

UNITED STATES OF AMERICA
Before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)	Order No.: WN-09-029
)	
CFS FINANCIAL CORPORATION)	Effective Date: October 7, 2009
El Paso, Texas)	
OTS Docket No. H3451)	

ORDER TO CEASE AND DESIST

WHEREAS, CFS Financial Corporation, El Paso, Texas, OTS Docket No. H3451 (Holding Company), 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 Holding Company, 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 and loan holding company has consented to the issuance of an order.

NOW, THEREFORE, IT IS ORDERED that:

Cease and Desist.

1. The Holding Company 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 of unsafe or unsound practices that resulted in:

- (a) the failure to identify, measure, monitor, and control specific risks to the Holding Company's operations;
- (b) the operation of the Holding Company and its subsidiary insured depository institution (Association) with inadequate earnings to fund growth, to support dividends, and to augment capital; and
- (c) the operation of the Association with a significant level of classified assets and with an inadequate level of capital protection for the kind and quality of assets held by the Association.

Strategic Business Plan.

2. By December 31, 2009, the Holding Company shall prepare and submit to the Regional Director for review and written notice of non-objection a written strategic business plan that covers the calendar year 2010 (Strategic Business Plan). The Strategic Business Plan, at a minimum, shall set forth the Board's detailed short-term and long-term strategies that address:

- (a) the steps the Holding Company will take to ensure the Association meets and maintains the required capital levels as set forth in any regulation or enforcement action that is applicable to the Association and the specific timetable for the accomplishment of any proposed capital infusions to the Association or capital raising activities for the benefit of the Association;
- (b) the improvement of capital levels, earnings, and profitability of the Holding Company on a consolidated and unconsolidated basis;

(c) a liquidity contingency plan that: (i) sets forth projected short-term and long-term sources of liquidity and cash flow, both into and out of the Holding Company; and (ii) addresses the payment of the Holding Company's operating expenses and the payment of capital distributions under at least three (3) different scenarios involving progressively stressed economic environments;

(d) the reimbursement of the Association for expenses paid and services provided by the Association pursuant to a written agreement between the Holding Company and the Association; and

(e) the payment of capital distributions without the reliance of capital distributions or any other payments from the Association.

3. The Strategic Business Plan also shall include, but not be limited to: (a) comprehensive pro-forma balance sheet and income statement projections for each quarter covered by the Strategic Business Plan; (b) a description of all relevant assumptions and projections; and (c) documentation supporting such assumptions and projections.

4. Within thirty (30) days after receipt of the Regional Director's written comments or written notice of non-objection, the Board shall make any revisions required by the Regional Director and adopt the Strategic Business Plan. Thereafter, the Holding Company shall implement and comply with the Strategic Business Plan. Within five (5) days after the Board meeting at which the Strategic Business Plan is adopted, the Holding Company shall provide the Regional Director with a copy of the Strategic Business Plan and the Board meeting minutes reflecting its adoption.

5. Within thirty (30) days after the end of the quarter, beginning with the quarter ending December 31, 2009, the Board shall review quarterly variance reports (Quarterly Variance

Analysis Report) prepared by Senior Executive Officers¹ (Management) regarding the Holding Company's compliance with the Strategic Business Plan. The Quarterly Variance Analysis Report shall include: (a) a detailed explanation of any material deviation; (b) a discussion of corrective actions taken to address the material deviation; and (c) a discussion of the adequacy of the Strategic Business Plan, given the then current financial condition and obligations of the Holding Company. The Board's review of the Strategic Business Plan and the Quarterly Variance Analysis Reports shall be fully documented in the minutes of the Board meeting. For purposes of this Paragraph of the Order, a deviation shall be considered material when the Holding Company: (i) engages or plans to engage in any material activity, line of business, or operation that is inconsistent with the Strategic Business Plan; (ii) exceeds the level of any activity or growth contemplated in the Strategic Business Plan by more than ten percent (10%); or (iii) falls below or fails to meet the target amounts established in the Strategic Business Plan by more than ten percent (10%), or by six million dollars (\$6 million), whichever is less.

6. Within five (5) business days after such material deviation that affects or would affect the balance sheet or the cash flow of the Holding Company, the Holding Company shall submit a written notification to the Regional Director advising of such event.

7. Within sixty (60) days prior to the proposed date to implement an amendment or revision to the Strategic Business Plan, the Board shall submit the amended or revised Strategic Business 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 Holding Company shall not implement the amended or revised Strategic Business Plan until receipt of the Regional Director's written notice of non-objection. Following

¹ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

the receipt of the Regional Director's written notice of non-objection, the Holding Company shall incorporate any comments by the Regional Director into the amended or revised Strategic Business Plan prior to adoption of the amendment or revision. The Holding Company shall comply with the amended or revised Strategic Business Plan in accordance with the terms of the written notice of non-objection, including any revisions required by the Regional Director.

Capital Distributions and Stock Repurchases.

8. Effective immediately, the Holding Company shall not declare, make, or pay any dividends or other capital distributions without the prior written notice of non-objection of the Regional Director.
9. Effective immediately, the Holding Company or any nonbank subsidiary shall not, directly or indirectly, accept or request that the Association or any subsidiary thereof make or pay any capital distributions, as that term is defined in 12 C.F.R. § 563.141, or commit to make or pay dividends or any other capital distributions, without the prior written notice of non-objection of the Regional Director.
10. Effective immediately, the Holding Company shall not, directly or indirectly, purchase, repurchase, or redeem any shares of its stock without the prior written notice of non-objection of the Regional Director.
11. Effective immediately, the Holding Company shall not issue a new class of stock or change the terms of any existing classes of stock, or convert any class of stock into another class of stock without the prior written notice of non-objection of the Regional Director.
12. Within sixty (60) days prior to the anticipated date of any proposed dividend payment, capital distribution, or stock transaction, the Holding Company shall submit its written request for the Regional Director's written notice of non-objection to engage in the transaction set forth

in Paragraphs 8, 9, 10, or 11 of this Order. The written request for such non-objection shall: (a) contain current and pro forma projections regarding the Holding Company's capital, earnings, and cash flow and the Association's capital, asset quality, earnings, and allowance for loan and lease losses; (b) identify the source of funds for the proposed payment or distribution; and (c) set forth documentation that the Association is in compliance with all capital measures required by applicable regulations and any enforcement action.

Debt Restrictions.

13. Effective immediately, the Holding Company and any nonbank subsidiary shall not, directly or indirectly incur, renew, roll over, or issue any debt or debt securities, increase any current lines of credit, guarantee the debt of any entity, or otherwise incur any additional debt (other than for accrued and unpaid interest, late fees, or similar charges), or enter into a commitment for debt without the prior written notice of non-objection of the Regional Director. For purposes of this Paragraph of this Order, the term "debt" includes, but is not limited to, loans, bonds, cumulative preferred stock, guarantees of debt, and hybrid capital instruments, such as subordinated debt or trust preferred securities. For purposes of this Paragraph of this Order, the term "debt" does not include liabilities incurred in the ordinary course of business to acquire goods and services and that are normally recorded as accounts payable under generally accepted accounting principles. All written requests for such non-objection to the Regional Director to engage in such debt transactions, at a minimum, shall: (a) describe the purpose of the proposed debt; (b) set forth and analyze the terms of the proposed debt and covenants; (c) analyze the Holding Company's current cash flow resources available to satisfy such debt repayment; and (d) set forth the anticipated source(s) of repayment of the proposed debt. The Holding Company shall submit its written request for such non-objection to the Regional

Director at least thirty (30) days prior to incurring, renewing, rolling over, or issuing any debt; increasing any current lines of credit; guaranteeing the debt of any entity; or incurring any additional debt.

Employment Contracts and Compensation Arrangements.

14. Effective immediately, the Holding Company shall not enter into, renew, extend, or revise any contractual arrangement related to compensation or benefits with any director or Management of the Holding Company, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional 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 director or Management, including, but not limited to 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.

Severance and Indemnification Payments.

15. Effective immediately, the Holding Company shall not make any golden parachute payment² or any prohibited indemnification payment³ unless, with respect to each such payment, the Holding Company has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

16. Effective immediately, the Holding Company shall comply with the prior notification requirements for changes in directors and Management set forth in 12 C.F.R. Part 563, Subpart H.

² The term “golden parachute payment” is defined at 12 C.F.R. § 359.1(f).

³ The term “prohibited indemnification payment” is defined at 12 C.F.R. § 359.1(l).

Compliance with Order.

17. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2009, the Board shall adopt a board resolution (Compliance Resolution): (a) formally resolving that the Board conducted a diligent inquiry of relevant information, including reports from Management, regarding compliance with the Order during the immediately preceding quarter; (b) detailing the compliance with the provisions of this Order; (c) identifying each instance of noncompliance; and (d) setting forth, in detail, additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance. Within five (5) days of the meeting of the Board at which each Compliance Resolution is adopted, the Holding Company shall provide the Regional Director with a copy of each Compliance Resolution and any compliance reports from Management that were reviewed during the Board meeting.

Effective Date, Incorporation of Stipulation.

18. 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.

19. 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.

20. 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.

21. 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 Holding Company

that includes reasons in support for any such extension. Any OTS extension shall be made in writing.

Submissions and Notices.

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

23. 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, Regional Director
Attn: Vivian Carlton, Assistant Director
225 E. John Carpenter Freeway, Suite 500
Irving, Texas 75062-2326
Facsimile No. (972) 277-9501*

(b) With a copy to:

*Douglas B. Foster
Commissioner
Texas Department of Savings and Mortgage Lending
2601 North Lamar, Suite 201
Austin, Texas 78705
Facsimile No. (512) 475-1505*

(c) To the Holding Company:

*Board of Directors
CFS Financial Corporation
P.O. Box 981276
El Paso, Texas 79998*

No Violations Authorized.

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

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: 15/
C.K. Lee
Regional Director, Western Region

Date: See Effective Date on page 1

Jurisdiction.

1. The Holding Company is a “savings and loan holding company” within the meaning of 12 U.S.C. § 1813(w)(3) and 12 U.S.C. § 1467a. Accordingly, the Holding Company is a “depository institution holding company” as that term is defined in 12 U.S.C. § 1813(w)(1).
2. Pursuant to 12 U.S.C. § 1818(b)(9), the “appropriate Federal banking agency” may initiate cease and desist proceedings against a savings and loan holding company in the same manner and to the same extent as a savings association for regulatory violations and unsafe or unsound acts or practices.
3. 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 and loan holding company. Therefore, the Holding Company 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.

4. Based on its May 11, 2009 examination of the Holding Company and its subsidiary, CFS Corporation of Delaware, El Paso, Texas, OTS Docket No. H3452, the OTS finds that the Holding Company has engaged in unsafe or unsound practices that resulted in:
 - (a) the failure to identify, measure, monitor, and control specific risks to the Holding Company’s operations;
 - (b) the operation of the Holding Company and its subsidiary insured depository institution (Association), with inadequate earnings to fund growth, to support dividends, and to augment capital; and
 - (c) the operation of the Association with a significant level of classified assets and

with an inadequate level of capital protection for the kind and quality of assets held by the Association.

Consent.

5. The Holding Company consents to the issuance by the OTS of the accompanying Order to Cease and Desist (Order). The Holding Company 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.

6. 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.

7. The Holding Company 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.

8. Nothing in this Stipulation or accompanying Order shall inhibit, estop, bar, or otherwise prevent the OTS from taking any other action affecting the Holding Company 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.

9. The Holding Company 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 8 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Holding Company 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.

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

11. 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.

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

13. 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.

14. 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.

15. 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.

16. Each Director signing this Stipulation attests that he or she voted in favor of a Board Resolution authorizing the consent of the Holding Company 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 the execution of the Stipulation at a duly called board meeting. A copy of the Board Resolution authorizing the execution of this Stipulation shall be delivered to the OTS, along with the executed original(s) of this Stipulation.

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WHEREFORE, the Holding Company, by its directors, executes this Stipulation.

CFS FINANCIAL CORPORATION
El Paso, Texas

By: 15/
Antonio A. Ghiselli,
Chairman and President

15/
Richard Aguilar, Director

15/
Moshe Yardeni, Director

Accepted by:

OFFICE OF THRIFT SUPERVISION

By: 15/
C.K. Lee
Regional Director, Western Region

Date: See Effective Date on page 1

Concur:

**TEXAS DEPARTMENT OF SAVINGS
AND MORTGAGE LENDING**

By: _____
Douglas B. Foster
Commissioner

WHEREFORE, the Holding Company, by its directors, executes this Stipulation.

CFS FINANCIAL CORPORATION
El Paso, Texas

By: _____
Antonio A. Ghiselli,
Chairman and President

Richard Aguilar, Director

Moshe Yardeni, Director

Accepted by:

OFFICE OF THRIFT SUPERVISION

By: _____
C.K. Lee
Regional Director, Western Region

Date: See Effective Date on page 1

Concur:

**TEXAS DEPARTMENT OF SAVINGS
AND MORTGAGE LENDING**

By: _____ 15/ _____
Douglas B. Foster
Commissioner