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

This Supervisory Agreement ("Agreement") is entered into and made effective this 25th day of January, 1993, ("Effective Date"), by and between Torrance Bank, S.S.B., Torrance, California, for itself and any wholly or partly-owned subsidiary, ("Torrance" or the "Bank") and the Office of Thrift Supervision ("OTS").

WHEREAS, the OTS is of the opinion that the Bank has not complied with certain statues and regulations to which the Bank is subject, as more fully discussed in the OTS's Report of Examination of the Bank which commenced September 22, 1992;

WHEREAS, the OTS is of the view that such non-compliance provides sufficient grounds for the initiation of formal enforcement proceedings against the Bank by the OTS;

WHEREAS, by entering into this Agreement, neither the Institution, nor any subsidiary admits or denies that it has violated any statue or regulation or has been operating in an unsafe or unsound manner;

WHEREAS, the OTS is willing to forbear at this time from the initiation of formal enforcement proceedings against the Bank for its failure to comply with certain statues and regulations to which it is subject, provided the Bank enters into and complies with the terms of this Agreement;

WHEREAS, in the interest of regulatory compliance and cooperation, the Bank is willing to enter into and abide by the terms of this Agreement to avoid the initiation of formal enforcement proceedings against it by the OTS.

NOW, THEREFORE, in consideration for the above stated forbearance by the OTS from the initiation of formal enforcement proceedings, it is agreed between the parties as follows:

1. Loan Purchases

On or before February 28, 1993, ("Submission Date"), the Bank shall conduct an evaluation of its existing policies and procedures concerning due diligence underwriting for purchased

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loans to identify any and all deficiencies which may currently exist, and shall prepare, adopt and submit for the review by the Assistant Regional Director ("ARD") revised policies and procedures to ensure that any future loan purchases are conducted in accordance with the principles of safety and soundness.

Until such time as the Board of Directors is able to certify to the ARD that the revised policies and procedures required by this paragraph 1 are implemented, the Bank shall refrain from making any additional loan purchases.

## 2. Internal Asset Review

On or before the Submission Date, the Bank shall conduct an evaluation of its existing internal asset review policies and procedures to identify any and all deficiencies and weaknesses which may currently exist, and shall prepare, adopt and submit for ARD review, revised IAR Policies and Procedures designed to ensure that the Bank's assets are accurately classified and categorized, and accurately reported in reports to the Board, the OTS and the public.

Among other things, the revised IAR Policies and Procedures shall ensure that all assets are systematically analyzed, specify the frequency of review, identify the method or methods by which an assets will be selected for review, provide for the review of non-delinquent loans above a predetermined amount, and ensure the Bank performs net realizable value ("NRV") and fair value ("FV") calculations.

## 3. Internal Audit Function

On or before the Submission Date, the Bank shall file with the ARD, copies of a Board approved Internal Audit Plan ("Audit Plan") which provides for the establishment of comprehensive policies and procedures to address the internal audit needs of the Bank, and ensure the independence of the audit function. The Audit Plan shall, at a minimum:

- a) detail each area to be reviewed during the current audit cycle in an Audit Schedule approved by the Board. The Audit Schedule shall cover all high-risk areas including internal asset review, asset/liability management, real estate owned, the accounting department and mortgage loans secured by nonresidential real estate;
- b) contain an analysis of the Bank's internal audit resources to determine whether the Audit Plan's goals can be achieved by the current internal audit staff or whether the department needs to be expanded to adequately perform the audit function;

- c) require that all responses to Audit Reports include a timely written response and a written plan to correct all deficiencies noted in the Audit Report;
- d) require that the minutes of the Audit Committee meetings are comprehensive and include acknowledgement of receipt of Audit Reports, a discussion of Audit Report findings, and ratification of recommendations; and
- e) provide for at least quarterly reports by the Audit Committee to the Board. All Audit Committee findings, conclusions and recommendations shall be fully documented in the minutes of the Board meetings.

#### 4. Chief Financial Officer

Immediately upon the execution of this Agreement, the Board shall commence a search for a qualified Chief Financial Officer ("CFO"). The Board shall use its best efforts to locate a qualified candidate for the CFO position no later than 60 days after the Effective Date. The proposed CFO shall be subject to the formal Notice requirements of Thrift Bulletin 45 or any successor thereto.

#### 5. Business and Strategic Plans

On or before the Submission Date, and annually thereafter, the Bank shall submit for the review and approval of the ARD, a Board approved, comprehensive Business Plan, which details the Bank's operating strategies and financial projections for its fiscal year. The Business Plan shall also include, at a minimum: (a) a discussion of the Bank's short and long term goals and objectives; (b) pro forma financial statements which reflect the proposed operating strategy of the Bank; (c) management's projected loan sale activity; and (d) any proposed asset growth or reduction.

On or before the Submission Date, the Bank shall submit for the review of the ARD, a Board approved Strategic Plan, which details the Bank's strategies for the next 3 - 5 years. The Strategic Plan shall include, at a minimum: (a) a discussion of the Bank's long-term goals and objectives; (b) pro-forma financial statements which reflect the proposed long term operating strategy of the Bank; and (c) any proposed asset growth or reduction for the period covered by the Plan.

#### 6. Problem Assets

The Bank shall use all reasonable efforts to reduce, on an ongoing basis, the level of its classified assets, as a percentage of tangible capital plus general valuation allowances,

with an ultimate goal of reducing its level of classified assets to no more than 50 percent of tangible capital plus general valuation allowances.

On or before the Submission Date, the Bank shall develop written plans for the resolution of all of its current problem assets. Thereafter, within 30 days after any asset becomes a problem asset, the Bank shall adopt a written plan for each problem asset. Such plans shall be immediately implemented. For the purposes of this Agreement, a "problem asset" shall mean any asset (including unfunded commitments) involving a commitment or an amount due the Bank in excess of \$300,000 that:

- a) has been adversely classified or criticized by the OTS as a result of its most recent examination of the Bank, or is adversely classified or criticized by either the FDIC or the OTS as a result of any subsequent examination of the Bank;
- b) has been accorded a sub-investment quality rating and/or has been designated a work-out or watch-list asset, or some equivalent designation, as the result of an internal asset review and rating procedure performed by the Bank or by another party on behalf of the Bank;
- c) is past due in excess of 90 days and/or has been placed in either a non-accrual or non-earning status by the Bank; and/or
- d) has been partially charged-off.

Each such plan shall include, at a minimum, an assessment of the status of each problem asset, the action proposed to eliminate the cause or causes of such asset being a problem asset, and the time frame for the resolution of any amount determined to be due the Bank.

#### 7. General Valuation Allowances

The Bank shall establish and maintain appropriate general valuation allowances ("GVAs") based upon (a) the Board's review of information provided by management and outside auditors, and (b) as may be required from time to time by the OTS and/or the FDIC. The Bank shall evaluate, and the Board shall review and approve, the Bank's level of GVAs on a quarterly basis, or more frequently if deemed necessary for the prudent operation of the Bank.

#### 8. Policies and Procedures

The Bank shall conduct a comprehensive evaluation of all existing policies and procedures (other than those specifically mentioned elsewhere in this Agreement), to identify (a) any and all

deficiencies which may currently exist, whether or not specifically identified in the OTS's Report of Examination, and (b) any additional policies and procedures which the Bank needs to adopt and implement in order to be in compliance with the OTS's regulations, now or hereafter in effect, and to ensure the safe and sound operation of the Bank, whether or not specifically identified in the OTS's Report of Examination.

On or before the Submission Date, the Bank shall prepare, adopt and implement amended policies and procedures as appropriate to correct any and all deficiencies noted in the Bank's existing policies and procedures, and adopt new policies and procedures to ensure compliance with OTS regulations and to ensure the safe and sound operation of the Bank.

9. Corrective Action

The Bank shall ensure that all of the deficiencies cited in the OTS Report of Examination which commenced September 22, 1992, and which are not specifically cited herein are corrected in a timely manner.

10. Submission of Plan to OTS

Any plans required to be prepared under this Agreement, with the exception of the plans required under paragraph 6 of this Agreement, shall be submitted to the ARD for review, and where indicated, non-objection or approval. Material amendments to plans which require the ARD's approval or non-objection pursuant to this Agreement, must also receive the ARD's prior approval or non-objection, as appropriate. At such time as the OTS indicates its written approval or non-objection to any plan submitted, such plan shall be incorporated into and included as part of this Agreement. Plans which require the ARD's review, but no written approval or non-objection, such as the Strategic and Business Plans shall also be incorporated into and included as part of the Agreement.

If the ARD objects, in whole or in part to any policy, plan, or act required under the terms of this Agreement, the Bank shall revise and resubmit the policy or plan within 30 days after receiving written notice of objection. The failure to submit a revised policy or plan acceptable to the ARD within 30 days after receiving notice of objection shall be considered to be violation of this Agreement, unless the ARD has provided the Bank with prior written approval to extend the resubmission time frame.

The ARD shall have 15 days in which to object to all or any part of any amendment required under this paragraph. After such time, and if no ARD objection is issued, such plan shall be deemed approved or otherwise non-objectionable to the ARD.

A resolution evidencing the Board's review, consideration and approval of plans required by this Agreement shall accompany any and all submission to the ARD.

#### 11. Board Review of Compliance

No later than the last day of each month following the applicable quarter during the period that this Agreement is in effect, the Board shall review a written report by management as to the Bank's compliance with all obligations under this Agreement pertaining to the Loan Purchase Policies, required under paragraph 1 of this Agreement, the Internal Asset Review policies and procedures required under paragraph 2 of this Agreement, the Internal Audit Plan required under paragraph 3 of this Agreement, the Business and Strategic Plans required under paragraph 5 of this Agreement and the General Valuation Allowance required under paragraph 7 of this Agreement, during the preceding calendar quarter, and deliver to the ARD, within ten (10) calendar days after such review, a copy of a board resolution duly certified by the Bank's corporate secretary, which either (a) states that to the Board's knowledge, and based upon the Board's prudent review of the compliance reports provided by management, the Bank (including the Board), was in compliance with in all material respects with each and every obligation under this Agreement as set forth in this paragraph 11, at all times during the preceding calendar quarter, or (b) indicates any instance of noncompliance with any of such obligations and specifies the measures taken to cure such noncompliance.

#### 12. Rights and Waivers

This Agreement has been duly authorized, executed, delivered, and constitutes, in accordance with its terms, a valid and binding agreement between the Bank 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 ("FDIC") (12 U.S.C. Section 1818). No amendment or modification of this Agreement shall be valid or binding unless executed in writing by both the OTS and the Bank.

Any rights, powers, and remedies given to the OTS by this Agreement shall be in addition to all rights, powers, waivers and remedies given to it by any applicable statute or rule of law. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to the Bank as a result of this Agreement. The Bank acknowledges that it has not received any oral or written representations to the contrary by the OTS or any of its agents or employees.

### 13. Definitions

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, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulation, the Home Owners' Loan Act ("HOLA"), the FDIA or OTS Memoranda. Any such technical words or terms used in this Agreement, and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the thrift industry.

### 14. Successor Regulations and Guidance

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, and references to successor provision(s) as they become applicable.

### 15. Miscellaneous

- a) In the event that any provision of this Agreement shall be declared invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.
- b) Nothing in this Agreement shall be construed as permitting the Bank to violate any law, rule, regulation, or policy statement to which it is subject.
- c) The terms and provision of this Agreement shall be binding upon, and enure to the benefit of, the parties hereto and their successors in interest.
- d) This Agreement shall remain in effect until terminated or modified, in whole or in part, by the OTS. All requests for termination or modification of this Agreement shall be submitted in writing to the ARD. The ARD may grant a written request if, in the ARD's opinion, The Bank has materially complied with the applicable terms of this Agreement for an appropriate period of time, or that a particular provision is not longer required for the safe and sound operation of the Bank.
- e) The ARD has the full and unfettered discretion to extend the time frame of all provisions of this Agreement.

