

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)
)
FIRST FEDERAL SAVINGS &)
LOAN ASSOCIATION OF STORM)
LAKE, Storm Lake, Iowa)

Re: Resolution No. DM 91-15
Dated: October 25, 1991

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OFFICE OF
ENFORCEMENT

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 Midwest Regional Office, OTS, and First Federal Savings & Loan Association of Storm Lake, Storm Lake, Iowa ("First" or "Institution"), stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that the grounds exist to initiate an administrative cease and desist proceeding against First 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") (to be codified at 12 U.S.C. § 1818(b)). First 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 First with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) First Federal Savings & Loan Association of Storm Lake, Storm Lake, Iowa, 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 (to be codified at 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 enforcement proceedings against such a savings association. Therefore, First 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 (to be codified at 12 U.S.C. § 1818(b)).

(c) In the opinion of the OTS, a basis exists for initiating an administrative cease and desist proceeding against First as a result of regulatory violations and unsafe and unsound practices in connection with the Institution's investments in and monitoring of high risk mortgage derivative products, the association's failure to administer its compensation program in a safe and sound manner, regulatory violations and/or unsafe and unsound practices in connection with its hedging and interest rate

risk policies and the administration thereof, engaging in transactions with affiliated persons without OTS approval, and unsafe and unsound commercial and construction loan policies and practices.

3. Consent. First 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 (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the 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 (to be codified at 12 U.S.C. § 1818(i)).

5. Waivers. First waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 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 (to be codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

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LAKE, Storm Lake, Iowa)
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Re: Resolution No. DM 91- 15
Dated: October 25, 1991

ORDER TO CEASE AND DESIST

WHEREAS, First Federal Savings & Loan Association of Storm Lake, Storm Lake, Iowa ("Institution" or "First"), 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 Midwest Regional Office; and

WHEREAS, First, 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") (to be codified at 12 U.S.C. § 1818(b));

NOW, THEREFORE, IT IS ORDERED that First 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: 12 C.F.R. Sections 563.41, 563.45(a), 563.161(b), 563.170(c)(1)(i),

563.170(c)(1)(iv), 563.170(c)(1)(vi), 563.170(c)(1)(vii),
563.170(c)(1)(ix), 563.170(c)(1)(xi), 563.170(c)(6), 563.174(d),
563.174(f), 563.176(e), and 563.233(d).

IT IS FURTHER ORDERED THAT:

- A. Business Plan. The Institution shall revise its existing business plan by December 31, 1991. Such revised business plan shall include the following:
1. an assignment of responsibility for the periodic review of investment positions to ascertain conformance with limit restrictions. Such assignment may be made to the Institution's board of directors, a committee of the board, or the Institution's internal auditor;
 2. a description of the Institution's overall investment strategies, including strategies for investments held in a "trading" portfolio or in a "held for sale" portfolio;
 3. a description of the Institution's current strategies and plans for the safe and sound use or investment of funds from sales of mortgage derivative securities;
 4. detailed balance sheet and operating projections for a three year period.

The Business Plan and any subsequent modifications thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the board of directors shall approve the

Business Plan, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution and its directors, officers, and employees shall implement and make their best efforts to follow the Business Plan and any modifications thereto. Provided, that there shall be no material or significant changes in or deviations from the Business Plan unless and until such changes or deviations have been submitted to the Regional Deputy Director for review and comment. A material or significant change in or deviation from the Business Plan will be considered to have occurred if the Institution engages in any type of activity not provided for in its Business Plan or exceeds from one month to the next by more than 10% the level of any of the following activities contemplated in its Business Plan: residential mortgage lending, nonresidential mortgage lending, consumer lending, commercial lending or investment securities activities. The 10% variance will be determined by comparing the individual line items in the Institution's monthly or quarterly Thrift Financial Report Statement of Condition to individual line items, for the same period ending, as contained in the Institution's Business Plan balance sheet pro forma statements.

- B. Hedging Policy. Prior to initiating any hedging activity, the Institution shall develop a hedging policy that shall, at a minimum:
1. establish limits on the use of hedge instruments;
 2. establish conditions under which management is authorized to initiate hedging activity;
 3. identify the types of permissible hedge activities and the circumstances under which they may be employed;

4. require that a "pre-hedge" analysis be reviewed and approved by the board of directors prior to implementation of any hedge strategy and that such analysis specifically include position limits for the strategy being considered and a detailed correlation analysis between the hedge instrument and the specific asset(s) or liability(ies) hedged; and
5. require that the hedge register describe the item and the dollar amount being hedged.

This hedging policy and any subsequent modification thereto shall be submitted to the Regional Deputy Director for review and comment prior to the initiation of any hedging activity by the Institution. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the board of directors shall approve such policy, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policy and any modifications thereto.

C. Investment Policy. Within 45 days of the date of this Order, the Institution shall revise its existing investment policy to establish detailed controls and limitations on "trading" and "held for sale" activities. This investment policy and any subsequent modification thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the board of directors shall approve such policy, which approval shall be recorded in the minutes of the meeting of the board of

directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policy and any modifications thereto.

- D. Lending and Appraisal Policies. Within sixty (60) days of the date of this Order, the Institution shall revise its commercial real estate loan policies and procedures to include the following:
1. Documentation of financial statement receipt, review and analysis, including documentation requirements for obtaining, reviewing, and analyzing updated information at specified frequencies.
 2. Documentation of the underwriting analysis and the underwriting criteria for various loan and collateral types.
 3. Documentation of the appraisal review and analysis including the use of approved forms.
 4. Specification of the recipients and users of appraisals and appraisal review documentation.
 5. Specification of disbursement procedures to be utilized and the required documentation to ensure payoff of prior liens.
 6. Requirements governing the use of loan settlement statements, including specified forms, identification of the ultimate recipient of loan proceeds, and distribution of documentation.
 7. Requirements governing the receipt and review of legal opinions addressing the recourse status of loan sales.
 8. Documentation requirements for establishing lien priority and validity.

9. Requirements for obtaining and analyzing credit reports on borrowers and guarantors.
10. Specification of a prudent and reasonable lending limit above which prior board authorization must be sought.

Within sixty (60) days of the date of this Order, the Institution shall revise its existing construction loan policies and procedures to include the following:

1. Specific standards for ensuring adequate initial borrower equity, such as escrow deposit or equity contribution requirements.
2. Procedures for retention of adequate funds to complete the home at all times.
3. Specific procedures and controls on change orders, upgrades, and disbursements in excess of original plans.
4. Documentation retention of the disbursement officer's approvals in the file.
5. Retention of documentation of the borrowers' disbursement authorizations.
6. Requirements that lien waivers specify the dollar amount paid.

Within sixty (60) days of the date of this Order, the Institution shall revise its existing appraisal policies and procedures to include the following:

1. A requirement that state certified or state licensed appraiser be used for all appraisals for which such appraisers are required pursuant to 12 C.F.R. 564.3.

2. A requirement that, if a staff appraiser performs any appraisals, such appraiser must be independent of the lending, investment and collection functions and not involved, except as an appraiser, in the transaction for which the appraisal is prepared and have no direct or indirect interest, financial or otherwise, in the property being appraised, and, if a fee appraiser performs any appraisals, such appraiser must be engaged directly by the Institution and have no direct or indirect interest, financial or otherwise, in the property being appraised.
3. A requirement that management review on an annual basis the performance of all approved appraisers used within the preceding 12-month period for compliance with (i) the Institution's appraisal policies and procedures and (ii) the reasonableness of the value estimates approved.

These policies and procedures and any subsequent modification thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the board of directors shall approve such policies, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution and its directors, officers and employees shall implement and follow such policies and any modifications thereto, provided however, that nonmaterial deviations from such policies on specific loans shall be permitted if such deviations are presented to and approved by the board of directors in advance and the reasons or rationale for such nonmaterial deviations are documented in the minutes of the meeting of the board of directors.

E. General Valuation Allowances. Within sixty (60) days of the date of this Order, the Institution shall develop policies and procedures to ensure the sufficiency of general valuation allowances that shall, at a minimum, require consideration of loss history, current economic conditions, management's ability to deal with problem credits, past and present lending and investment strategies and risk, and current levels of delinquencies. This policy and any subsequent modifications thereto shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, and after consideration of such comment, the board of directors shall approve such policy, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution and its directors, officers, and employees shall implement and make their best efforts to follow such policy and any modifications thereto.

F. Net Realizable Value. The Institution shall calculate net realizable values on all troubled debt restructurings and real estate owned in compliance with generally accepted accounting principles.

G. Reports to OTS.

1. List of Hedge Instruments. Within ten (10) days of the date of this Order, the Institution shall submit to the Regional Deputy Director a complete list of all on- and off-balance sheet hedging instruments existing as of the date of this Order.

2. Comparative Financial Projections. Within twenty (20) days of the end of each calendar quarter, the Institution shall submit to the Regional Deputy Director an explanation of any material variances between actual balance sheet and operating results and business plan projections.
- H. Interest Rate Risk Management. Within forty-five (45) days of the date of this Order, the Institution shall incorporate specific interest rate risk management strategies into its interest rate risk policy. Such revised interest rate risk policy, and any subsequent modification thereto, shall be submitted to the Regional Deputy Director for review and comment. Within thirty (30) days from receipt of any comment, the board of directors shall approve the revised interest rate risk policy, which approval shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policy and any modifications thereto.
- I. Accounting. Within forty-five (45) days of the date of this Order, the Institution shall notify the Institution's external auditor to expand the scope of the Institution's 1991 annual audit to include a review of each of the Institution's investment and hedging transactions for the fiscal year ended September 30, 1991, for acceptable accounting treatment.
- J. Officer Compensation. The Institution shall not make or approve the payment of any bonus to, or an increase in the compensation of the three most highly-paid executive officers of the Institution unless and until both of the following conditions have been met.

1. all of the plans, policies, and procedures required to be developed or revised under this Order have been adopted by the board of directors pursuant to the requirements of this Order;
2. the bonus or increase in compensation is based on, and in conformance with, a board approved officer compensation program that has been accepted in writing by the Regional Deputy Director. To be acceptable, such program must assess management's performance based on safety and soundness and require review of compensation levels using information from comparable institutions, which shall include comparison to statistical information obtainable from the United States League of Savings Institutions, or similar comprehensive comparative statistical compensation reports.

K. Board of Directors Fees.

Within forty-five (45) days of the date of this Order, the board of directors shall:

1. Review and analyze the reasonableness of director fees to include a comparison with fees paid by comparable institutions and the justification for payment for meetings not attended.
2. Prepare a written report summarizing its review and analysis and provide a copy of such report to the Regional Deputy Director.
3. Approve only board of director fees that are reasonable and commensurate with their duties as required under 12 C.F.R. 563.161(b), which approval shall be recorded in the minutes of the board of directors. The minutes shall detail the specific vote of each director.

- L. Committee Fees. The Institution shall not pay fees to full-time officers for committee membership, participation or meeting attendance without the prior written approval of the Regional Deputy Director.
- M. Investment in High Risk Mortgage Derivative Products. Without the prior written approval of the Regional Deputy Director, the Institution or its subsidiaries shall not make any further investments in high-risk mortgage derivative products, as that term is used in OTS Thrift Bulletin 12 and any appendices thereto.
- N. Hedging and Trading Activities. The Institution or its subsidiaries shall not engage in further hedging or trading activities until:
1. each of the plans, policies, and procedures required to be developed or revised under this Order have been adopted by the board of directors as required by this Order, and
 2. the Institution demonstrates to the satisfaction of the Regional Deputy Director that it employs qualified personnel with the necessary and appropriate experience and ability to engage in such activities.
- O. Transactions with Profit Sharing Plan. The Institution shall not sell any loan or participation interest therein to any affiliated person of the Institution, including the First Federal Savings and Loan Association of Storm Lake Profit Sharing Plan and Trust of 1976 ("PSP"), without the prior written approval of the Regional Deputy Director. Within sixty (60) days of the date of this Order,

the Institution shall make any disclosures to its members required to have been made in prior years pursuant to 12 C.F.R. Section 563.45 with respect to transactions with PSP.

P. Consultant Services.

1. J. Michael Manning. Without the prior written approval of the Regional Deputy Director, the Institution shall not enter into any new contractual obligations or revise or extend any existing contractual obligation with J. Michael Manning ("Manning") or any entity controlled by him.
2. Stanley Haahr. Prior to entering into any contractual consulting arrangement with Stanley Haahr, the board of directors shall (i) review and analyze the reasonableness of consulting fees to be paid to Stanley Haahr; (ii) prepare a written report summarizing its review and analysis and provide a copy of such report to the Regional Deputy Director; and (iii) approve only consulting fees to Stanley Haahr that are reasonable and commensurate with the services performed or to be performed, which approval shall be recorded in the minutes of the board of directors. The minutes shall detail the specific vote of each director.

Q. Director Responsibility.

1. Each member of the board of directors owes fiduciary duties to the Institution and its depositors. Notwithstanding that certain provisions of this Order require the board of directors to submit various matters to the Regional Deputy Director for the purpose of receiving approval, notice of acceptability or

non-objection, such regulatory oversight does not derogate or supplant the fiduciary duties owed by the members of the board of directors of the Institution. The board of directors, at all times, shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution.

2. In connection with its oversight of the Institution, the board of directors shall, at a minimum, obtain and consider all applicable information suggested in the Director Information Guidelines, published by the OTS in December, 1989.
3. The board of directors of the Institution shall take immediate action for the purpose of causing the Institution to comply with this Order.

R. Board Review of Compliance with Order. The board of directors, shall, at the regular meeting following the end of each calendar quarter ending after the date of this Order, formally resolve that, to the best of its knowledge and belief, and based on a review sufficient to enable them to make an informed judgment, during the previous calendar quarter, the Institution and its subsidiary or subsidiaries complied with each provision of this Order currently in effect, except as otherwise stated. The resolution shall specify in detail how, if at all, full compliance was found to be lacking. Within twenty (20) days of each such regular board of directors' meeting at which compliance with this Order is reviewed, the Institution shall submit to the Regional Deputy Director a copy of the minutes of such board of directors' meeting, and the aforementioned resolution.

S. Definitions.

1. As used in this Order, the term "subsidiary" or "subsidiaries" is defined in 12 C.F.R § 567.1(dd).
2. As used in this Order, the term "independent" shall mean a person or entity not related to the Institution, its subsidiaries, or its affiliated persons, who is not an affiliate or associate as those terms are defined in 12 C.F.R. § 563b.2(a)(2) and (5) and who is otherwise free of any relationship that would interfere with the exercise of independent judgment.
3. As used in this Order, the term "trading" means entering into securities purchase and sale transactions in anticipation of taking gains on short term price movements.
4. As used in this Order, the term "held for sale" refers to any assets designated in a "held for sale" account or any group of assets with respect to which the Institution is engaging in a pattern of intermittent security sales transactions.

All other 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 Chapter V of Title 12 of the Code of Federal Regulations, HOLA, or Federal Deposit Insurance Act, as amended ("FDIA"). Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

T. Successor Regulation, Guidance, Amendments. Reference in this Order to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Order and reference to successor provisions as they become applicable.

U. Miscellaneous

1. In the instance that 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.
2. Nothing in this Order shall be construed as permitting the Institution to violate any law, rule, regulation, or policy statement of which it is subject.
3. Except as otherwise noted, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by this Order to be made upon, given or furnished to, delivered to, or filed with either the Regional Deputy Director or the Institution shall be made in writing, mailed, first class, airmail postage prepaid or physically delivered, or telecopied, telexed or sent by other means of electronic transmission and confirmed by mail, first class, airmail postage prepaid, or physically delivered and addressed to the Assistant Director I-Operations, Office of Thrift Supervision, Regency West 2, Suite 300, 1401 50th Street, West Des Moines, Iowa 50265.

