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RECEIVED
SUPERVISORY DIVISION
JUL 15 1991

SUPERVISORY AGREEMENT
BETWEEN
BANK OF STOCKDALE, F.S.B.
AND THE
OFFICE OF THRIFT SUPERVISION

RECEIVED
SUPERVISORY DIVISION
JUL 15 1991

This Supervisory Agreement ("Agreement") is made and is effective this 14 day of ^{AUGUST} ~~JULY~~ 1991, by and between Bank of Stockdale, F.S.B., Bakersfield, California (hereinafter "Stockdale" or the "Institution") and the Office of Thrift Supervision ("OTS"), an office of the United States Department of the Treasury. References in this Agreement to the Institution shall be understood to include all wholly owned or majority owned subsidiaries of the Institution unless a contrary meaning is apparent.

WHEREAS, the OTS is of the opinion that Stockdale has engaged in practices or failed to take certain actions in operating the business of the Institution that warrant supervisory correction;

WHEREAS, the OTS acknowledges that Stockdale has initiated and implemented some supervisory corrections; and

WHEREAS, in the interest of resolving OTS' supervisory concerns in a cooperative manner, Stockdale and OTS agree as follows:

NOW THEREFORE, IT IS AGREED AND ORDERED that:

1. Until otherwise required by law or by the OTS, the Board of Directors of Stockdale ("Board") shall take steps so that Stockdale shall compute the adequacy of its general valuation allowances ("GVAs") taking into consideration the factors

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described in the Report of Examination, dated May 20, 1991, and properly record the resulting amount on its books. Specifically, Stockdale shall establish \$560,000 as a minimum GVA as of March 31, 1991. In addition, Stockdale shall be required to obtain prior written approval from OTS before reducing the GVA and shall provide to the Assistant Regional Director of the Office of Thrift Supervision, West Region ("ARD"), on a quarterly basis, management's support and analysis of the GVA. Furthermore, prior written approval must be obtained from the ARD before reducing specific valuation allowances.

2. Stockdale shall immediately review and revise the Internal Asset Review ("IAR") policy and procedures to ensure that it meets the objectives set forth in 12 C.F.R. 563.160(c). The IAR policy and procedure should address at a minimum, the following:

- a. A classification methodology that parallels the criteria as set forth in 12 C.F.R. 563.160(b) and 12 C.F.R. 571.26.
- b. Debt coverage ratio guidelines on income property loans. In addition, policies and procedures to provide for obtaining updated operating statements, tax returns, and leases for income producing properties.
- c. Quarterly fair value/net realizable value computations for troubled or impaired assets.
- d. Procedures for active monitoring of all loans, including those near maturity.

Furthermore, Stockdale must obtain prior written approval from the ARD before reducing classifications and provide the ARD with an analysis and status report on classified assets on a quarterly basis.

3. Stockdale shall provide to the ARD within 45 days of the date of this Agreement a revised Business Plan for the remainder of 1991 and 1992. This Business Plan should include the following:
 - a. Plans for meeting current capital requirements as well as fully phased-in capital requirements.
 - b. Plans to improve profitability, including the reduction of general and administrative expenses.
 - c. Steps to be taken to reduce the high level of classified assets, including expected disposition dates of any nonperforming assets.

~~Stockdale shall implement this business plan upon submitting~~
it to the ARD, subject to the ARD taking no objection to the Plan.

4. The Board shall comply with the OTS standards which require that each director avoid placing himself or herself in a position which creates, leads to or could lead to a conflict of interest or the appearance of a conflict of interest, and shall require the prompt discontinuance of any practice or condition which gives rise to a conflict of interest or the appearance of a conflict of interest. In addition, within 30

days of the effective date of this Agreement, Stockdale shall review and revise its conflict of interest policy and shall submit to the ARD steps that shall be implemented to ensure that appearances of conflict of interest shall not occur as the future. Such policy shall, at a minimum, meet the standards set forth in 12 C.F.R. 571.7 which states, in pertinent part:

"Among the practices and conditions which have such adverse effects are conflicts between the accomplishment of the purposes of the Home Owner's Loan Act ... and the personal financial interests of directors, officers and other affiliated persons of savings associations. Conflicts of this type which have demonstrably resulted in such adverse effects are considered by the Office to be inherently unsafe and unsound practices and conditions. The Office accordingly holds that each director, officer, or other affiliated person of a savings association has a fundamental duty to avoid placing himself in a position which creates, or which leads to or could lead to, a conflict of interest or appearance of a conflict of interest having such adverse effects."

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

- a. all real property ownership of each director ^{or} senior

officer (except for interests held in mortgaged-backed securities or real property held free and clear of monetary liens); and

- b. the status of any director or senior officer as an affiliate or affiliated person (as those terms are defined in 12 C.F.R. 561.4 and 561.5).

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

- 5. For good cause shown, the ARD may extend the time to complete any act required by this Agreement, specifically,
 - a. If the ARD disapproves any policy, plan or act under the terms of this Agreement, Stockdale shall revise the policy, plan or act within 15 days after receiving written notice of disapproval. Any notice of disapproval shall state the basis and reasons for disapproving the policy, plan or act. The failure to submit a revised policy acceptable to the ARD within 15 days after receiving written notice of disapproval shall be considered to be a violation of this Agreement unless the ARD has provided Stockdale with prior written approval to extend the resubmission timeframe;
 - b. With respect to the development and submission of any policy required herein, Stockdale shall be considered to be in compliance with the development and submission requirement so long as Stockdale develops and submits the policy to the ARD within the required time frame; and

- c. No policy, plan, or act approved by the ARD may be amended, suspended or revoked without the prior written approval of the ARD. However, the ARD may terminate any requirement imposed on Stockdale by this Agreement after receiving a written request to do so and if Stockdale has been in substantial compliance with the provision to the satisfaction of the ARD.

Board Implementation

6. Except as to those plans, policies, procedures or evidence of corrective or other actions expressly required by this Agreement to be submitted directly to the OTS, all plans, policies, procedures, and corrective or other actions required by this Agreement that shall be prepared or implemented by Stockdale management shall be submitted to the Board for review and approval. Upon review and approval by the Board, the Board shall direct management to implement and adhere to such plan, policy, procedure, or action.

OTS Review

7. Except as provided for in this Agreement, all plans, policies, procedures, or evidence of corrective or other actions required by this Agreement shall be maintained by Stockdale for review by OTS for compliance with this Agreement.
8. The Board shall submit to OTS by the tenth day following the

regularly scheduled Board meeting following each calendar quarter during the duration of this Agreement a report detailing Stockdale's progress, status and/or adherence to each of the requirements set forth in Paragraphs 1 through 5 of this Agreement. Included in such quarterly report shall be sufficient detail of the evidence the Board reviewed to establish the progress, status and/or adherence to the requirements of Paragraphs 1 through 5. The status report should also include a discussion of any material variances or deviations from the revised Business Plan required in Paragraph 3 of this Agreement.

Agreement Terms

9. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to Stockdale as a result of this Agreement. Stockdale acknowledges that it has not received any oral or written representations to the contrary by OTS or any of its agents or employees.
10. All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall have meanings as defined in the applicable OTS laws, rules or regulations, and any such technical words or terms used in this Agreement and undefined in such laws, rules or regulations shall have meanings that accord with the best custom and usage in the savings and loan

industry.

11. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement of Stockdale and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the OTS, as that term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. Section 1818).
12. This Agreement constitutes the entire agreement between the OTS and the Institution, but does not supersede any prior order, directive, or agreement imposed upon, or agreed to, by Stockdale. No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and Stockdale.
- ~~13. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto, their successors in interest, and respective assigns.~~
14. This Agreement shall remain in effect until terminated by the OTS, acting through the Regional Director of the West Region from its offices in San Francisco, or such Regional Director's duly authorized designee.
15. A certified copy of the Board's resolution authorizing the

execution of this Agreement, evidencing its intent to be bound thereby and requiring action to be taken to comply with its terms, shall be attached hereto as Exhibit A and made part thereof.

IN WITNESS WHEREOF, the OTS, acting through the Assistant Regional Director, and the Institution, acting through its duly elected directors, have executed this Agreement as of the date first above written.

OFFICE OF THRIFT SUPERVISION

BANK OF STOCKDALE, F.S.B.
BOARD OF DIRECTORS

By

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Nicholas J. Dyer
Assistant Regional Director

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Ken Sorenson (not available)

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