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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 19th day of December, 1991, by and between US Community Savings Bank, FSB, Encinitas, California ("US Community" or "Institution"), for itself and any wholly-owned or partly-owned subsidiary, and the Office of Thrift Supervision ("this Office" or "OTS"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. Sections 1818(b)(1) and (b)(2), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), Pub. L. No. 101-73, Sections 902 and 907 (1989).

WHEREAS, the OTS is of the opinion that the Institution may not have complied with certain of the statutes and regulations to which the Institution is subject in conducting the business of the Institution and may be operating in an unsafe and unsound manner, thereby providing grounds for the initiation of formal enforcement proceedings against the Institution by the OTS;

WHEREAS, by entering into this Agreement neither the Board of Directors, Institution, nor any subsidiary, admits or denies that it may have violated any statutes or regulations or may have been operating in an unsafe and unsound manner; and

WHEREAS, in the interest of regulatory compliance and cooperation, the Institution is willing to enter into this Agreement to avoid the initiation of such formal enforcement proceedings.

NOW, THEREFORE, it is agreed between the parties hereto as follows:

I. STRATEGIC PLAN

Within 60 days of the effective date of this Agreement, the Institution shall prepare, adopt and submit to the Assistant Regional Director ("ARD") for review and approval, a written strategic plan ("Plan"). The Plan shall contain, at a minimum, the following components:

BOARD PLAN

1. Within 60 days after the effective date of this Agreement, US Community shall submit to the ARD for review and approval of a plan to structure the number and the qualifications of the board of directors ("Board Plan"). Specifically, the Board Plan shall include:

- a. Number. The Board Plan shall include provisions for increasing the number of new directors by one(1). At all times thereafter, US Community's Board of Directors ("Board") shall use its best efforts to maintain a minimum of seven (7) directors pursuant to the requirement of OTS Regulation 12 C.F. R. Section 552.6-1(b).
- b. Qualifications. The Board Plan shall require all directors to possess relevant financial or business experience, education, competence, and integrity, so as to provide adequate oversight regarding US Community's operations, proposed business activities, and other policy decisions. The qualified new director shall have diversified business experience outside of the financial services industry, or have extensive savings and loan and/or financial institutions-related experience. No more than one (1) new director shall have any familial relationship with any director, officer, employee or shareholder.
- c. Timing. The Board shall use its best efforts to locate and submit for approval to the ARD the additional director contemplated by Paragraph 1(a) hereof. The failure to obtain such additional director despite the best efforts of the Board, or the failure of any individual proposed as a director to agree to so serve, to meet any qualification approved or established by the ARD, or to file any document or take any action required under this Paragraph 1, shall not constitute non-compliance by the Institution or its Board with the provisions of this Agreement. However, the ARD shall have the authority to nominate to the Board a candidate to serve as director, and upon such nomination, the Board shall take all actions within its power as necessary to elect any such nominated candidate to be a member of the Board. The failure of the Board to use its best efforts to take such action shall constitute non-compliance with this Agreement.

#### MANAGEMENT PLAN

2. Within 60 days after the effective date of this Agreement, US Community shall submit to the ARD, for review and approval, a plan to strengthen and improve management, assess the strengths and weaknesses of current senior management and improve the overall managerial function of US Community ("Managerial Plan"). As its goal, the Management Plan shall strengthen and enhance management by providing it with persons who are experienced in or have knowledge of the savings and loan or banking industry or related businesses. The Management Plan shall contain:

- a. The identity of all current officers with a description of their respective responsibilities, qualifications, and authority levels;
- b. An analysis of the strengths and weaknesses of the Institution's current management team and structure;
- c. An organization chart of the management of the Institution;
- d. The specific qualifications of any new officer with the Institution proposes to hire;
- e. A Biographical and Financial Report (OTS Form 1393) completed by each proposed officer; and
- f. A concise narrative description of how the Management Plan addresses the strengths and weaknesses identified in the current management structure. Each proposed officer shall be subject to prior approval by the ARD.

#### BUSINESS PLAN

3. Within 60 days from the effective date of this Agreement, the Board shall file a Board approved comprehensive one year Business Plan with the ARD. The Business Plan shall be subject to review and approval by the ARD prior to implementation. Once implemented, the Board shall monitor the Business Plan on a continuing basis. Any material changes from the Business Plan shall require prior written approval by the ARD. The Business Plan shall include, but not be limited to:
  - a. An analysis of the strengths and weaknesses of the Institution's historical operations, including analyses of net interest income and general and administrative expenses; and
  - b. The Institution's proposed operating strategy for the next 12 months based on the analysis conducted in Paragraph 3(a).

Not later than 90 days after the first complete calendar month in which the Business Plan is approved by the ARD, and every quarter thereafter, the Board shall file with the ARD a written report documenting its review of the Institution's year-to-date operating results through the end of the preceding calendar month. Such report shall include a comparison of actual operating results against the projections made in the Business Plan. If the actual results show a significant difference from the projections in the Business Plan, the report shall include an explanation of the difference and include a specific description of the measures implemented to correct or stop the difference. For purposes of

enforcement pursuant to 12 U.S.C. Sections 1818(b) and (i) for violations of this Agreement, this "Business Plan" section of this Agreement shall not be considered a "written agreement" entered into with OTS.

#### APPRAISAL POLICIES AND PROCEDURES

4. Within 30 days from the effective date of this Agreement, the Board shall develop, adopt, and submit to the ARD, for review and approval, internal control procedures to ensure that annual performance appraisal reviews are conducted for all persons providing appraisal services for the Institution in accordance with US Community's internal policies and procedures and OTS Regulation 12 C. F. R. Section 564.8(a)(3).

#### INTEREST RATE RISK MANAGEMENT POLICIES AND PROCEDURES

5. Within 30 days from the effective date of this Agreement, the Board shall develop, adopt, and submit to the ARD, for review and approval, procedures for the analysis of the sensitivity of interest income to changes in market interest rates. The interest rate risk management system shall, at a minimum, report the effects of interest rate changes on net interest income, provide a reconciliation of actual operating results with the projections made during the previous period, and monitor compliance with applicable policies, procedures, laws, and regulations.

As used in this Agreement, the terms "subsidiary" or "subsidiaries" include all service corporations as defined in 12 C.F.R. Section 561.45, and subsidiaries of such service corporations.

As used in this Agreement, the term "savings association" shall have the meaning as set forth in Section 2(4) of the Home Owners' Loan Act ("HOLA"), as amended by Section 301 of FIRREA, 12 U.S. C. Section 1462(4).

Reference in this Agreement 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 Agreement pursuant to Section 401(h) of FIRREA, Pub. L. No 101-73, Section 401(h) (1989), and references to successor provisions as they become applicable.

All technical words or terms used in the Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, and Federal Deposit Insurance Act, as amended



By: 151  
Director

By: 151  
Director

By: 151  
Director

OFFICE OF THRIFT SUPERVISION

By: 151  
Assistant Regional Director

**CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly qualified secretary of US Community Savings Bank (OTS No. 5801) ("Institution") hereby certify that the following is a true copy of the resolution duly adopted by its Board of Directors at a meeting duly called and held on December 19, 1991; that at said meeting a quorum was present and voting throughout; and that said resolution has not been rescinded or modified and is now in full force and effect.

**RESOLUTION**

WHEREAS, the directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the Institution may have violated regulations to which the Institution is subject and may have engaged in unsafe and unsound practices and that such violations and practices provide grounds for the initiation of cease and desist proceedings against the institution by the OTS; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held December 19, 1991, and

WHEREAS, by entering into this Agreement, the directors of the Institution neither admit nor deny that the Institution or any subsidiary may have violated any statutes or regulations or may have been operating in an unsafe and unsound manner,

WHEREAS, after due consideration, the directors of the Institution have determined to enter into the proposed Agreement in the interest of regulatory compliance and cooperation;

NOW THEREFORE BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement and to comply with such Agreement.

IN WITNESS WHEREOF, We have hereto subscribed our names and affixed the seal of US Community Savings Bank, this 19<sup>th</sup> day of December 1991.

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