

UNITED STATES OF AMERICA
before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)

CIVIC FEDERAL SAVINGS BANK)
Chicago, Illinois)

Resolution No.: CHI-90-2

Dated: May 2, 1990

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through the District Director of the Chicago District of OTS ("District Director"), and CIVIC FEDERAL SAVINGS BANK, Chicago, Illinois ("the Institution"), by and through a majority of its directors, stipulate and agree as follows:

1. Consideration. OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease-and-desist proceeding against the Institution 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)). The Institution desires to cooperate with 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 OTS from initiating such administrative cease-and-desist litigation against the Institution with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) The Institution is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act of 1933, 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.

(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, the Institution is subject to

the authority of OTS to initiate and maintain a cease-and-desist proceeding against it pursuant to Section 8(b) of the FDIA, as amended by FIRREA.

3. Consent. The Institution consents to the issuance by 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. Upon its issuance by the District Director, it shall be a final order, effective and fully enforceable by OTS under the provisions of Section 8(i) of the FDIA as amended by FIRREA.

5. Waivers. The Institution waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA, 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, or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, OTS, by and through its District Director, and the Institution, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

by:

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Stuart M. Braiman
District Director

CIVIC FEDERAL SAVINGS BANK
Chicago, IL, by a majority
of its directors

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CIVIC FEDERAL SAVINGS BANK)
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Resolution No.: CHI-90-2

Date: May 2, 1990

ORDER TO CEASE AND DESIST

WHEREAS, CIVIC FEDERAL SAVINGS BANK, Chicago, Illinois ("the 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 the District Director of the Chicago District of OTS ("District Director"); and

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

NOW, THEREFORE, IT IS ORDERED THAT the Institution 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. § 563.43(b)(1) (1989); and
2. 12 C.F.R. § 563.170.

IT IS FURTHER ORDERED THAT:

1. The Institution shall take immediate and continuing action to protect its interest with regard to those assets criticized in its November 30, 1989 Report of Examination ("Report of Examination") or any subsequent report of examination.

Within thirty (30) days, the Institution's Board of Directors ("Board") shall ensure adoption and implementation of a written program designed to eliminate the basis of criticism of assets criticized in the Report

of Examination as "substandard" or "doubtful." This program shall include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value of supporting collateral and the position of the Institution's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

A similar program shall be adopted for all additional assets which are criticized by the Institution's internal loan review system. Once adopted, a copy of the program for all criticized assets equal to or exceeding twenty-five thousand dollars (\$25,000) shall be forwarded to the District Director or his designee.

The Board shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof which is equal to or exceeds twenty-five thousand dollars (\$25,000);
- (b) management's adherence to the program adopted pursuant to this article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

A copy of each review shall be forwarded to the District Director on a monthly basis (in a format similar to Appendix A, attached hereto).

The Institution shall not extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to any borrower whose loans or other extensions of credit are criticized in the Report of Examination or any subsequent report of examination and whose aggregate loans or other extensions of credit exceed one hundred thousand dollars (\$100,000).

The immediately preceding paragraph shall not apply if:

- (a) the Institution's failure to extend further credit to a criticized borrower would be substantially detrimental to the best interests of the Institution;
 - (b) a comparison to the written program adopted pursuant to this article shows that the Board's formal plan to collect or strengthen said criticized asset is not compromised; and
 - (c) prior to renewing, extending or capitalizing any additional credit, a majority of the full Board approves the credit extension and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interests of the Institution. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).
2. Pursuant to 12 C.F.R. § 571.7, the Institution and its wholly or partly owned subsidiaries shall avoid all conflicts of interest and the appearance of conflicts of interest. No later than 30 days from the effective date of this Order, the Institution shall submit to OTS a written plan for the avoidance of conflicts of interest by its officers and directors that essentially conforms to the prototype OTS policy submitted to the Board on April 11, 1990. At a minimum, the plan must:
- (a) Describe specific policies and actions that the Institution will adopt to avoid potential conflicts of interest; and

- (b) Establish specific disciplinary procedures for dealing with officers and directors who violate the adopted policies.
- 3. The Institution and its wholly or partly owned subsidiaries shall not enter into, renew, modify, or extend any financing transaction, loan contract, overdraft or other financing arrangement with any insider or affiliated person of the Institution or any of its subsidiaries, or with any associate, present or former employee, present or former partner, or other personal or business affiliate, or family member of any officer or director of the Institution or its wholly or partly owned subsidiaries, without the prior written approval of the District Director or his designee.
- 4. Within sixty (60) days, the Board shall develop a profit plan to improve and sustain the earnings of the Institution. This program shall include, at a minimum, the following elements:
 - (a) identification of the major areas in and means by which the Board will seek to improve the Institution's operating performance;
 - (b) realistic and comprehensive budgets, including projected balance sheets and year-end income statements;
 - (c) a budget review process to monitor the income and expenses of the Institution to compare actual figures with budgetary projections; and
 - (d) a description of the operating assumptions that form the basis for major projected income and expense components.

The budgets and related documents required above for 1990 shall be submitted to the District Director or his designee upon completion. The Board shall submit to the District Director or his designee annual budgets as described above for each year this Order remains in effect. The budget for each year shall be submitted on or before February 28 of the preceding year.

The Institution shall forward comparisons of its balance sheet and profit and loss statements to the profit-plan projections to the District Director or his designee on a quarterly basis.

The aforesaid profit plan shall provide that the Institution shall reduce its ratio of operating expenses to average assets to no more than 125 percent of the current average operating ratio for the State of Illinois, as reflected in the Manager's Confidential Operating Report of the Federal Home Loan Bank of Chicago. The plan shall provide that the target reduced ratio shall be achieved no later than 12 months from the effective date of this Order.

In addition, the plan shall show that the Institution will have reduced its operating ratio to no more than 110 percent of the aforesaid current operating ratio for the State of Illinois, within 24 months from the effective date of this Order.

5. Except for individual merit increases in accordance with the standard personnel policy adopted by the Institution prior to the effective date of this Order, and for normal periodic salary and wage increases scheduled prior to that date that comply with 12 C.F.R. § 563.161 and OTS Memorandum R 42, the Institution shall not increase compensation paid to any officer, director and/or employee whose annualized compensation is greater than \$30,000 without the prior written approval of the District Director or his designee.
6. The Institution shall not trade any securities of any kind without the prior written approval of the District Director or his designee.
7. The Board shall review the adequacy of the Institution's general loan valuation allowances and establish a program for the maintenance of adequate allowances, and shall focus particular attention on the following factors:
 - (a) results of the Institution's internal loan review;
 - (b) loan loss experience;
 - (c) an estimate of potential loss exposure on each significant credit;
 - (d) concentrations of credit in the Institution;
and

- (e) present and prospective economic conditions.

The program shall provide for a review of the allowances by the Board at least once each calendar quarter. Any deficiencies in the allowances shall be remedied in the quarter they are discovered, prior to the filing of the Thrift Financial Report, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the board in determining the adequacy of the allowances.

The Board shall review the adequacy of the Institution's general loan valuation allowances at least once each calendar quarter. Reviews shall include, but not be limited to, an evaluation of the following:

- (a) loan loss experience;
- (b) an estimate of potential loss exposure on each credit in excess of twenty-five thousand dollars (\$25,000);
- (c) loans criticized by OTS examiners or identified by the Institution's internal loan review system;
- (d) trends of delinquent and nonaccrual loans; and
- (e) general economic conditions prevailing at the time of review.

Any deficiency in the allowances shall be corrected in the quarter of discovery by additional provisions against earnings prior to the filing of the Thrift Financial Report. Written documentation shall be maintained indicating the factors considered and the conclusions reached by the Board in maintaining the adequacy of the allowances.

8. Within thirty (30) days, the Board shall establish a loan review system to periodically review the Institution's loan portfolio to identify and categorize problem credits. The system shall provide for a report to be filed with the Institution after each review. Such reports shall, at a minimum, include the following information:

- (a) the overall quality of the loan portfolio;
- (b) the identification, type and amount of problem loans;
- (c) the identification and amount of delinquent loans;
- (d) credit and collateral documentation exceptions;
- (e) the identification and status of violations of law, rule, or regulation;
- (f) loans not in conformance with the Institution's lending policy, and exceptions to its lending policy; and
- (g) insider loan transactions.

A copy of the reports submitted to the Board, as well as documentation of the action taken by the Institution to collect or strengthen assets identified as problem credits, shall be preserved in the Institution.

CLOSINGS

Although the Institution is required to submit certain proposed actions and programs for the review or approval of OTS, the Board of Directors of the Institution has the ultimate responsibility for proper and sound management of the Institution.

It is expressly and clearly understood that if, at any time, 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 the Institution, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent OTS from doing so.

Any time limitations imposed by this Order shall begin to run from the effective date of this Order. Such time limitations may be extended by the Institution's OTS Manager for good cause upon written application by the Board of Directors of the Institution.

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 OTS (including, without limitation, 12 C.F.R. Part 500.1 et seq.,

Part 541.1 et seq., and Part 561.1 et seq. (1986)). 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.

The provisions of this Order are effective upon issuance of this Order by 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 OTS.

IT IS SO ORDERED, this 3rd day of May, 1990.

THE OFFICE OF THRIFT SUPERVISION

By: 151

Stuart M. Brafman
District Director