGS BANK
By its Board of Directors:

Dated: JUNE 3, 1991

/S/

Arthur Feinfeld

Dated: JUNE 3, 1991

/S/

Martin P. Sanders

Dated: JUNE 5, 1991

/S/

Leo Aranton

Dated: JUNE 5, 1991

/S/

Ruth Colman

Dated: JUNE 5, 1991

/S/

Nahum Lainer

Dated: JUNE 5, 1991

/S/

Doris B. Meyer

Dated: JUNE 5, 1991

/S/

Kenneth D. Simon

Dated: _____

RESIGNED MAY 31, 1991

Mel Enzer

THE OFFICE OF THRIFT SUPERVISION

Dated: 6/28/91

/S/

By: _____

Michael Patriarca
Regional Director
West Region