

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In The Matter of

FIRST SAVINGS BANK OF ZION
AND ITS SUBSIDIARIES
ZION, ILLINOIS

Resolution No.: CHI-90-4

Dated: May 22, 1990

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through the District Director, and First Savings Bank of Zion, Zion, Illinois, ("First Savings"), stipulate and agree as follows:

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

2. Jurisdiction.

(a) First Savings 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 (to be codified at 12 U.S.C. Section 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, First 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 (to be codified at 12 U.S.C. Section 1818(b)).

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

5. Waivers. First Savings 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. Section 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. Section 1818(h)), or otherwise to challenge the validity of the Order.

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

OFFICE OF THRIFT SUPERVISION

First Savings Bank of Zion
by a majority of its
directors

By:

Stuart M. Brafman
District Director

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

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

OFFICE OF THRIFT SUPERVISION

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IN THE MATTER OF

FIRST SAVINGS BANK OF ZION
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Resolution No.: CHI-90-4

Dated: May 22, 1990

ORDER TO CEASE AND DESIST

WHEREAS, First Savings Bank of Zion, Zion, Illinois, ("First Savings"), through its directors ("Board"), 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; and

WHEREAS, First Savings, in the Stipulation, has consented and agreed to the issuance of the 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. Section 1818(b)).

NOW THEREFORE, IT IS ORDERED that First Savings and its directors, officers, employees, and 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. Section 563.17-1(c)(1), now codified 12 C.F.R. Section 563.170(c)(1);
12 C.F.R. Section 563.17-3(c)(2), now codified 12 C.F.R. Section 563.173(c)(2);
12 C.F.R. Section 563.17-3(e), now codified 12 C.F.R. Section 563.173(e);
12 C.F.R. Section 563.17-5(d), now codified 12 C.F.R. Section 563.175(d);
12 C.F.R. Section 563.17-5(f)(1), now codified 12 C.F.R. Section 563.175(f)(1);
12 C.F.R. Section 563.17-5(f)(2), now codified 12 C.F.R. Section 563.175(f)(2);

IT IS FURTHER ORDERED that:

Capital

2. By April 30, 1990, the Board shall develop a capital program. The program shall provide that:

- (a) by August 15, 1990, tangible capital shall be increased to \$0;
- (b) within 120 days from August 15, 1990, tangible capital shall be increased by an additional \$3,600,000;
- (c) within 240 days from August 15, 1990, tangible capital shall be increased by an additional \$1,500,000;

3. The capital program shall also provide that:

- (a) after (a), (b) and (c) of the immediately preceding paragraph are satisfied, First Savings shall maintain tangible capital at a level equal to or greater than 5.6% of tangible assets;
- (b) no dividends shall be paid without the prior written approval of the OTS Manager.

Management

4. By August 15, 1990, the Board shall complete a study of First Savings's management, management structure, and staffing requirements in light of First Savings present condition. The findings and recommendations of the Board shall be in writing and shall include:

- (a) detailed written job descriptions for all executive officers;
- (b) an evaluation of each officer's qualifications and ability to perform the duties and responsibilities of his/her position;
- (c) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all officers, including identification of any overlapping duties or responsibilities;
- (d) a recommended organization chart that clearly reflects areas of responsibility and lines of authority for all officers, including the president and the chief executive officer;
- (e) identification of the staffing requirements of each major department of First Savings;

- (f) recommendations to expand the scope, frequency and sufficiency of information provided to the Board by management; and
- (g) recommendations to expand Board and committee records; and
- (h) recommendations to correct or eliminate any other deficiencies in the supervision or organizational structure of First Savings.

5. Within 30 days of the completion of the Board's study, the Board shall adopt a written plan, with specific time frames, to eliminate any deficiencies in First Savings's management, staffing or in supervision of management by the Board.

6. Copies of the Board's written plan and the Board's study shall be forwarded to the OTS Manager for review and comment. In the event the management plan, or any portion thereof, is not implemented, the Board shall immediately advise the OTS Manager, in writing, of the reasons for deviating from the management plan.

Criticized Assets

7. First Savings shall take immediate and continuing action to protect its interest with regard to those assets criticized in the Report of Examination as of September 22, 1989 ("Report of Examination"), or any subsequent report of examination.

8. By August 15, 1990, the 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", "Doubtful", "Loss" or "Special Mention". 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 First Saving'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 paid from operations; and
- (d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

9. A similar program shall be adopted for all additional assets which are criticized by First Saving's internal asset classification policy. Once adopted, a copy of the program for all criticized assets shall be forwarded to the OTS Manager.

10. The Board, or a delegated Committee thereof, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portions thereof;
- (b) management's adherence to the program 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.

11. A copy of each review shall be forwarded to the OTS Manager on a monthly basis in a format similar to Appendix A (attached hereto).

12. First Savings shall not extend credit, directly or indirectly,

including renewals, to any borrower whose loans or other extensions of credit are criticized in the Report of Examination or any other subsequent report of examination.

13. The immediately preceding paragraph shall not apply if:

- (a) First Saving's failure to extend further credit to a criticized borrower would be substantially detrimental to the best interests of First Savings;
- (b) a comparison to the written program adopted pursuant to this Article shows that First Saving'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 First Savings. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

Lending Policy

14. By August 15, 1990, First Savings shall submit for approval a comprehensive written loan policy. This policy shall include, but not necessarily be limited to, the following:

- (a) a description of acceptable types of loans and real estate investments, including loans secured by personal property, made or purchased by First Savings or its subsidiaries;
- (b) a provision that current and satisfactory credit information will be obtained on each borrower;

- (c) a provision that, prior to funding or obligating itself to fund any loan or investment, the institution must have obtained, as appropriate, each of the items required in 12 C.F.R. Section 563.17-1, now codified 12 C.F.R. Section 563.170.
- (d) maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral;
- (e) maximum ratios of loan value to appraised value and acceptable debt service ratios for each type of loan offered;
- (f) collection procedures, to include follow-up efforts, that are systematically and progressively stronger;
- (g) a pricing policy that takes into consideration costs, general overhead, and probable loan losses, while providing for a reasonable margin of profit;
- (h) a definition of First Saving's market area;
- (i) guidelines and limitations for originating loans outside of First Saving's market area;
- (j) a limitation on aggregate outstanding loans in relation to other balance sheet accounts;
- (k) a distribution of loans by category;
- (l) a prohibition regarding the use of brokered deposits to fund loan growth or support criticized loans;

- (m) guidelines for loans to insiders; including a statement that such loans will not be granted on terms more favorable than those offered to similar outside borrowers;
- (n) guidelines and limitations on concentrations of credit; and
- (o) a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board.

15. The lending policy shall also address the level of general and specific valuation allowances. The policy shall require that:

- (a) an adequate level of general valuation allowances be established and maintained at all times; and
- (b) First Savings will comply with generally accepted accounting principles as they apply to the accounting for uncollected interest, including the establishment of specific valuation allowances (or charging off) for all accrued but uncollected interest on loans where legal action has commenced.

16. After these standards are approved by the OTS Manager, First Savings shall comply with them in all respects.

Asset/Liability Management Policies

17. By August 15, 1990, First Savings shall establish and submit for approval by the OTS Manager, policies, procedures and guidelines to govern its asset/liability management activities, including but not limited to liquidity, funding sources and investment activities. Policy objectives must, at a minimum, outline the types, maturities, quality and yields of the securities to be purchased. The policy shall also set forth limits applicable to these securities

transactions and identify personnel authorized by the board of directors to execute such transactions. Furthermore, policy objectives must specify the relationship of the investment strategies to the institution's operations, including the maintenance of an adequate level of liquidity, and how such strategies reduce interest rate risk exposure.

Forward Commitments

18. First Savings shall not enter into any forward commitments to purchase securities which would exceed, at any one time, the limitations imposed in 12 C.F.R. Section 563.17-3(c)(2), now codified 12 C.F.R. Section 563.173(c)(2). The institution shall also maintain a register as required by 12 C.F.R. Section 563.17-3(e), now codified 12 C.F.R. Section 563.173(e). Forward commitments are defined to include, without limitation, any oral or written contract to buy securities 30 or more days after the contract date.

Loans to One Borrower

19. First Savings and its subsidiaries shall adopt procedures and comply with the provisions of the loans to one borrower regulation set forth in 12 C.F.R. Section 563.9-3, now codified 12 C.F.R. Section 563.93.

Futures and Options

20. Neither First Savings nor any of its subsidiaries shall enter into or engage in interest rate futures or options transactions as defined in 12 C.F.R. Section 563.17-4, now codified 12 C.F.R. Section 563.174, and 12 C.F.R. Section 563.17-5, now codified 12 C.F.R. Section

563.175, unless prior written approval is requested and received from the OTS Manager.

Interest Rate Risk Management

21. First Savings shall comply in all respects with 12 C.F.R. Section 563.17-6, now codified 12 C.F.R. Section 563.176, and Thrift Bulletin 13 regarding the development and implementation of procedures for interest rate risk management, including but not limited to the following:

- (a) the Board shall, within 45 days, revise the interest rate risk management policy to include an acceptable ratio of rate sensitive liabilities to rate sensitive assets. The levels shall be set forth as a percentage of total assets for the 0-30 days, 6 months, one year and three year intervals. The board shall also review, and if appropriate, revise the exposure limits set for the maximum permissible change in Net Interest Income and Market Value of Portfolio Equity;
- (b) the policy shall establish limits for jumbo certificates of deposits, mini-jumbo accounts and brokered deposits as a percentage of total deposits; and
- (c) an interest rate risk analysis report ("analysis report") shall be submitted monthly to the board of directors. This report shall, at a minimum, compare First Savings's current levels of interest rate risk versus those authorized as acceptable by the board.

Business Plan

22. First Savings shall, within 60 days of the effective date of this

Order, establish and submit for approval by the OTS Manager a comprehensive business plan to be followed by First Savings and its subsidiaries for fiscal year 1990 and 1991 ("Business Plan"). The Business Plan shall include pro forma quarterly financial statements (with relative assumptions). The Business Plan shall also include, but not be limited to, detailed goals and strategies for reducing the volume of criticized assets, volatile deposits, and negative gap position as well as for improving operating results and restoring capital to a level to comply with the requirements of 12 C.F.R. Part 567. The plan shall set forth the specific actions that will be implemented to accomplish the stated goals as well as definitive time frames for accomplishing those goals.

23. The immediately preceding paragraph shall not apply if:

(a) First Savings submits a capital plan; and

(b) First Savings is notified in writing by the District Director that the thrift's capital plan has been deemed acceptable.

However, the acceptance of a capital plan shall not constitute a waiver of the authority of the District Director to initiate supervisory action against First Savings for reasons other than failure to meet capital standards.

Recordkeeping

24. First Savings and its subsidiaries shall establish and maintain such accounting and other records as will provide an accurate, complete and timely record of all business transacted by them. Accordingly, the following list describes the various specific minimum actions which First Savings shall immediately take in the area of books and records:

- (a) All general and subsidiary ledger accounts shall be updated on a timely basis and reconciled at least monthly;
- (b) All transactions should be properly recorded on the general ledger;
- (c) All bank accounts shall be reconciled monthly;
- (d) Monthly and quarterly reports to the Office of Thrift Supervision should be timely, complete and accurate;
- (f) Delinquency reports on purchased loans shall be obtained on a monthly basis; and
- (g) Minutes of all board of directors' meetings shall be maintained which adequately reflect any actions at such meetings, including the review of any reports by the board.

Closings

25. (a) Although the Board is by this Order required to submit certain proposed actions and programs for the review or approval of the OTS Manager or District Director, the Board has the ultimate responsibility for proper and sound management of First Savings.
- (b) It is expressly and clearly understood that if, at any time, the 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 First Savings, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the OTS from doing so.

- (c) 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 OTS Manager for good cause upon written application by the Board.
- (d) 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 the OTS (including, without limitation, 12 C.F.R. Section 500.1 et seq., Section 541.1 et seq., and Section 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.
- (e) This Order will be terminated when full compliance with all of the articles has been achieved.

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

IT IS SO ORDERED, this 22 day of May, 1990.

THE OFFICE OF THRIFT SUPERVISION

By: ✓ 151

Stuart M. Brafman
District Director