

AGREEMENT
 BETWEEN
 WESTERN FINANCIAL SAVINGS BANK
 AND
 THE OFFICE OF THRIFT SUPERVISION

This Agreement ("Agreement") is made and is effective this 14th day of May 1992, ("Effective Date") by and between Western Financial Savings Bank, Irvine, California (hereinafter "WFSB" or the "Institution") and the Office of Thrift Supervision ("OTS").

WHEREAS, the OTS is of the opinion that WFSB has engaged in certain acts and practices in operating the business of the Institution that warrant corrective action, and

WHEREAS, WFSB desires to improve its operations and to strengthen its management as requested by the OTS;

NOW THEREFORE, in the interest of resolving OTS's supervisory concerns in a cooperative manner, WFSB and OTS agree as follows:

1. Management

- (a) WFSB, through its Board of Directors, shall take all steps necessary to strengthen and enhance the Institution's existing management, and to ensure that each member of management shall have qualifications and experience commensurate with his or her duties at WFSB.
- (b) In making its decisions with respect to management WFSB, through its Board of Directors, shall consider that qualifications of management are assessed in large part on its ability to:
 - i) correct any deficiencies in WFSB's operations as identified herein or by the Board of Directors;
 - ii) operate WFSB in a safe and sound manner;
 - iii) comply with applicable laws and regulations; and
 - iv) comply with the requirements of this Agreement.

2. Board of Directors

WFSB shall use its best efforts to increase the number of directors to seven and shall fill the existing vacancies with two outside directors within 60 days of the date of this Agreement. The newly appointed directors shall be unaffiliated with WFSB, or any principal and/or controlling persons of the Institution.

3. Internal Audit

WFSB shall evaluate the internal audit needs of the Institution and shall develop and submit an Internal Audit Plan (Audit Plan) within 60 days for review by the Assistant Regional Director. At a minimum the Audit Plan shall:

- i) detail each area to be reviewed during the next 12 month period and should include, but not be limited to, the risk areas identified in the OTS Report of Examination conducted as of November 4, 1991;
- ii) contain an analysis of the Institution's resources to determine whether the Audit Plan's goals can be completed by the current internal audit staff or whether the department needs to be expanded to adequately perform the internal audit function;
- iii) provide for at least quarterly reports by the Audit Committee to the Board of Directors. All Audit Committee findings, conclusions and proposed corrective actions shall be fully documented in the minutes of the meetings of the Board of Directors; and,
- iv) provide for the addition of one of the newly appointed independent directors to the Audit Committee.

4. Internal Asset Review

WFSB, through its Board of Directors, shall ensure that its assets are accurately classified and categorized in accordance with the requirements of all applicable regulations, and that such classifications are accurately reflected in reports to its Board of Directors, the OTS and the public. WFSB shall improve its internal asset review system by undertaking an analysis of its current system. With respect to deficiencies noted, a plan to correct the deficiencies shall be prepared and implemented within 60 days. Among other things, the plan shall specify procedures to promote and enhance the independence of the credit review function and to adopt parameters that reflect more stringent and accurate determination of asset quality.

5. Problem Assets

WFSB, through its Board of Directors, shall take all reasonable steps to reduce, on an on-going basis, the level of its classified assets as a percentage of GAAP capital plus general valuation allowances, with an ultimate goal of reducing its level of classified assets to not more than 50 percent of GAAP capital plus general valuation allowances.

Within 60 days from the date of this Agreement, WFSB shall develop written plans for the collection of all of its current problem assets. Thereafter, within 30 days after any asset becomes a problem asset, WFSB shall adopt a written plan for each such problem asset, which shall then be immediately implemented. For the purposes of this requirement, a "problem asset" shall mean any asset (including unfunded commitments) involving a commitment or an amount in excess of \$1,000,000 that:

- i) has been adversely classified or criticized by the OTS as a result of its examination of WFSB conducted as of November 4, 1991 or is adversely classified or criticized by either the FDIC or the OTS as a result of any subsequent examination of WFSB;
- ii) 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 WFSB or by another party on behalf of WFSB;
- iii) is past due in excess of 90 days and/or has been placed in either a non-accrual or non-earning status by WFSB;
- iv) 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, and the time frame for the collection of any amounts determined to be due WFSB.

6. Automobile Lending

WFSB shall implement all improvements in the policy, practice, and review and control of auto lending deemed necessary upon completion of an analysis of its current auto lending and repossession operations. Said analysis shall be completed no later than 30 days after the date of this Agreement. With respect to necessary improvements, a plan to make the improvements shall be promptly prepared and implemented. Among other things, the plan shall provide for the following:

- i) modification of auto lending policies to establish acceptable loan-to-value requirements;
- ii) written or verbal verification of income by WFSB employees on all auto contracts, with exception authority to be granted by senior officers when exemplary credit and secondary sources of income are evident;

- iii) charge-off of deficiency balances upon calculating the appropriate fair value accounting treatment of a repossessed asset;
- iv) elimination of the practice of lending money to provide for the payment of car repairs without verification of completion of repairs;
- v) maintenance of an effective management information system to adequately manage the risk in the auto lending areas;
- vi) the implementation of an adequate electronic management information system to identify accurately the various types of modified auto loans to allow for an accurate reporting of delinquent loans shall be implemented within 120 days of the date of the Agreement. Within 30 days, WFSB will furnish OTS with a representation that an adequate interim system is in place; and,
- vii) WFSB shall limit to one office the expansion of auto lending into Oregon until the deficiencies in the policy, practice, and review and control of auto lending are corrected. This office shall limit the amount of auto loans outstanding to no more than \$12 million.

7. Strategic Planning

By October 1, 1992, WFSB, acting through its Board of Directors, shall formulate and maintain strategic plans, operating plans, and budgets that establish the Institution's long-term and short-term goals and objectives. In the interim, WFSB will adjust the operating plans and budget to ensure that a consolidated bank and subsidiary plan is in place.

8. Corrective Action

The Board of Directors shall ensure that all of the deficiencies cited in the OTS Report of Examination conducted as of November 4, 1991, which are not specifically cited herein are corrected.

9. Capital

In addition to the tangible and risk-based capital requirements required by the OTS, WFSB shall be required to maintain a core capital ratio of 4.5 percent at all times. Adherence to such core capital requirement at any given time shall be determined by calculating WFSB's core capital ratio after giving effect to all applicable phase-outs and exclusions from capital at such time.

10. Capital Distributions

WFSB agrees not to pay or otherwise make any capital distribution in cash or in kind to its shareholder unless it is authorized to make such capital distribution under 12 C.F.R. Section 563.134, after giving effect to the core capital requirement imposed by paragraph 9 of this Agreement. The foregoing restriction does not preclude WFSB from seeking authorization from the OTS to make any capital distribution where such authorization is specifically required and must first be obtained under 12 C.F.R. § 563.134.

11. Records, Systems, and Controls

WFSB will develop a plan to make any and all necessary improvements in its records, systems, and controls. To adequately prepare this plan, WFSB's outside independent auditor shall be directed to use its best efforts to conduct an independent audit within 60 days of the date of this Agreement, for the purpose of determining whether WFSB has adequate internal controls. Such audit shall include a review of WFSB's general ledger controls, procedures and practices, and transactions involving its subsidiaries and affiliates. Such audit will also evaluate the adequacy of WFSB's corporate accounting policies and procedures with respect to:

- i) general ledger and subsidiary ledger account reconciliation and reporting;
- ii) the intermingling of the books and records of the Institution, its service corporations, and affiliates;
- iii) the need to provide for daily reconciling of the intercompany balancing account;
- iv) the record-keeping and reporting of loans serviced for others, specifically Grantor Trust loans.

Using the information and recommendations contained in the outside analysis, WFSB shall develop a plan to make necessary improvements consistent with the auditor's recommendations. Said plan shall be completed and implementation commenced within 30 days of the date of completion of the outside analysis.

12. No Waiver by OTS

The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever against WFSB with respect to any matter that is not the subject of this Agreement

or with respect to any breach of this Agreement. The Institution acknowledges that it has not received any oral or written representations to the contrary from the OTS or any of its agents or employees. By executing this Agreement, neither WFSB nor any of its institution-affiliated parties admit to any matter or thing, and both WFSB and its institution-affiliated parties retain all rights to contest any other supervisory or other actions brought by the OTS or any other governmental agency.

13. Terms; Words and Phrases

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 pertinent regulations of the OTS in effect as of the date of this Agreement, or any successor thereto. Any such technical words or terms used in this Agreement and undefined in said regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

14. Authorization; Binding Written Agreement Under FDIA; Amendments

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement between WFSB and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the agency, as that term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. Section 1818). No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and WFSB.

15. Successors and Assigns

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.

16. Termination of Agreement

The OTS, acting through its Assistant Regional Director of the Western Region, shall have the power to terminate this Agreement at any time. The ARD shall grant written requests for termination of the Agreement, if, in his or her opinion, WFSB has satisfactorily complied with the terms of this Agreement for a period of time deemed appropriate by the ARD. The ARD shall only grant a modification of this Agreement if such modification is deemed necessary or desirable, in his or her sole discretion.

