

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

In the Matter of	)	Order No.: WN-09-021
	)	
	)	
<b>SECURITY SAVINGS BANK, FSB</b>	)	Effective Date: August 7, 2009
	)	
Olathe, Kansas	)	
OTS Docket No. 06084	)	

**ORDER TO CEASE AND DESIST**

**WHEREAS**, Security Savings Bank, FSB, Olathe, Kansas, OTS Docket No. 06084 (Association), by and through its Board of Directors (Board), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist (Stipulation); and

**WHEREAS**, the Association, by executing the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist (Order) by the Office of Thrift Supervision (OTS) pursuant to 12 U.S.C. § 1818(b); and

**WHEREAS**, pursuant to delegated authority, the OTS Regional Director for the Western Region (Regional Director) is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order.

**NOW, THEREFORE, IT IS ORDERED that:**

**Cease and Desist.**

1. The Association and its directors, officers, employees, and agents shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about,

participating in, counseling or the aiding and abetting the unsafe or unsound banking practices that resulted in the current high level of classified assets, poor earnings, inadequate capital, and the failure to implement policies and strategies to mitigate concentration risks in its loan and non-agency mortgage-backed securities portfolios. The Association and its directors, officers, employees, and agents also shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling, or the aiding and abetting violations of the following regulations:

- (a) 12 C.F.R. § 560.93(f) (failure to maintain adequate monitoring reports to ensure compliance with 12 C.F.R. Part 32 and 12 C.F.R. § 560.93);
- (b) 12 C.F.R. § 560.160 (failure to classify assets and establish allowances in accordance with generally accepted accounting principles and the guidelines of the Federal banking agencies);
- (c) 12 C.F.R. § 560.170(d) (failure to properly administer speculative construction loans);
- (d) 12 C.F.R. §§ 562.1 and 562.2 (failure to file accurate Thrift Financial Reports (TFRs));
- (e) 12 C.F.R. § 563.161(a) (failure to pursue financial policies that are consistent with the purpose of savings associations and to maintain sufficient liquidity); and
- (f) 12 C.F.R. § 563.170(c) (failure to maintain accurate and complete books and records).

**Capital.**

2. By September 30, 2009, the Association shall meet and thereafter maintain a Tier 1 (Core) Capital Ratio of at least eight percent (8%) and a Total Risk-Based Capital Ratio of at least twelve percent (12%).

3. By August 31, 2009, the Board shall submit a written plan for the Regional Director's review and written notice of non-objection (Capital Plan). The Capital Plan shall address the steps the Association will take to: (a) meet and maintain, by September 30, 2009, a Tier 1 (Core) Capital Ratio of at least eight percent (8%) and a Total Risk-Based Capital Ratio of at least twelve percent (12%); and (b) maintain sufficient capital for the Association's risk profile. The Capital Plan, at a minimum, shall also:

- (a) take into consideration the requirements and restrictions imposed by this Order;
- (b) detail capital preservation and enhancement strategies with specific narrative goals, which shall result in new equity and a capital infusion;
- (c) consider and address the amount of additional capital that would be necessary to meet the capital requirements of Paragraph 2 of this Order under at least three different forward-looking scenarios involving progressively stressed economic environments;
- (d) identify the specific sources of additional capital;
- (e) detail timeframes by which the additional capital will be raised and provide specific target month-end capital levels;
- (f) provide for alternative methods to strengthen capital, should the primary sources identified under Paragraph 3(d) of this Order not be available; and
- (g) set forth all assumptions underlying the Capital Plan and provide documentation for all such assumptions.

Within fifteen (15) days after receipt of changes or notice of non-objection from the Regional Director, the Board shall make any revisions to the Capital Plan required by the Regional Director and adopt the Capital Plan. From the date of the adoption of the Capital Plan, the Association shall implement and comply with the Capital Plan. Within five (5) days after the Board meeting at which the Capital Plan was adopted, the Association shall provide a copy of the adopted Capital Plan to the Regional Director and a copy of the Board minutes reflecting the Board's action.

4. Within fifteen (15) days after the date that the Association does not meet the capital requirements set forth in Paragraph 2 of this Order, the Board shall submit a Capital Contingency Plan to the Regional Director for review and written notice of non-objection. Within fifteen (15) days after the date from any request by the Regional Director, the Association also shall submit a Capital Contingency Plan for review and written notice of non-objection.

5. The Capital Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Capital Contingency Plan: (a) a merger with, or an acquisition by another federally insured depository institution or holding company thereof; or (b) a voluntary liquidation by filing the appropriate applications with the Regional Director in conformity with federal laws and regulations.

6. Within fifteen (15) days after receipt of changes or notice of non-objection from the Regional Director, the Board shall make any changes to the Capital Contingency Plan required by the Regional Director and adopt the Capital Contingency Plan. From the date of the Board's adoption, the Association shall immediately implement the Capital Contingency Plan. Within five (5) days of the Board meeting at which the Capital Contingency Plan was adopted, the

Board shall provide a copy of the adopted Capital Contingency Plan to the Regional Director, along with a copy of the Board minutes evidencing the Board's actions.

7. By the first (1<sup>st</sup>) and fifteenth (15<sup>th</sup>) day of each month at all times while the Capital Contingency Plan is in effect, the Association shall provide written status reports to the OTS detailing the Association's actions taken and progress in implementing the Capital Contingency Plan (Capital Status Reports). The Capital Status Reports shall detail: (a) contacts with investment bankers and parties doing due diligence, (b) offers relating to an acquisition or a merger of the Association, (c) the execution of a binding letter of intent or purchase agreement, (d) capital infusions from the Association's holding company, Brittany Savings Corporation, Olathe, Kansas (Holding Company), or (e) any other capital raising activities.

**Dividends.**

8. Effective immediately, the Association shall pay no dividends or make any other capital distribution, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association shall submit its written request for written approval to the Regional Director at least sixty (60) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

**Liquidity Management.**

9. Effective immediately, the Board shall require that Management<sup>1</sup> review the Association's liquidity position and prepare a liquidity report each business day (Daily Liquidity Report). The Daily Liquidity Report, at a minimum, shall set forth:

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<sup>1</sup> For purposes of this Order, Management is defined as one or more "Senior Executive Officer" and the term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

- (a) a maturity schedule of certificates of deposit, including large uninsured deposits and brokered deposits;
- (b) the volatility of demand deposits including escrow deposits;
- (c) the amount and type of loan commitments and standby letters of credit, if any;
- (d) the Association's current borrowing capacity with the Federal Home Loan Bank of Topeka (FHLB) and the Federal Reserve Bank of Kansas City (FRB), and the corresponding collateral requirements;
- (e) trends in deposit inflows and outflows at branches; and
- (f) projected cash inflows and outflows for the succeeding four-week period.

By close of business each business day, Management shall submit a copy of the Daily Liquidity Report to the Asset/Liability Committee (ALCO), with an electronic copy to the Regional Director.

10. Within one (1) business day of receipt, the Association shall provide the Regional Director with notice of any correspondence from the FHLB or the FRB regarding any change in its collateral requirements or borrowing capacity.

11. Effective immediately, the Board shall ensure that Management implement and adhere to the Liquidity Management and Contingency Plan, dated May 2009, and the Financial Risk Management Policy, dated May 2009. Within thirty (30) days after the receipt of changes or written notice of non-objection from the Regional Director, the Board shall revise the Liquidity Management and Contingency Plan and the Financial Risk Management Policy as required by the Regional Director and adopt the revised Liquidity Management and Contingency Plan and the revised Financial Risk Management Policy. From the date of the Board's adoption of the revised Liquidity Management and Contingency Plan and the revised Financial Risk

Management Policy, the Association shall implement and comply with the revised Liquidity Management and Contingency Plan and the Financial Risk Management Policy. Within five (5) days after the Board meeting at which the revised Liquidity Management and Contingency Plan and the Financial Risk Management Policy were adopted, the Association shall provide the Regional Director with a copy of the revised Liquidity Management and Contingency Plan and the revised Financial Risk Management Policy and the Board meeting minutes reflecting their adoption by the Board.

12. By the last day of each month, beginning with the month ending August 31, 2009, Management shall submit to the Board, with a copy to the Regional Director, a report (Liquidity Status Report) setting forth:

- (a) an analysis of the continuing availability and volatility of present funding sources;
- (b) an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans;
- (c) an analysis of the impact of decreased cash flow from the sale of loans, investment securities, or loan participations;
- (d) a summary of the daily liquidity reports;
- (e) documentation of the Association's compliance with its Liquidity Management and Contingency Plan and Financial Risk Management Policy; and
- (f) a recommendation whether the Board should amend the Association's Liquidity Management and Contingency Plan and the Financial Risk Management Policy to reflect changes in liquidity position or risk.

13. Effective immediately, at each monthly Board meeting, the Board shall review Management's Liquidity Status Report. The Board's review and any corrective actions required

by the Board shall be fully documented in the Board meeting minutes. Within five (5) days after the monthly Board meeting, the Board shall submit a copy of the Board meeting minutes reflecting its review of the Liquidity Status Report to the Regional Director.

**Brokered Deposits Restriction.**

14. Effective immediately, the Association shall not accept brokered deposits, except in compliance with 12 C.F.R. § 337.6(b), without obtaining the prior written approval of the Federal Deposit Insurance Corporation (FDIC). The Association shall comply with applicable interest rate restrictions contained in 12 C.F.R. § 337.6.

15. Within five (5) days, the Association shall provide the Regional Director with: (a) copy of any waiver request from the Association to the FDIC; and (b) a copy of the response received from the FDIC to any request for such a waiver by the Association.

**Enhancement of Directorate.**

16. Pursuant to 12 C.F.R. Part 563, Subpart H, the Association shall submit a notice to the Regional Director to add to its Board at least one (1) director who is an Independent Director by November 30, 2009 and at least one (1) additional director who is an Independent Director by February 28, 2010. Current Outside Directors<sup>2</sup> shall be responsible for identifying and nominating candidates for the two (2) Independent Director positions who have substantial banking, financial regulatory, financial management, or accounting background and experience. For purposes of this Paragraph, unless otherwise determined by the Regional Director in writing, the term “Independent” means a person who: (a) is not or has not been previously a director,

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<sup>2</sup> The term “Outside Director” means that the director: (a) is not and has not been an officer or employee of the Association or any Subsidiary or Affiliate of the Association; and (b) is not related, by blood or marriage, to any director, officer, or employee of the Association or any Subsidiary or Affiliate of the Association.

officer, or employee of the Association or its Subsidiary<sup>3</sup> or Affiliates<sup>4</sup>; (b) is not, and within the preceding three (3) years has not, served as a consultant, advisor, or legal counsel to the Association or its Subsidiary or Affiliates; (c) is not, either by blood or marriage, related to any existing or former director, officer, or employee of the Association; (d) does not have a business or professional relationship with any existing or former director or officer of the Association, or its Subsidiary or Affiliates, or their attorneys or consultants; (e) is not a Principal Shareholder,<sup>5</sup> or is not related, by blood or marriage, to the Principal Shareholder; (f) has not, within the preceding three (3) years, served as, a director, officer, employee, advisor, consultant, or legal counsel of any: (i) Principal Shareholder, or (ii) Related Interest<sup>6</sup> of any Principal Shareholder, director, or officer of the Association; (g) holds or controls, or has held or controlled, a direct or indirect financial interest in the Association or its Affiliates; (h) has outstanding extensions of credit from the Association or its Subsidiary or Affiliates; or (i) is not excluded from such status by the Regional Director for good cause, based on the Regional Director's review of a Notice of Change of Director filed pursuant to 12 C.F.R. Part 563, Subpart H. By March 31, 2010, the Association shall add at least one (1) Independent Director in accordance with this Paragraph. By April 30, 2010, the Association shall add at least one (1) additional Independent Director in accordance with this Paragraph. An Independent Director shall not be added to the Board without the written notice of non-objection of the Regional Director.

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<sup>3</sup> The term "Subsidiary" is defined at 12 C.F.R. § 559.2.

<sup>4</sup> The term "Affiliate" is defined at 12 C.F.R. § 223.2, as amended by 12 C.F.R. § 563.41.

<sup>5</sup> The term "Principal Shareholder" is defined at 12 C.F.R. § 215.2(m)(1).

<sup>6</sup> The term "Related Interest" is defined at 12 C.F.R. § 215.2(n).

**Management and Directorate Review.**

17. Within five (5) days, the Board shall identify and provide the Regional Director for review and written notice of non-objection, the name and resume of an experienced, independent third-party consultant to conduct, and complete an in-depth review of the management structure and functions and directorate oversight of the Association (Management Consultant). By August 31, 2009, the Board shall retain a Management Consultant who is acceptable to the Regional Director.

18. Within thirty (30) days of retention, the Management Consultant shall prepare a written report (Management Report) that:

- (a) reviews the qualifications, duties, and effectiveness of the Association's officers to support current and projected operations;
- (b) reviews the training, workload, and qualifications of Management personnel who are directly responsible and accountable for financial reporting integrity;
- (c) assesses the ability of the current staff to address timely the regulatory violations and deficiencies in the February 23, 2009 Report of Examination (ROE), internal audits, external audits, and independent tests, and the corrective actions required in this Order;
- (d) evaluates the effectiveness of the Association's current organizational structure;
- (e) evaluates the risk management practices for the Association's size and complexity;
- (f) evaluates the effectiveness of the Board's oversight over Management and operations in light of the findings of the February 23, 2009 ROE; and

(g) makes recommendations to the Board in view of its review findings, including, but not limited to, recommendations regarding: (i) the hiring of additional qualified staff to address regulatory violations and deficiencies and the corrective actions required by this Order; (ii) a plan for the retention of qualified Management and Board members with financial regulatory experience and a Board which is comprised of a majority of directors who are “Independent,” as defined in Paragraph 16 of this Order; (iii) the retention of qualified consultants to perform reviews and assist with the development of policies and procedures that comply with regulatory requirements, policy guidance, and this Order; and (iv) training for directors.

19. By October 31, 2009 and after consideration of the Management Report, the Board shall submit to the Regional Director for written notice of non-objection a written plan for enhancing the Association’s staff and directorate to address the weaknesses and regulatory violations identified in the February 23, 2009 ROE and to provide for the safe and sound operation of the Association (Enhancement of Directorate and Management Plan), along with a copy of the Management Report. Within thirty (30) days after receipt of changes or written notice of non-objection from the Regional Director, the Board shall revise the Enhancement of Directorate and Management Plan as required by the Regional Director and adopt the Enhancement of Directorate and Management Plan. From the date of the adoption of the Enhancement of Directorate and Management Plan, the Association shall implement and comply with the adopted Enhancement of Directorate and Management Plan. Within five (5) days after the Board meeting at which the Enhancement of Directorate and Management Plan was adopted, the Association shall provide the Regional Director with a copy of the adopted Enhancement of

Directorate and Management Plan and the Board meeting minutes reflecting its adoption by the Board.

**Operations Restrictions.**

20. Effective immediately, except with the prior written notice of non-objection of the Regional Director, the Association and its Subsidiary shall not:

- (a) engage in any new activities, lending, or services in which the Association or its Subsidiary was not actively engaged as of the Effective Date of this Order;
- (b) reinstate or commit to reinstate any previously discontinued activity, lending program or service as noted in the February 23, 2009 ROE;
- (c) establish any new delivery channel, or modify any existing delivery channel, for lending or any other product or service; or
- (d) purchase a non-agency mortgage-backed security.

**Growth.**

21. Effective immediately, the Association is subject to, and shall comply with the requirements and provisions of the OTS Regulatory Bulletin 3b. As of the quarter ending March 31, 2009, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the quarter without the prior written notice of non-objection of the Regional Director.

**Business Plan.**

22. By August 31, 2009, the Board shall submit a revised comprehensive strategic business plan for the third and fourth quarters of 2009 and the year 2010 (Business Plan) to the Regional Director for review and written notice of non-objection. The Business Plan, at a minimum, shall:

- (a) include a detailed and specific discussion of the Board's plans and strategies to improve its earnings and profitability and to meet and maintain the capital levels required by Paragraph 2 of this Order;
- (b) set forth an analysis of the projected earnings and profitability of all existing and proposed business lines and office locations;
- (c) provide for an alternative operating strategy of cost and revenue enhancement;  
and
- (d) incorporate the restrictions set forth in this Order.

23. The Business Plan also shall include a detailed description of all assumptions, which must be realistic and fully supported, used to prepare the pro forma statements, including, but not limited to the following:

- (a) comprehensive pro-forma earnings, capital (incorporation projections from the Capital Plan required by Paragraph 3 of this Order), and cash flow projections (incorporating projections from the Liquidity Management and Contingency Plan required by Paragraph 11 of this Order);
- (b) the assumed interest rate scenarios;
- (c) assumptions used for non-interest income and non-interest expenses;
- (d) assumptions for forecasting loan losses or charge-offs and the disposition of classified assets;
- (e) assumptions for the cost of maintenance of real estate owned (REO) and the sale of REO, taking into consideration national and regional economic conditions;
- (f) assumptions used for loan origination rates, taking into consideration current national and regional economic conditions;

- (g) assumptions used in the determination of fair value for purpose of determining other than temporary impairment (OTTI) of, or unrealized losses on, investment securities;
- (h) assumptions for allowance for loan and lease losses (ALLLs) and specific valuation allowances;
- (i) assumptions used to determine the appropriate portfolio mix, including the consideration of credit, liquidity, interest rate, operational, reputation, and compliance risks;
- (j) assumptions for funding any projected sale of assets; and
- (k) assumptions for the start-up costs, volumes, and expected returns on any new business lines, products, or services.

24. Within fifteen (15) days after receipt of changes or written notice of non-objection from the Regional Director, the Association shall make all revisions to the Business Plan as required by the Regional Director and adopt the Business Plan. From the date of the adoption of the Business Plan, the Association shall implement and comply with the Business Plan. Within five (5) days after the Board meeting at which the Business Plan was adopted, the Association shall provide to the Regional Director with a copy of the Business Plan and the Board meeting minutes reflecting its adoption by the Board.

25. By the last day of each month, beginning with the month ending August 31, 2009, the Board shall submit to the Regional Director a monthly variance report that:

- (a) compares actual earnings, capital, and other operating projections with budgeted projections in the Business Plan;

- (b) sets forth a detailed explanation of any material variances from the Business Plan;
- (c) sets forth any actions taken to enhance earnings or to initiate earnings strategies or plans during the preceding month; and
- (d) discusses any changes required in the Association's business strategy or earnings enhancement plans due to a change in market conditions or other factors.

26. For purposes of Paragraphs 24 and 25 of this Order, a deviation shall be considered material when the Association engages in any material or new activity, line of business, or operation that is inconsistent with the Business Plan. A deviation also shall be considered material when the Association: (a) exceeds the level of any activity or growth contemplated in the Business Plan by more than ten percent (10%); or (b) falls below or fails to meet the target amounts established in the Business Plan by more than ten percent (10%). Notwithstanding the foregoing, neither of the following deviations shall be deemed to be material: a change of \$2 million or less in any balance sheet category, or a change of ten percent (10%) or less in any income statement category. For purposes of this Paragraph, a "balance sheet" category is defined as cash and investments, mortgage-backed securities, 1-4 family permanent mortgage loans, commercial mortgage loans, commercial nonmortgage loans, consumer loans, REO, fixed assets, deposits, borrowings, other liabilities, and equity capital. For purposes of this Paragraph, an "income statement" category is defined as interest income, interest expense, provision for loan losses, noninterest income, noninterest expense, extraordinary items, and net income.

27. The Board's review of the Business Plan, pro forma financial statements, and related variance reports shall be fully documented in the Board minutes. Within five (5) days after the Board meeting at which each review occurred, the Board shall submit a copy of the Board meeting minutes reflecting each review to the Regional Director.

28. Within one (1) business day of a new material event affecting or that may affect the balance sheet or the cash flow of the Association, the Association shall notify, in writing, the Regional Director regarding such new material event.

**Investment Securities.**

29. Within thirty (30) days after receipt of changes or notice of non-objection from the Regional Director, the Board shall make all revisions, if any, to the Association's Other Than Temporary Impairment Policy (OTTI Policy), dated May 2009, as required by the Regional Director and adopt the revised OTTI Policy and the Association shall implement and comply with the revised OTTI Policy. Within five (5) days after the Board meeting at which the revised OTTI Policy was adopted, the Association shall provide the Regional Director with a copy of the revised OTTI Policy and the Board meeting minutes reflecting its adoption by the Board.

30. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2009, Management shall: (a) assign a fair value in accordance with Statement of Financial Accounting Standards No. 157 as amended to each investment security in the Association's portfolio; (b) determine and document the determination of whether there is OTTI under generally accepted accounting principles (GAAP) pursuant to all relevant accounting literature for each investment security having a fair value less than its carrying value; and (c) make the necessary and appropriate accounting entries to reflect the determination of OTTI. The Board shall make a determination as to whether the assistance of a qualified independent consultant is necessary for the completion of the review required by this Paragraph.

31. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2009, Management shall submit to the Board, with a copy to the Regional

Director, a written status report (Investment Status Report) that addresses: (a) the investment grade ratings of investment securities in the portfolio; (b) the amount of unrealized losses on the Association's investment securities, delineated by securities available-for-sale and securities-held-to-maturity; (c) a narrative discussion regarding whether any of unrealized losses are deemed to be OTTI, including, but not limited to, the inputs and assumptions used by Management in valuing investment securities and demonstrating the Association's intent and ability to hold the securities to forecasted recovery; (d) specific changes made by Management to the inputs and the assumptions used in determining fair value under GAAP and in accordance with recognition of OTTI; (e) Management's analyses of the appropriate accounting adjustments, if any, to the Association's financial statements pursuant to GAAP; and (f) compliance with the Association's OTTI Policy.

32. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2009, the Board shall review the Investment Status Report and the adequacy of Management's written source documentation supporting the determinations regarding OTTI, including the reasonableness and adequacy of the assumptions, inputs, and data. The Board's review shall be fully documented in the minutes of the Board meeting. Within five (5) days after the Board meeting at which each review was conducted, the Board shall submit a copy of the Board meeting minutes to the Regional Director.

**Asset Classification.**

33. By August 31, 2009, the Board shall submit a revised Asset Classification Policy to the Regional Director for review and written notice of non-objection. The Asset Classification Policy shall provide for the evaluation and classification of the Association's assets that:

- (a) is consistent with 12 C.F.R. § 560.160; OTS Examination Handbook § 260 (Classification of Assets) and § 261 (Adequacy of Valuation Allowances); Section II.G of Appendix A to 12 C.F.R. Part 570; OTS CEO Letter No. 250, entitled “Interagency Policy Statement on the Allowance for Loan and Lease Losses and Questions and Answers on Accounting for Loan and Lease Losses”, dated December 13, 2006 (2006 ALLL Policy Statement); OTS CEO Letter No. 304 entitled “ALLL - Observed Thrift Practices Including Sound Practices;” and Statement of Financial Accounting Standards No. 5 and No. 114;
- (b) requires the classification of all Association’s assets, including, but not limited to, non-agency mortgage-backed securities;
- (c) sets forth the methodology for determining general ALLL percentages in accordance with the requirements and guidance set forth in Subparagraph 33(a) of this Order;
- (d) requires a determination of the ALLL based on each loan reviewed supplemented by a migration analysis and the specific loss history factors;
- (e) requires periodic review of REO by the Association’s management to determine accurate loss exposure;
- (f) requires a periodic review by Management regarding the timing of charge-offs, and the adequacy of ALLL and specific valuation allowances;
- (g) requires the accurate reporting of classified assets on the Association’s TFR and in the Association’s books and records; and

(h) requires at least a quarterly review by the Board of the adequacy of ALLL for each portfolio category in accordance with the applicable requirements and guidance set forth in Subparagraph 33(a) of this Order and the Association's ALLL methodology.

34. Within thirty (30) days after receipt of changes or notice of non-objection from the Regional Director, the Board shall revise the Asset Classification Policy as required by the Regional Director and adopt the Asset Classification Policy. From the date of adoption of the Asset Classification Policy, the Association shall implement and comply with the Asset Classification Policy. Within five (5) days after the Board meeting at which the Asset Classification Policy was adopted, the Association shall provide the Regional Director with a copy of the adopted Asset Classification Policy and the Board meeting minutes reflecting its adoption by the Board.

35. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2009, the Board shall submit to the Regional Director a report (ALLL and SVA Report) setting forth Management's analyses regarding the Association's specific valuation allowances (SVA) and the appropriate level of ALLL in accordance with the requirements and guidance set forth in Subparagraph 33(a) of this Order. The ALLL and SVA Report shall include, but not be limited to: (a) a detailed description of the supporting documentation for any percentage allocations; and (b) an analysis of the applicable factors set forth in the 2006 ALLL Policy Statement.

**Reduction of Classified Assets.**

36. By August 31, 2009, the Board shall submit to the Regional Director for review and written notice of non-objection a comprehensive Classified Asset Reduction Plan that will return

asset quality to a level and within a time frame deemed acceptable to the Regional Director. The Classified Asset Reduction Plan, at a minimum, shall include:

- (a) targets for the level of classified assets as a percentage of Tier 1 (Core) Capital and ALLL and the timeframe for each such target;
- (b) a description of the manner of, and methods for, reducing the Association's level of classified assets to the targets set forth therein; and
- (c) all relevant assumptions and projections, and documentation supporting such assumptions and projections.

37. Within thirty (30) days after receipt of changes or notice of non-objection from Regional Director, the Board shall revise the Classified Asset Reduction Plan as required by the Regional Director and adopt the Classified Asset Reduction Plan. From the date of adoption of the Classified Asset Reduction Plan, the Association shall implement and comply with the Classified Asset Reduction Plan. Within five (5) days after the Board meeting at which the Classified Asset Reduction Plan was adopted, the Association shall provide the Regional Director with a copy of the adopted Classified Asset Reduction Plan and the Board meeting minutes reflecting its adoption by the Board.

38. Within thirty (30) days after the end of each month, beginning with the month ending August 31, 2009, the Board shall provide to the Regional Director a written report (Classified Assets Reduction Report) that: (a) sets forth the Association's efforts to reduce the Association's level of classified assets during that month in accordance with the targets set forth in the Classified Asset Reduction Plan; (b) reports and explains in detail the variances of actual operating results from the targets set forth in the Classified Asset Reduction Plan for the reduction of classified assets; and (c) provides a specific description of the corrective actions

and/or measures that have been implemented, proposed, or are under consideration to correct any deviation.

**Commercial Real Estate Concentration Risk.**

39. By August 31, 2009, the Board shall submit to the Regional Director for review and written notice of non-objection a Commercial Real Estate Concentration Plan (CRE Concentration Plan) that addresses: (a) the reduction of the Association's existing commercial real estate loans to a level and within a timeframe satisfactory to the Regional Director; and (b) the assessment, monitoring, and control of the risks associated with the Association's commercial real estate portfolio in accordance with the guidelines in OTS CEO Letter No. 252, entitled "Guidance on CRE Concentration Risks," and OTS CEO Letter No. 245, entitled "Updated Director's Responsibility Guide and Guide to Management Reports." The CRE Concentration Plan, at a minimum, shall address the following:

- (a) specific targets for the reductions of commercial real estate loans as a percentage of Tier 1 (Core) Capital and ALLL and the time frames for each such target;
- (b) a description of the manner of, and methods for, reducing the Association's level of commercial real estate loans to the targets in the CRE Concentration Plan;
- (c) all relevant assumptions and projections and documentation supporting such assumptions and projections;
- (d) identification and quantification of the nature and level of risk presented by the concentrations in the Association's commercial real estate portfolio;
- (e) establishment of a portfolio management process to evaluate the overall exposure to economic risk factors and to develop strategic plans to mitigate concentration risk in the event of adverse market conditions;

- (f) development of a management information system that stratifies the Association's commercial real estate portfolio by key factors used in delineating risks;
- (g) requirement of stress tests or sensitivity analyses of the Association's commercial real estate portfolio and portfolio segments with common risk characteristics, at specific time periods, to quantify the impact of changing economic scenarios on asset quality, earnings, and capital conditions, including, but not limited to, those affecting certain relevant industries or sectors on asset quality, earnings, and capital;
- (h) delineation of an acceptable level of concentration risk in the Association's commercial real estate portfolio, including limits on certain types of borrowers or property types, to reflect the level of risk acceptable to the Board based on the Association's market position, historical experience, trade area, probable future loan and funding trends, staff capabilities, and technological resources;
- (i) establishment of internal controls to monitor compliance with the concentration limits and the Association's loan policies; and
- (j) periodic review and approval of exposure limits on the types of loans in the Association's commercial real estate portfolio.

40. Within thirty (30) days after receipt of changes or notice of non-objection from the Regional Director, the Board shall revise the CRE Concentration Plan as required by the Regional Director and adopt the CRE Concentration Plan. From the date of adoption of the CRE Concentration Plan, the Association shall implement and comply with the CRE Concentration Plan. Within five (5) days after the Board meeting at which the CRE Concentration Plan was adopted, the Association shall provide the Regional Director with a copy of the adopted CRE Concentration Plan and the Board meeting minutes reflecting its adoption by the Board.

41. By August 31, 2009, the Association shall obtain the results of its first scheduled stress testing of the Association's commercial real estate portfolio conducted by a qualified independent outside consultant or a qualified independent employee pursuant to the CRE Concentration Plan and submit a report setting forth the findings to the Regional Director. Within thirty (30) days after the completion of each stress testing conducted pursuant to the requirements of the CRE Concentration Plan, the Board shall review the findings of the stress testing and determine whether the Association's exposure limits, concentration risks, limits on certain types of borrowers or property types, loan policies, or credit review function should be revised. The Board's review shall be fully documented in the Board minutes. Within five (5) days after the Board meeting at which each stress test is reviewed, the Board shall submit a copy of the Board meeting minutes reflecting its review and any corrective actions directed to the Regional Director.

42. Within thirty (30) days after the end of each month, beginning with the month ending August 31, 2009, the Board shall provide to the Regional Director a written report (CRE Concentration Reduction Report) that: (a) sets forth the Association's efforts to reduce the Association's concentration in commercial real estate during that month in accordance with the targets in the CRE Concentration Plan; (b) reports and explains in detail the variances of actual operating results from the targets set forth in the CRE Concentration Plan for the reduction of commercial real estate loans; and (c) provides a specific description of the corrective action or measures that have been implemented, proposed, or are under consideration to correct or address any deviation.

**Loans-to-One-Borrower Compliance.**

43. By September 30, 2009, the Board shall submit a revised policy and procedures addressing compliance with the requirements of 12 C.F.R. Part 32 and 12 C.F.R. §§ 560.93 and 563.170(c) (LTOB Policy and Procedures). The revised LTOB Policy and Procedures shall require: (a) the maintenance of an accurate spreadsheet with sufficient information to identify all of related persons, entities and interests to a borrower or applicant who would be deemed to be a “borrower” within the meaning of 12 C.F.R. § 560.93 and 12 C.F.R. Part 32; (b) quarterly monitoring, updating, and documentation of the correct lending limit for purposes of 12 C.F.R. § 560.93 and 12 C.F.R. Part 32 by Management; (c) quarterly reports to the Board documenting whether the loan transactions with the Association’s “large borrowers with loans that meet the threshold,” as that term is defined in the Association’s LTOB Policy and Procedures and 12 C.F.R. § 560.93(f), and comply with 12 C.F.R. §§ 560.93 and 563.170(c) and 12 C.F.R. Part 32; and (d) a detailed report to the Board regarding whether the loan transactions with the Association’s two borrowers with the two largest loans in the aggregate as noted in the February 23, 2009 ROE, involving guarantees, comply with the loans-to-one-borrower limitations set forth in 12 C.F.R. § 560.93 and 12 C.F.R. Part 32 and the documentation requirements of 12 C.F.R. §§ 560.93(f) and 563.170(c) (Two Largest Borrowers Report). The Two Largest Borrowers Report also shall include a legal opinion from an independent qualified counsel addressing whether, based on the documentation available at the making of the loan, or any modification or extension thereof, the loan transactions comply with 12 C.F.R § 560.93 and 12 C.F.R. Part 32.

44. By September 30, 2009 and the last day of each quarter, Management shall submit the Quarterly Two Largest Borrowers Report to the Board. The Board’s review of the revised LTOB Policy and Procedures, periodic reports required by Paragraph 43 of the Order, the Two

Largest Borrowers Report, and the specific corrective actions directed to address any violations of 12 C.F.R. § 560.93 and 12 C.F.R. Part 32 shall be fully documented in the Board minutes.

Within five (5) days after any Board meeting at which such review is conducted, the Board shall submit a copy of the Board meeting minutes reflecting its review and the Quarterly Two Largest Borrowers Report to the Regional Director.

**Severance Payments.**

45. Effective immediately, the Association shall not make any golden parachute payment<sup>12</sup> unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

**Indemnification.**

46. Effective immediately, the Association shall not order a prohibited indemnification payment unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and 12 C.F.R. § 545.121.

**Directorate and Management Changes.**

47. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

**Employment Contracts and Arrangements.**

48. Effective immediately, the Association shall not enter into, renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The written notice to the Regional

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<sup>12</sup> The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

49. Effective immediately, the Association shall not, directly or indirectly, increase any salaries, bonuses, or directors' fees, or make any other similar payments to the Association's directors or Senior Executive Officers without the prior notice of written non-objection of the Regional Director.

**Third Party Contracts.**

50. Effective immediately, the Association shall not enter into any new arrangement or contract with a third party service provider that is significant<sup>13</sup> to the overall operation or financial condition of the Association, or outside the Association's normal course of business, unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a and OTS Examination Handbook § 310; and (c) received a written notice of non-objection from the Regional Director.

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<sup>13</sup> A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital.

**Transactions with Affiliates and Controlling Parties.**

51. Effective immediately, pursuant to 12 C.F.R. § 563.41(c)(4), the Association shall not engage in any transaction with any affiliate (other than exempt transactions under 12 C.F.R. Part 223) without the prior written non-objection of the Regional Director, except for transactions or agreements that are in existence as of the Effective Date of this Order and that are in compliance with 12 C.F.R. § 563.41 and 12 C.F.R. Part 223. The written request to the Regional Director, at a minimum, shall include: (a) a description of the proposed transaction; (b) copies of all pertinent transaction documents; and (c) a legal opinion, signed by independent counsel experienced in the application of transactions with affiliates rules, forming a conclusion about whether the proposed transaction comports with 12 U.S.C. §§ 371c and 371c-1, 12 C.F.R. Part 223, and 12 C.F.R. §§ 563.41, 563.170(c), 563.200, and 563.201.

52. Effective immediately, without the explicit prior approval of all disinterested Outside Directors as determined under 12 C.F.R. § 563.200, and a written notice of non-objection of the Regional Director, the Association cannot make, purchase, sell, refinance, extend, or modify any loan to, or take a deed in lieu of foreclosure from, or make any investment in, a company that is controlled by an applicant listed in a notice or an application submitted to the Regional Director pursuant to 12 C.F.R. Part 574. Prior to approval of any such loans or transactions, the disinterested Outside Directors, with the advice of qualified independent counsel, must determine that: (a) the transaction complies with all applicable policies and regulatory requirements including, but not limited to, 12 C.F.R. Parts 215 and 223, 12 C.F.R. §§ 563.41, 563.200, and 563.201; and (b) the transaction is in the best interest of the Association.

**Violations of Law.**

53. By September 30, 2009, unless otherwise provided by this Order, the Board shall provide the Regional Director with a written certification (Certification), adopted by the entire Board, that each violation in the February 23, 2009 ROE has been corrected. The Certification shall identify and discuss: (a) the manner in which each violation was corrected; and (b) the implementation of procedures required by or other corrective actions directed by the Board to prevent future violations.

54. Within thirty (30) days of receipt of any internal audit report, independent external audit report, or other report prepared by Association employees, agents or independent contractors that cites violations of law, rule, or regulation, the Board shall ensure that each violation of law, rule or regulation is corrected and require that Management develop procedures to address the violations. Thereafter, the Association shall adhere to the specific procedures to prevent future violations.

**Compliance with this Order.**

55. Within thirty (30) days after the end of each month, beginning with month ending August 31, 2009, the Board shall adopt and submit to the Regional Director a board resolution (Compliance Resolution), formally resolving that, to the best of its knowledge and belief, during the immediately preceding month, the Association complied with each provision of this Order currently in effect. The Compliance Resolution shall specify in detail any instance of non-compliance and identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption. Within five (5) days after the meeting of the Board at which each Compliance Resolution was adopted, the Association shall provide a copy of each Compliance Resolution to the Regional Director.

56. The minutes of the meetings of the Board shall set forth the following information with respect to the adoption of the Compliance Resolution: (a) the identity of each director voting in favor of its adoption; and (b) the identity of each director voting in opposition to its adoption or abstaining from voting, setting forth each such director's reasoning for opposing or abstaining. The Board, by virtue of the submission of a copy of such Compliance Resolution, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as noted therein.

57. Within sixty (60) days prior to the proposed date to implement an amendment or revision to any policy or plan required by this Order, the Board shall submit the amended or revised policy or plan, along with a summary of the proposed amendment or revision and the reasons for the proposed amendment or revision, to the Regional Director for review and written notice of non-objection. The Association shall not implement the amended or revised policy or plan until receipt of the Regional Director's written notice of non-objection. The Association shall comply with the amended or revised policy or plan in accordance with the written notice of non-objection, including any revisions required by the Regional Director.

**Effective Date, Incorporation of Stipulation.**

58. This Order is effective on the Effective Date as shown on the first page. The Stipulation is made a part hereof and is incorporated herein by this reference.

**Duration.**

59. This Order shall remain in effect until terminated, modified, or suspended by written notice of such action by the OTS, acting by and through its authorized representatives.

**Time Calculations.**

60. Calculation of time limitations for compliance with the terms of this Order run from the

Effective Date and shall be based on calendar days, unless otherwise noted.

61. The Regional Director, or an OTS authorized representative, may extend any of the deadlines set forth in the provisions of this Order upon written request by the Association that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

**Submissions and Notices.**

62. All submissions, including any reports, to the OTS that are required by or contemplated by this Order shall be submitted within the specified timeframes.

63. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Order shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission, or hand delivery by messenger) addressed as follows:

(a) To the OTS:

**C.K. Lee  
Attn: Dennis Havener, Assistant Director  
Office of Thrift Supervision  
225 E. John Carpenter Freeway, Suite 500  
Irving, Texas 75062-2326  
Fax No. (972) 277-9501**

With a copy to:

**Don Kramer  
Field Manager  
Office of Thrift Supervision  
P.O. Box 24401  
Overland Park, Kansas 66283-4401**

(b) To the Association:

**Attn: Michael Copeland, Chief Executive Officer  
Security Savings Bank, FSB  
11599 Ridgeview  
Olathe, Kansas 66061  
Fax No.: (913) 894-9227**

**No Violations Authorized.**

64. Nothing in this Order or the Stipulation shall be construed as allowing the Association, its Board, officers, or employees to violate any law, rule, or regulation.

**IT IS SO ORDERED.**

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/\_\_\_\_\_  
C.K. Lee  
Regional Director, Western Region

Date: See Effective Date on page 1

**UNITED STATES OF AMERICA**  
**Before the**  
**OFFICE OF THRIFT SUPERVISION**

_____ )	
In the Matter of )	Order No.: WN-09-021
)	
)	
<b>SECURITY SAVINGS BANK, FSB</b> )	Effective Date: August 7, 2009
)	
Olathe, Kansas )	
OTS Docket No. 06084 )	
_____ )	

**STIPULATION AND CONSENT TO ISSUANCE OF ORDER TO CEASE AND DESIST**

**WHEREAS**, the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Western Region (Regional Director), and based upon information derived from the exercise of its regulatory and supervisory responsibilities, has informed Security Savings Bank, FSB, Olathe, Kansas, OTS Docket No. 06084 (Association), that the OTS is of the opinion that grounds exist to initiate an administrative proceeding against the Association pursuant to 12 U.S.C. § 1818(b);

**WHEREAS**, the Regional Director, pursuant to delegated authority, is authorized to issue Orders to Cease and Desist where a savings association has consented to the issuance of an order; and

**WHEREAS**, the Association desires to cooperate with the OTS to avoid the time and expense of such administrative cease and desist proceeding by entering into this Stipulation and Consent to the Issuance of Order to Cease and Desist (Stipulation) and, without admitting or denying that such grounds exist, but only admitting the statements and conclusions in Paragraphs

1 and 2 below concerning Jurisdiction, hereby stipulates and agrees to the following terms:

**Jurisdiction.**

1. The Association is a “savings association” within the meaning of 12 U.S.C. § 1813(b) and 12 U.S.C. § 1462(4). Accordingly, the Association is “an insured depository institution” as that term is defined in 12 U.S.C. § 1813(c).

2. Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the “appropriate Federal banking agency” with jurisdiction to maintain an administrative enforcement proceeding against a savings association. Therefore, the Association is subject to the authority of the OTS to initiate and maintain an administrative cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b).

**OTS Findings of Fact.**

3. Based on its February 23, 2009 examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound banking practices that resulted in the current high level of classified assets, poor earnings, inadequate capital, and the failure to implement policies and strategies to mitigate concentration risks in its loan and non-agency mortgage-backed securities portfolios. The OTS also finds that the Association has violated various laws and regulations, including:

(a) 12 C.F.R. § 560.93(f) (failure to maintain adequate monitoring reports to ensure compliance with 12 C.F.R. Part 32 and 12 C.F.R. § 560.93);

(b) 12 C.F.R. § 560.160 (failure to classify assets and establish allowances in accordance with generally accepted accounting principles and the guidelines of the Federal banking agencies);

- (c) 12 C.F.R. § 560.170(d) (failure to properly administer speculative construction loans);
- (d) 12 C.F.R. §§ 562.1 and 562.2 (failure to file accurate Thrift Financial Reports);
- (e) 12 C.F.R. § 563.161(a) (failure to pursue financial policies that are consistent with the purpose of savings associations and to maintain sufficient liquidity); and
- (f) 12 C.F.R. § 563.170(c) (failure to maintain accurate and complete books and records).

**Consent.**

4. The Association consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Association further agrees to comply with the terms of the Order upon the Effective Date of the Order and stipulates that the Order complies with all requirements of law.

**Finality.**

5. The Order is issued by the OTS under 12 U.S.C. § 1818(b). Upon the Effective Date, the Order shall be a final order, effective, and fully enforceable by the OTS under the provisions of 12 U.S.C. § 1818(i).

**Waivers.**

6. The Association waives the following:
- (a) the right to be served with a written notice of the OTS's charges against it as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;
  - (b) the right to an administrative hearing of the OTS's charges as provided by 12 U.S.C. § 1818(b) and 12 C.F.R. Part 509;

(c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and

(d) any and all claims against the OTS, including its employees and agents, and any other governmental entity for the award of fees, costs, or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, federal statutes, or otherwise.

**OTS Authority Not Affected.**

7. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

**Other Governmental Actions Not Affected.**

8. The Association acknowledges and agrees that its consent to the issuance of the Order is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 7 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

**Miscellaneous.**

9. The laws of the United States of America shall govern the construction and validity of this Stipulation and of the Order.

10. If any provision of this Stipulation and/or the Order is ruled to be invalid, illegal, or

unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.

11. All references to the OTS in this Stipulation and the Order shall also mean any of the OTS's predecessors, successors, and assigns.

12. The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the interpretation of this Stipulation or the Order.

13. The terms of this Stipulation and of the Order represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

14. The Stipulation and Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Regional Director or other authorized representative.

**Signature of Directors/Board Resolution.**

15. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance of the Order and the execution of the Stipulation. This Stipulation may be executed in counterparts by the directors after approval of execution of the Stipulation at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Stipulation shall be delivered to the OTS, along with the executed original(s) of this Stipulation.

**[Remainder of Page Intentionally Left Blank]**

