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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is entered into and made effective this 9 day of October, 1992, ("Effective Date"), by and between Long Beach Bank, F.S.B., Orange, California, for itself and any wholly or partly-owned subsidiary ("Long Beach" or the "Institution") and the Office of Thrift Supervision ("OTS").

WHEREAS, the OTS is of the opinion that the Institution has not complied with certain statutes and regulations to which the Institution is subject, as more fully discussed in the OTS's Report of Examination of the Institution dated April 6, 1992;

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

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

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

WHEREAS, the Institution, in the interest of regulatory compliance and cooperation, 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. Problem Assets

The Institution, acting through its Board of Directors ("Board"), shall use its best 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.

Within 60 days of the Effective Date, the Institution 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 Institution shall adopt a written plan for each such problem asset. Such plans shall be

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immediately implemented. For the purpose of this Agreement, a "problem asset" shall mean any asset (including unfunded commitments) involving a commitment or an amount due the Institution 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 Institution, or is adversely classified or criticized by either the FDIC or the OTS as a result of any subsequent examination of the Institution;
- 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 Institution or by another party on behalf of the Institution;
- 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 Institution; 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 Institution.

2. General Valuation Allowances

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

3. Subsidiary Compliance Plan

Within 30 days from the Effective Date, the Board shall file with the ARD, copies of the Board approved plan implementing the Institution's strategy for achieving compliance with the service corporation investment limitations set forth in Section 545.74 of the OTS's regulations (12 C.F.R. Section 545.74). The Subsidiary Plan shall, at a minimum, detail the Institutions plans for decreasing its investment in service corporations to a level not to exceed two percent (2%) of total assets, as required by Section 545.74(d) of the OTS's regulation, by no later than June 30, 1993.

4. Internal Audit Function

Within 30 days of the Effective Date, the Institution shall file with the ARD, copies of the Board approved Internal Audit Plan ("Audit Plan") which addresses the internal audit needs of the Institution. 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 include an evaluation of the Internal Asset Review System and cover all high-risk areas including asset/liability management, real estate owned, and mortgage loans secured by nonresidential real estate;
- b) contain an analysis of the Institution'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 monthly 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.

5. Systems and Controls

Within 30 days of the Effective Date, the Institution shall file with the ARD, Board approved written plans detailing the corrective action currently undertaken by the Institution in response to the EDP Report of Examination dated April 6, 1992, relative to the Institution's operating policies, data security, internal control, and disaster recovery.

6. TFR Reporting

Within 30 days of the Effective Date, the Institution shall file with the ARD copies of the Board approved plans detailing the measures to be followed by the Institution to ensure that all Thrift Financial Reports ("TFR") submitted to the OTS are prepared in accordance with OTS guidelines, complete and accurate

as of the date of submission, contain no material omissions, and are filed with the OTS on a timely basis.

7. LOCOM Adjustment

On a quarterly basis, the Institution shall LOCOM the held for sale portfolios (Long Beach internal codes 200 and 201). Any fallout loan, or any loan over 120 days old, shall be removed from the 200 portfolio and placed in the fallout portfolio (Long Beach code 201) for LOCOMing purposes.

8. Management

Immediately upon the execution of this Agreement, the Board shall commence a search for a qualified manager for the Mortgage Banking Operation ("MBO"). The Board shall use its best efforts to locate a qualified candidate within 60 days after the Effective Date. The proposed manager shall be subject to the formal Notice Requirements of Thrift Bulletin 45. Within 60 days of the Effective Date, the Institution shall file with the ARD, a Board approved management succession plan for the MBO manager.

9. Board of Directors

Immediately upon the execution of this Agreement, the Board shall commence a search for a qualified candidate to serve on the Board, with the objective of increasing the total number of directors to seven. Each proposed director shall be subject to the formal Notice Requirements of Thrift Bulletin 45. Such candidates shall possess relevant financial or business experience, education, competence, and integrity, so as to provide adequate oversight regarding the Institution's operation, proposed business activities, and other policy decisions. No new directors shall have any familial relationship with any existing director, officer, employee or principal shareholder.

10. Business and Strategic Plans

Within 120 days of the Effective Date, and annually thereafter, the Institution shall submit for the review and approval of the ARD, a Board approved, comprehensive Business Plan for calendar year 1993, which details the Institution's operating strategies and financial projections for the following 12 months. The Plan shall include, at a minimum: (1) a discussion of the Institution's short term goals and objectives; (2) pro-forma financial statements which reflect the proposed operating strategy of the Institution; and (3) any proposed asset growth or reduction.

Within 120 days of the Effective Date, the Institution shall submit for the review by the ARD, a Board approved Strategic Plan, which details the Institution's strategic plans for the next 3 - 5 years. The Strategic Plan shall include, at a

minimum: (1) a discussion of the Institution's long term goals and objectives; (2) pro-forma financial statements which reflect the proposed long term operating strategy of the Institution; and (3) any proposed asset growth or reduction for the period covered by the Plan. Prior to undertaking any operating strategy or activity which materially deviates from those set forth in the Strategic Plan required under this paragraph, the Institution shall submit for the review by the ARD, an amended Strategic Plan.

11. Employment Contracts

Employment contracts between the Institution and its senior executive officers and directors are subject to the requirements of OTS Regulatory Bulletin 27, and must receive the prior approval of the ARD.

12. Corrective Action

Within 60 days of the Effective Date, the Institution shall submit a detailed action plan, including time frames, designed to correct all deficiencies cited in the OTS Report of Examination dated April 6, 1992, to the extent that a specific plan for the correction of such deficiency is not otherwise expressly required herein. This detailed action plan shall include a description of the additional procedures, internal controls and follow-up mechanisms developed by the Institution to prevent a reoccurrence of similar issues.

13. Submission of Plans to OTS

Any plans required to be prepared under this Agreement shall be submitted to the OTS, for its review, and where indicated, its nonobjection or approval. Material amendments to plans which require the ARD's approval or nonobjection under this Agreement, must also receive the ARD's prior approval or nonobjection, as appropriate. At such time as the OTS indicates its written approval or nonobjection 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 not his written approval or nonobjection, such as the Strategic Plan and the Corrective Action Plan, shall also be incorporated into and included as part of this Agreement. The ARD shall have 30 days in which to object to all or any part of the plans submitted pursuant to this Agreement. After such time, and if no ARD objection is issued, such plan shall be deemed approved or otherwise acceptable to the ARD. The Board shall promote the immediate implementation of plan submitted to the OTS by expressly authorizing management to execute the provision of any plan submitted upon the OTS's approval or nonobjection.

If the ARD objects, in whole or in part to any policy, plan, or act required under the terms of this Agreement, the Institution

shall revise and resubmit the policy or plan within 15 days after receiving written notice of objection. The failure to submit a revised policy or plan acceptable to the ARD within 15 days after receiving notice of objection shall be considered to be a violation of this Agreement, unless the ARD has provided the Institution with prior written approval to extend the resubmission time frame.

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.

14. Board Review of Compliance

No later than the last day of each month following a quarter during the period which this Agreement is in effect, the Board shall review a written report by management as to the Institution's compliance with the Business Plan and Strategic Plan required under paragraph 10 of this Agreement.

No later than the last day of each month during the period which this Agreement is in effect, the Board shall review a written report by management as to the compliance with all of the obligations under this Agreement, except the Business Plan and Strategic Plan, during the preceding month.

With respect to the compliance reviews required under this paragraph 14, the Board shall deliver to the ARD, within ten (10) days after such review, a copy of a board resolution duly certified by the Institution'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 Institution (including the Board), was in compliance in all material respects with each and every obligation under this Agreement at all times during the preceding calendar month, or with respect to the Business Plan and the Strategic Plan 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.

15. 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 Institution 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 ("FDIA") (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 Institution.

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 its 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 Institution as a result of this Agreement. The Institution acknowledges that it has not received any oral or written representations to the contrary by the OTS or any of its agents or employees.

16. 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.

17. 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.

18. 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 Institution to violate any law, rule, regulation, or policy, statement to which it is subject.
- c) The terms and provisions 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 for termination or modification of this Agreement if, in the ARD's opinion, the Institution has satisfactorily 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 Institution.

- e) The ARD has the full and unfettered discretion to extend the time frames in all applicable provisions of this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed by their duly elected directors, in the case of the Institution, and by their designated agent, in the case of the OTS. A certified copy of the resolution of the Board of Directors of the Institution authorizing the execution of this Agreement is attached hereto and made part hereof.

Approved:

OFFICE OF THRIFT SUPERVISION

By: 151
 Timothy J. Lane
 Acting Assistant Regional Director

LONG BEACH BANK, F.S.B.

By: 151 Director Date Oct 18 / 92

By: 151 Director Date October 8 1992

By: 151 Director Date 10/08/92

By: _____ Director Date _____

By: _____ Director Date _____

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By: _____
 Timothy J. Lane
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By: 151 _____ Date: Oct 18 / 92
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