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UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of: STATE FEDERAL SAVINGS AND LOAN ASSOCIATION Tulsa, Oklahoma	Enforcement Review Committee Resolution No.: 89-147, dated December 6, 1989

STIPULATION AND CONSENT TO ISSUANCE OF
ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Enforcement Review Committee ("ERC"), and State Federal Savings and Loan Association, Tulsa, Oklahoma, its subsidiaries, service corporations and affiliates ("State Federal" or the "Association"), hereby agree as follows:

1. Consideration. The ERC, on behalf of the OTS and based upon information reported to it, is of the opinion that the grounds exist to initiate an administrative proceeding against State Federal 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)). State Federal desires to cooperate with the OTS 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 OTS' forbearance from initiating such administrative

cease-and-desist litigation on the matters covered in the accompanying Order to Cease and Desist in the form initialed by the Chairman of State Federal for purposes of authentication and attached hereto ("Order").

2. Jurisdiction. State Federal is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owner's 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. § 1813(c)) and, 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, State Federal 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)).

3. Consent. State Federal consents to the issuance by the OTS, by and through its ERC, of the Order. It further agrees to comply with its terms upon its 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)), and upon its issuance shall be a "cease-and-desist order which has become final", as defined in Section 8(k)(1) of the FDIA, 12 U.S.C. Section 1818(k)(1) (1982), as amended. The Order is 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. <u>Waivers</u>. State Federal 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)), solely with respect to the matters covered by the Order, 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.

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

OFFICE OF THRIFT SUPERVISION

/S/

Rosemary Stewart
Secretary, Enforcement Review Committee and Director of Enforcement

STATE FEDERAL SAVINGS AND LOAN ASSOCIATION
by a majority of its directors

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UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of STATE FEDERAL SAVINGS AND LOAN ASSOCIATION Tulsa, Oklahoma	Enforcement Review Committee Resolution No. 89- 147 , dated December 6, 1989

ORDER TO CEASE AND DESIST

WHEREAS, State Federal Savings and Loan Association, Tulsa, Oklahoma ("State Federal" or the "Institution"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist ("Stipulation") that is accepted and approved by the Enforcement Review Committee on behalf of the Office of Thrift Supervision ("OTS") and is incorporated herein by reference; and

WHEREAS, State Federal, without admitting or denying the existence of any violations of applicable laws, rules or regulations, 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 ("FIRREA"), 12 U.S.C. Section 1818(b) (1982), as amended;

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NOW, THEREFORE, IT IS ORDERED that State Federal and its directors, senior officers (for purposes of this Order, senior officers shall include all officers who are senior vice presidents or above), subsidiaries and service corporations shall cease and desist from any violation of, or the aiding and abetting of any violation of the following statutes, rules, regulations or policies, or any amendments or modifications thereto:

a. Section 563.17-1(a)(2) of the Rules and Regulations of the Federal Savings and Loan Insurance Corporation ("FSLIC"), as amended and continued by OTS ("Insurance Regulations"); (12 C.F.R. Section 563.17-1(a)(2) (1989);

b. Section 563.23-3 of the Insurance Regulations (12 C.F.R. Section 563.23-3 (1989);

IT IS HEREBY FURTHER ORDERED that:

1. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided for 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 or as such definition is amended after the execution of this Order, 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 their best custom and usage in the savings and loan industry. However, for the purposes of this Order, except as otherwise indicated, the following definitions shall apply:

a. a "set" is a group of loans, participations, investments, securities, or other assets related, by being sold or pledged to, purchased from, or exchanged with any persons, entities, or acting together in a single transaction;

b. "invest in" means to make, originate, purchase, acquire, guarantee, refinance, modify, extend, renew, or to commit to do any of these;

c. "transfer" means any form of conveyance from one person or entity to another person or entity, including but not limited to selling, assigning, pledging, exchanging, or committing to do any of these;

d. "real estate investment" means the net book value of real estate purchased, acquired by foreclosure or deed in lieu thereof, or owned in any manner, inclusive of any expenditures incurred in connection with holding or improving such real estate and following adjustment for any loss reserves or allowances.

2. Except for existing legally binding commitments and investments that qualify as liquid assets under Section 523.10 of the Regulations for the Federal Home Loan Bank System, 12 C.F.R. Section 523.10 (1989), or its successor regulation, without prior written approval of the Supervisory Agent for the Office of Thrift Supervision, Topeka District (Supervisory Agent), the Institution

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shall not, and shall not allow any wholly-owned or majority-owned subsidiary of the Institution to:

a. engage in forward commitments, futures transactions, or financial options transactions as defined in 12 C.F.R. Sections 563.17-3, 563.17-4 and 563.17-5 (1989);

b. invest in any loans or contracts secured by real estate or participations therein (including any acquisition, construction, and development loans) or any set of such loans or participations, <u>except</u> loans made at current market interest rates and terms which are:

(1) to finance the bona fide purchase of, or custom construction of pre-sold, 1-4 family residences secured by first liens on such properties that do not exceed Five Hundred Thousand Dollars ($500,000); or

(2) to refinance loans on existing 1-4 family residences secured by first liens on such properties that do not exceed Five Hundred Thousand Dollars ($500,000); or

(3) to be secured by second liens on existing 1-4 family residences where the loan to value ratio of the first and second liens combined does not exceed 80 percent and

the combined debt does not exceed Five Hundred Thousand Dollars ($500,000); or

(4) to finance residential real estate other than 1-4 family residences where the loan-to-value ratio does not exceed 80 percent of the loan and such loan does not exceed Five Hundred Thousand Dollars ($500,000); provided, however, such loans shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA; or

(5) to refinance residential real estate other than 1-4 family residences if such loan does not exceed Five Hundred Thousand Dollars ($500,000); provided, however, such loans shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA; or

(6) to finance nonresidential real estate where the loan-to-value ratio does not exceed 80 percent of the loan and such loan does not exceed Five Hundred Thousand Dollars ($500,000); provided, however, such loans shall not exceed the limitations contained in Section 5(u) of

the HOLA, as amended by Section 301 of FIRREA; or

(7) to refinance nonresidential real estate if such loan does not exceed Five Hundred Thousand Dollars ($500,000); <u>provided</u>, <u>however</u>, such loans shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA;

c. invest in any real estate investment or set of such investments unless such investment or set of investments is made in compliance with 12 C.F.R. Section 563.9-8 (1989);

d. transfer any real estate investment (i.e., real estate owned) or set of such investments in excess of Five Hundred Thousand Dollars ($500,000), or if the loss to be recognized upon transfer exceeds the greater of 15 percent of the net book value or Fifty Thousand Dollars ($50,000);

e. except as provided in Section 2(r) hereof, invest in or transfer any security or set of securities in excess of Twenty Thousand Dollars ($20,000);

f. transfer any loan secured by real estate or participation therein or any set of such loans or participations if any such loan or participation exceeds Five Hundred Thousand Dollars ($500,000);

g. invest in or transfer commercial loans or letters of credit, whether secured or unsecured, with a book value in excess of Fifty Thousand Dollars ($50,000); provided, however, such investments shall not exceed the limitations contained in Section 5(u) of the HOLA, as amended by Section 301 of FIRREA;

h. invest in or transfer any consumer or education loans in excess of Thirty Thousand Dollars ($30,000);

i. enter into any lease or contract for the purchase of real estate or of any interest therein except in the ordinary and usual course of its business; provided, that the lease of 1-4 family dwellings shall be considered in the ordinary or usual course of business;

j. enter into any contract or any agreement for the purchase, sale, or lease of goods, materials, equipment, supplies, services, or capital assets if such contract has a value greater than $50,000, except in the ordinary and usual course of its business;

k. enter into any joint venture agreements;

l. except for individual merit increases in accordance with its standard personnel policy in effect at the time this Order is presented by the Supervisory Agent for execution, and normal periodic employee salary and wage increases scheduled prior to the

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effective date of this Order and that comply with Section 563.17 of the Insurance Regulations, 12 C.F.R. Section 563.17 (1989), and OTS Memorandum R-42, make any increase in excess of five (5) percent, on an annualized basis, in the rate of compensation to any of its directors, officers, employees, agents, or other representatives, or agree to do so. Notwithstanding any other provision of this subparagraph, the Institution may increase the compensation of nonofficer employees if the compensation of such employee before any increase does not exceed Forty-Five Thousand Dollars ($45,000) and the aggregate increase or increases for any employee do not exceed 10 percent during any calendar year;

m. employ or appoint any person to serve as an officer, director, or senior manager which is not so employed or appointed as of the date this Order; employ any person at a rate of compensation which, on an annualized basis, exceeds Forty-Five Thousand Dollars ($45,000) per year; employ any person pursuant to an agreement that is not terminable at the will of the employer and that otherwise does not comply with Section 563.39 of the Insurance Regulations, 12 C.F.R. Section 563.39 (1989); or enter into or amend or renew any collective bargaining agreements, pension or profit sharing, bonus, severance pay, retirement, fringe benefit, or other employee benefit plans, or other employment contracts with any employee, director, or officer;

n. enter into, renew, or revise any contractual arrangement with any officer, director, controlling person, affiliate, subsidiary or affiliated person, for or of the Institution or any of its subsidiaries; the Institution shall give the Supervisory Agent ten (10) days prior written notice if it intends to employ any consultants or agents, including the terms of employment and compensation of such consultant or agent, and the Supervisory Agent shall have the right, in his or her sole discretion, to object to the employment of such consultant or agent;

o. amend or permit to be amended its charter or bylaws except as directed by the Agent and approved by the board of directors ("board") of the Institution;

p. make any material change in accounting method, except in accordance with this Order or as required by GAAP or OTS regulations or guidelines;

q. invest in any service corporation or any subsidiary thereof or finance subsidiary. For the purposes of this subparagraph, "invest in" shall include, but is not limited to, the making of investments in securities issued by such entities, and the extensions of credit to, or the guaranteeing of the debt of, such entities;

r. enter into any purchase or repurchase agreement obligation arising from a transfer of government securities if the aggregate amount of all such purchase or repurchase agreements would exceed the aggregate amount of such purchase or repurchase agreements outstanding as of October 31, 1989, except as may otherwise be permitted by this Order;

s. enter into any binding agreement to merge, consolidate, or otherwise be acquired, or to reorganize except in connection with a plan of combination or reorganization approved by the OTS or its Supervisory Agent;

t. increase its liabilities during any calendar quarter in excess of the amount of interest credited on savings accounts during the quarter (or, in the case of share accounts, earnings credited) and the amount necessary to fund during the quarter any loans in process obligations or legally binding commitments existing as of the date of issuance of this Order;

u. declare or pay cash or stock dividends on common or preferred stock;

v. purchase, invest in, commit to invest in, or otherwise deal in securities which are not rated as being at least BBB by Standard and Poors', or Baa by Moody's (i.e., high yield or "junk" bonds);

w. enter into any of the transactions listed in Exhibit A, or any other similar material financial transaction which does not require inclusion on the balance sheet of the Institution in accordance with generally accepted accounting principles;

x. enter into any transaction which may be governed by Sections 22(g), 22(h), 23A or 23B of the Federal Reserve Act, except that any transaction governed by one of the aforementioned sections which has a value of less than $100,000 shall not be subject to this subparagraph x, and transactions which are subject to Paragraph 4 of this Order shall be governed solely by that Paragraph.

3. Within thirty (30) days after the execution of this Order, the Institution shall provide to the Supervisory Agent a list of all loans-in-process obligations ("obligations") and legally binding commitments ("commitments") that exist as of the date of this Order and provide a schedule of the monthly estimated disbursements for outstanding commitments and obligations.

The list of commitments or obligations shall include:

a. the type of commitment or obligation;

b. the date of the commitment or obligation;

c. the total amount;

d. the identity of the borrower, if applicable;

e. the identity of the seller, if applicable;

f. the effective date; and,

g. the date of anticipated funding.

The Institution shall submit with this list a written opinion from independent legal counsel that he/she has reviewed the terms of each unfunded commitment or obligation in excess of Two Hundred Fifty Thousand Dollars ($250,000) and address whether or not such commitment or obligation constitutes a legally binding commitment or obligation of the Institution that could be enforced in a court of law by the party to whom the commitment or obligation is made. In retaining independent legal counsel to review the terms of the commitment or obligation, the Institution shall only retain counsel licensed in the jurisdiction where any real property which relates to the obligation or commitment is located, or in the state in which the home office of the Institution is located, and said counsel shall not have been retained or employed by the Institution during any part of a period of three (3) years prior to the date of the request for review.

4. Without the prior written approval of the Supervisory Agent, State Federal shall not enter into, or commit to enter into any loans, investments, or other business relationships with, purchase any property from the following business entities or their affiliates:

a. Joseph A. Frates;

b. Frates Development Company;

c. Aircoa Holding Company;

d. Frates-Matheny;

e. Meghan Cove Operating Company;

f. Meghan Cove Investment Company;

g. Associated Finance Company;

h. Frates Equities, an Oklahoma general partnership; or,

i. FG Associates.

5. The Institution shall formulate a capital plan which will explain in detail the proposed strategies for raising capital and for accomplishing the overall objectives of the Institution (the "capital plan"). The capital plan shall include an analysis of the available strategies and a written summary as to why selected strategies are chosen.

The capital plan should contain, at a minimum, the following:

a. financial projections on a quarterly basis which, at a minimum, extend through the quarter in which it is anticipated that compliance with all applicable capital standards will be achieved;

b. facts which demonstrate that the Institution can meet applicable capital standards by December 31, 1994, and maintain compliance with those standards on an ongoing basis;

c. detailed information on the completed and planned steps to raise capital, including the scheduling, as early as practicable, of any steps other than the retention of earnings;

d. a description of attainable goals which should include, among other things, progressive capital level targets throughout the term of the plan, and the projection of said targets into pro forma financial statements;

e. calculations for all of the institution's capital requirements and indications as to any excess or shortfall at the end of each quarter under the plan;

f. pro forma financial statements and accounting opinions regarding any contemplated transactions in accordance with generally accepted accounting principles (GAAP).

g. pro forma consolidated and unconsolidated financial statements for the Institution and each service corporation and subsidiary;

h. financial statements for the immediately preceding four quarters;

i. documentation which demonstrates compliance with any restrictions regarding activities which exceed the limitations set forth under FIRREA and any current rules, regulations, or policy statements, if applicable;

j. internal policies, practices and procedures that the institution will utilize in order to comply with existing regulations on interest-rate-risk including, but not limited to: (1) strategies adopted to minimize such risk; (2) an analysis of the Institution's sensitivity to interest rate changes; (3) plans to utilize futures and options and/or other artificial methods of hedging; and (4) plans to monitor and maintain adequate liquid assets;

k. plans which address all weaknesses to date including, but not limited to, those identified by regulators and/or documented in the Institution's examinations and indicate past, present and future efforts to address such weaknesses;

l. documentation which provides adequate justification for compensation and fees for consultants and investment bankers; and,

m. documentation which demonstrates the expertise of existing management and the board of directors regarding, among other things, the selected strategies for raising capital.

The Institution shall utilize its best efforts to cause the capital plan to be submitted no later than February 7, 1990. The capital plan shall not be implemented without the prior written approval of the Supervisory Agent.

6. Within ten (10) days of the date of issuance of this Order, in accordance with Section 563.17-1(a)(2) of the Insurance Regulations, 12 C.F.R. Section 563.17-1(a)(2) (1989), the Institution shall direct its independent accounting firm to issue the Institution's audit reports for 1987 and 1988. The Institution shall use its best efforts to cause its independent accounting firm to issue the Institution's audit report for 1987 and 1988 within thirty (30) days of this Order and shall, upon the date of issuance

of said report, cause a copy of said report to be made available to OTS.

7. The Institution shall immediately cease making payments under the Management Services Agreement by and between the Institution and Equivest Financial Corporation ("Equivest") shall refrain from making such payments in the future. The Institution shall not enter into any other management services agreement without the prior written consent of the Supervisory Agent. Consistent with Paragraph 5 of the Management Services Agreement, a copy of the expense reports related to the Management Services Agreement, along with all documentation as to expenses, as well as a copy of the budget related to the Management Services Agreement, shall be made available to the Supervisory Agent no later than fifteen (15) days after issuance of this Order.

8. The Institution shall immediately cease making payments under any plan which provides for the payment of bonuses to officers, as the term officer is defined in 12 C.F.R. §561.32 (1989), as amended and continued by OTS. The Institution shall certify compliance with this Paragraph no later than thirty (30) days after the date of issuance of this Order.

9. State Federal shall immediately upon issuance of this Order make the following accounting adjustments:

a. State Federal's contingent receivable in connection with ongoing litigation with Kaiser Steel Corporation in the context of the bankruptcy case In re Kaiser Steel Corporation, Case No. 87-B-1553E, and adversarial case Kaiser Steel Corporation v.

Joseph A. Frates, et. al., Case No. 87-E-135 (hereinafter referred to as the Kaiser litigation). State Federal shall, within five (5) days of the date of issuance of this Order:

(1) write off the total amount of the contingent receivable, in accordance with Statement of Financial Accounting Standard No. 5, which prohibits recognition of contingent assets; or,

(2) obtain the execution of an indemnity agreement from Equivest and FG Associates to the Institution, collateralized by readily marketable collateral in the amount of 150% of the principal balance of the receivable; said indemnity agreement shall, at a minimum, require Equivest and FG Associates, jointly and severally, to indemnify the Institution for the principal balance of the receivable, any accrued interest, and any costs and expenses incurred by the Institution in connection with the Kaiser litigation described above, in the event that the Kaiser litigation yields a decision which is adverse to the interests of the State Federal. Said indemnity agreement and collateral shall

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be in a form acceptable to the Supervisory Agent;

b. The Institution shall, immediately upon issuance of this Order, with respect to the loan to Zane Allen Associates, Ltd., which is secured by the Institution's home office building, reduce the book value of the loan to equal the fair market value of the underlying collateral in conformance with GAAP as set forth in the Savings and Loan Association Audit and Accounting Guide;

c. State Federal shall write off the capitalized costs referenced in a letter dated December 22, 1988, concerning service corporation accounting;

d. State Federal shall immediately cease the capitalization of expenses which are not in conformance with GAAP with respect to contributed properties as noted in the Interim Report of Examination dated October 12, 1989;

e. State Federal shall immediately cease the capitalization of legal fees in relation to the Kaiser litigation and write-off any legal fees previously capitalized as noted in the Interim Report of Examination dated October 12, 1989.

The Institution shall certify compliance with these requirements no later than fourteen (14) days after the date of issuance of this Order, except as otherwise noted in this paragraph.

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10. The Institution shall file all financial reports required by OTS regulations, published policy statements and published memoranda of general applicability, including monthly and quarterly reports, by the required due date.

11. The board shall ensure that the chief executive officer of State Federal ("CEO") prepares a monthly compliance report for review by the directorate at each regularly scheduled board meeting. This report shall detail the Institution's compliance with the terms of this Order. The CEO shall present this report in its entirety to the directorate at each regularly scheduled meeting. The board shall also ensure that the CEO's report is entered into the minutes of each meeting, and that the Supervisory Agent is provided with a copy of the subject minutes no later than ten business days following the end of each Board meeting. Each official minute book copy of the minutes of the Board's meetings shall be signed and dated by each director.

12. Upon issuance by the ERC, this Order shall supersede and replace in its entirety that certain Supervisory Directive signed by Richard Fulkerson and dated October 26, 1989.

13. The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

14. This Order shall remain in effect until terminated by the OTS.

FOR THE ENFORCEMENT REVIEW COMMITTEE

/S/

Rosemary Stewart
Director, Office of Enforcement
Secretary, Enforcement Review Committee

RESOLUTION

WHEREAS, the Board of Directors of State Federal Savings and Loan Association, Tulsa, Oklahoma, has been required to make certain certifications regarding the activities as outlined in the Order to Cease and Desist dated ____________________, 1989, and

WHEREAS, the Board of Directors have reviewed certain activities and transactions with the officers of the Institution occurring during the month of ____________, 1989;

NOW, THEREFORE, BE IT RESOLVED, that the members of the Board of Directors hereby certify that, to the best of our knowledge and belief, State Federal Savings and Loan Association has complied with all conditions of the Order to Cease and Desist during the month of ____________, 19__.

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DATE: ____________________________

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Exhibit "A"

1. Bankers' Acceptances;
2. Guarantees;
3. Interest Rate Swaps;
4. Interest-only (IO) Mortgage Backed Security (MBS);
5. Principal-only (PO) MBS;
6. Super PO MBS;
7. Collateralized mortgage obligation (CMO) residuals;
8. Real estate mortgage investment conduit (REMIC) residuals;
9. Planned amortization class (PAC) companion bonds;
10. Targeted amortization class (TAC) companion bonds;
11. PAC IOs;
12. PAC residuals;
13. PAC POs;
14. TAC POs;
15. TAC IOs;
16. TAC residuals;
17. Z Bond tranches of CMOs or REMICs;
18. Jump Z tranches of CMOs or REMICs;
19. PAC support bonds;
20. TAC support bonds;
21. All purchased mortgage loan servicing;
22. Fixed rate tranches of CMOs or REMICs;
23. Floating rate tranches of CMOs or REMICs;
24. Synthetic MBS agreements;
25. Box trades with MBS;
26. Adjustable rate preferred stock;
27. Perpetual floating rate notes;
28. Non-investment grade corporate debt securities;
29. Exchange traded or over-the-counter options;
30. Options on interest rate swaps (Swaptions); or,
31. any transaction or instrument similar to any of the foregoing.