

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

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| In the Matter of:<br>TORRANCE BANK, S.S.B.<br>Torrance, California. | )      OTS Order No. SF-96-001<br>)<br>)      Dated: March 7, 1996<br>)<br>) |
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**STIPULATION AND CONSENT**

1. The Office of Thrift Supervision ("OTS") has informed Torrance Bank, S.S.B. ("the Institution"), based upon information reported to the OTS, that the grounds exist to issue a Prompt Corrective Action Directive ("the Directive") pursuant to Section 38 of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1831o, against the Institution. The Institution, in the interests of cooperation and to avoid the time and expense of pursuing further OTS' administrative procedures for the issuance of the Directive, stipulates and consents to the following:

2. The Institution is a state savings association subject to supervision and regulation by the OTS, making it a "savings association" as that term is defined in the Home Owners' Loan Act ("HOLA"), 12 U.S.C. § 1461, et seq. and, as such, is subject to the OTS' authority to issue a directive to take prompt corrective action pursuant to Section 38 of the FDIA, 12 U.S.C. § 1831o(e) and Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7.

3. The Institution consents by execution of this Stipulation and Consent to the issuance by the OTS of the accompanying Prompt Corrective Action Directive ("PCA Directive"). The Institution further agrees to comply with the terms of the PCA Directive.

4. The Institution consents by execution of this Stipulation and Consent to the appointment of a conservator or receiver or other legal custodian for the Institution by the OTS 90 days after becoming notified or being deemed to be notified that the Institution is 'critically undercapitalized' as determined pursuant to Section 38 of the FDIA, 12 U.S.C. § 1831o and § 565.4 of the OTS Regulations, 12 C.F.R. § 565.4.

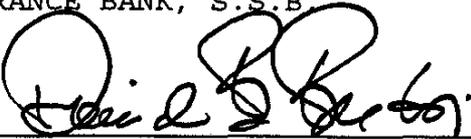
5. The Institution, by execution of the Marketing Assistance Authorization form, attached hereto and incorporated by this reference as "Exhibit A", hereby authorizes the OTS to market the Institution to prospective acquirors and investors in the event the OTS' determines, in its sole discretion, that the Institution is failing to make adequate progress towards achieving the

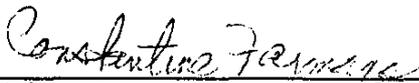
requirements set forth in Section 1.1 through 1.3 of the PCA Directive. Further, in said event, the Institution agrees to take all reasonable steps to cooperate with and to assist the OTS in marketing the Institution.

6. The attached Directive is effective upon issuance and enforceable under Section 5(d) of the HOLA, 12 U.S.C. § 1464(d), and Section 8 of the FDIA, 12 U.S.C. § 1818.

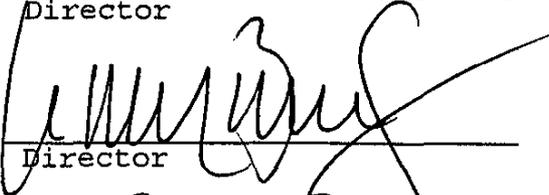
7. Each Director signing this Stipulation attests that s/he voted in favor of the resolution authorizing the execution of the Stipulation.

TORRANCE BANK, S.S.B

By:   
Name: David S. Burton  
Chief Executive Officer

By:   
Director

By: \_\_\_\_\_  
Director

By:   
Director

By: \_\_\_\_\_  
Director

By:   
Director

By: \_\_\_\_\_  
Director

By:   
Director

By: \_\_\_\_\_  
Director

EXHIBIT A

MARKETING ASSISTANCE AGREEMENT

The undersigned, TORRANCE BANK, S.S.B. ("the Institution") authorizes the Office of Thrift Supervision ("OTS") West Region, to provide otherwise confidential information about the Institution to third parties to assist the Institution in its effort to locate an acquiror or investors, provided that each third party agrees in a writing reasonably acceptable to the Institution not to disclose such information except to its own directors, officers, employees or agents who have a need to know such information prior to receiving any written information about the Institution.

Whenever appropriate, the OTS shall refer such third parties directly to Mr. David Bretoi, to discuss the possible acquisition of or investment in the Institution. Notwithstanding the foregoing, the OTS is hereby released from any and all liability arising out of its disclosure of information about the Institution to third parties which is made in an effort to assist in the sale of the Institution provided that OTS has complied with this Agreement.

This authorization is executed this 7th. day of March, 1996, by the duly authorized officers of Torrance Bank, S.S.B., Torrance, California.

TORRANCE BANK, S.S.B.

By:

Name:

Title:

David Bretoi  
Chief Executive Officer

Attest:

Constance Ferrar  
Secretary

8580  
20.30

UNITED STATES OF AMERICA  
Before The  
OFFICE OF THRIFT SUPERVISION

In the Matter of:  
TORRANCE BANK, S.S.B.,  
Torrance, California.

OTS Order No. SF-96-001

Dated: March 7, 1996

PROMPT CORRECTIVE ACTION DIRECTIVE

WHEREAS, Torrance Bank, S.S.B. ("the Institution") is a state savings association that is regulated by the Office of Thrift Supervision ("OTS"); and

WHEREAS, Section 38 of the Federal Deposit Insurance Act ("FDIA") as added by Section 131 of the Federal Deposit Insurance Corporation Improvement Act of 1992 ("FDICIA"), 12 U.S.C. § 1831o and Part 565 of the OTS Regulations thereunder, 12 C.F.R. Part 565, require institutions that are undercapitalized to file a capital restoration plan specifying the steps the institution will take to become at least adequately capitalized;

WHEREAS, Section 38 of the FDIA, 12 U.S.C. § 1831o, requires the OTS to take prompt corrective action to resolve the problems of insured savings institutions at the least possible long-term loss to the deposit insurance fund; and

WHEREAS, Section 565.7 of the OTS Regulations, 12 C.F.R. § 565.7, provides for the issuance by the OTS of directives to take prompt corrective action to resolve the problems of insured depository institutions and to restore their capital; and

WHEREAS, the Institution was notified on November 8, 1995 that the Institution was undercapitalized for purposes of the prompt corrective action provisions of Section 38 of the FDIA, 12 U.S.C. § 1831o; and

WHEREAS, Section 5(t)(6)(B)(ii) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. § 1464(t)(6)(B)(ii), requires any savings association not in compliance with capital standards to comply with a capital directive issued by the OTS; and

WHEREAS, the Institution has not submitted a capital restoration plan that is acceptable under Section 38(e)(2)(C) of the FDIA, 12 U.S.C. § 1831o(e)(2)(C); and

WHEREAS, the Institution and the Board of Directors thereof, by execution of the attached Stipulation and Consent ("the Stipulation") to the issuance of this Prompt Corrective Action Directive (the "Directive"), the terms of which are incorporated herein by this reference, have stipulated and consented to the issuance of the Directive; and

WHEREAS, the OTS issued a Notice of Intent to issue this Directive on January 24, 1996, has considered the response filed by the Institution, and has determined to issue this PCA Directive in order to carry out the purposes of Section 38 to resolve the Institution's problems at the least long term loss to the deposit insurance fund;

NOW, THEREFORE, pursuant to Section 565.7(a)(1) of the OTS Regulations, 12 C.F.R. § 565.7(a)(1), the Institution and its Board of Directors are directed to do the following, effective as of the date hereof:

## PART I - IMPROVING CAPITAL

### Section 1.1 Required Securities Issuance.

Pursuant to Section 38(f)(2)(A)(i) of the FDIA, 12 U.S.C. § 1831o(f)(2)(A)(i), and pursuant to § 38(f)(2)(J) of the FDIA, 12 U.S.C. § 1831o(f)(2)(J), based upon a determination by the OTS that the action will better carry out the purpose of § 38 of the FDIA, 12 U.S.C. § 1831o, the Institution is directed to raise sufficient capital to achieve the following capital levels by June 30, 1996: 8.0% total risk-based capital ratio; 4.0% Tier 1 (core) risk-based capital; and 4.0% leverage ratio. The Institution is directed to raise sufficient capital to achieve the following capital levels by June 30, 1997: 10.0% total risk-based capital ratio; 6.0% Tier 1 (core) risk-based capital; and 5.0% leverage ratio.

### Section 1.2 Required Acquisition or Merger.

As an alternative to Section 1.1, pursuant to Section 38(f)(2)(A)(iii) of the FDIA, 12 U.S.C. § 1831o(f)(2)(A)(iii), the Institution is directed to be recapitalized by merging or being acquired prior to June 30, 1996 and shall submit a binding merger or acquisition agreement by April 30, 1996. The Institution's management and Board of Directors shall take appropriate steps to accomplish such merger or acquisition.

Section 1.3 Efforts to Obtain Capital.

(a) On and after the date of this Directive, the Institution and its Board of Directors shall at all times make diligent and good faith efforts to seek capital in accordance with the provisions of this Directive.

(b) For the purposes of this Directive, diligent and good faith efforts to seek capital by the Institution and its Board of Directors shall include, at a minimum, taking all reasonably practicable steps to remove any impediments to increasing capital.

(c) The Institution shall inform the OTS in writing of (i) all efforts the Institution has made to seek capital and (ii) all expressions of interest by prospective investors, acquirors, or merger candidates, including those referred by the OTS or the Federal Deposit Insurance Corporation. Such reports shall be submitted not later than ten (10) days following the end of each month until otherwise notified by the OTS. Such reports may be consolidated with those required under Section 1.4 hereof.

Section 1.4 Reports of Compliance.

(a) No later than ten (10) days following the end of each month management of the Institution shall prepare, and the Board of Directors of the Institution shall review, a written report concerning the Institution's compliance with the requirements of this Directive during such month. The report and review shall include verification of the Institution's prompt corrective action

capital category and confirmation that the Institution is in compliance with all restrictions that apply automatically to an institution in that category, and with the other restrictions contained in this Directive. This review shall be documented in the minutes of the meeting of the Board of Directors. All documentation considered by the Board in performing its review shall be explicitly referenced in the minutes of the meeting at which the review was undertaken.

(b) The Institution shall, no later than ten (10) days following the end of each month submit the following documents to the OTS in a format acceptable to the OTS:

- (1) confirmation of the Institution's compliance with this Directive, or a description of any instances of noncompliance with any of the Institution's obligations under this Directive, and the specific measures undertaken to cure such noncompliance;
- (2) if requested, copies of the minutes of the Institution's Board of Directors supporting actions taken to comply with this Section of the Directive; and
- (3) descriptions of any material discussions with potential investor(s), any letters of intent entered into with potential investor(s), and any due diligence performed by potential investor(s).

Section 1.5 Adequate Progress.

(a) If the OTS, in its sole discretion, determines that the Institution is failing to make adequate progress towards achieving the requirements set forth in this Directive, the OTS may take such further supervisory, enforcement or resolution action as it deems appropriate.

(b) In pursuing its recapitalization as required by Sections 1.1 and 1.2 of this Directive, the Institution and the holding company shall adhere to the following timetable: on or before April 30, 1996, any and all Definitive Agreements for merger or acquisition or sale of securities shall be executed; and on or before June 30, 1996, the capital raising transaction shall be closed and the capital raising required herein shall have occurred.

Section 1.6 OTS Marketing Assistance.

If the OTS, in its sole discretion, determines that the Institution is failing to make adequate progress towards achieving the requirements set forth in this Directive, the OTS is authorized, by the Institution's execution of the Marketing Assistance Agreement attached as "Exhibit A" to the Stipulation, to market the Institution to prospective investors and acquirors, and the Institution shall fully cooperate with OTS' efforts in such marketing effort.

## PART II - OPERATING RESTRICTIONS

### Section 2.1 Compliance With Mandatory Restrictions.

The Institution shall comply with all of the mandatory prompt corrective action provisions contained in Section 38 of the FDIA, 12 U.S.C. § 1831o, that automatically apply to the Institution based upon the Institution's prompt corrective action capital category. These provisions are set forth at 12 U.S.C. § 1831o(d)(1) (capital distributions restriction), (d)(2) (management fees restriction), (e)(3) (asset growth restriction), (e)(4) (restrictions on acquisitions, branching and new lines of business), (f)(4) (senior executive officers' compensation restriction), (h)(2) (prohibition on payment of subordinated debt), and (i) (restrictions on activities). However, if the Institution should improve from a lower to a higher PCA capital category, it should continue to comply with the previously applicable mandatory sanctions of the lower category, until such time as approval to cease compliance with the lower category sanctions (either collectively or individually) is requested of and received from the OTS.

### Section 2.2 Sister Bank/Thrift Exemption Unavailable.

Pursuant to Section 38(f)(2)(B)(i) of the FDIA, 12 U.S.C. § 1831o(f)(2)(B)(i), the Institution shall comply with § 23A of the Federal Reserve Act ("FRA") (12 U.S.C. § 371c) in any transactions with any depository institution affiliates, as if

the exemptions at § 23A of the FRA (12 U.S.C. § 371c(d)(1)) did not apply.

Section 2.3 General Restriction on Transactions With Affiliates.

Pursuant to Section 38(f)(5) and (i)(2)(E) of the FDIA, 12 U.S.C. §§ 1831o(f)(5) and (i)(2)(E), based upon a determination by the OTS that the action is necessary to carry out the purpose of Section 38 of the FDIA, 12 U.S.C. § 1831o, the Institution shall refrain from engaging in any covered transactions as defined in Section 23A(b) of the FRA.

Section 2.4 Restrictions on Material Transactions.

Pursuant to Section 38(f)(5) of the FDIA, 12 U.S.C. § 1831o(f)(5), based upon a determination by the OTS that the imposition of certain restrictions described in Section 38(i) of the FDIA, 12 U.S.C. § 1831o(i), is necessary to carry out the purposes of Section 38 of the FDIA, the Institution is hereby prohibited from entering into any material transaction other than in the usual course of business, including any investment, expansion, acquisition, sale of assets, or other similar action with respect to which the Institution is required to provide notice to the OTS, without the prior written consent of the OTS.

Section 2.5 ALLL/General Valuation Allowances.

Pursuant to Section 38(f)(2)(J) of the FDIA, 12 U.S.C. § 1831o(f)(2)(J), based upon a determination by the OTS that the following restrictions will better carry out the purpose of

Section 38 of the FDIA:

(a) The Board shall establish and maintain appropriate allowances for loan and lease losses and general valuation allowances ("ALLL/GVAs") in accordance with the Institution's ALLL/GVA policy, based upon:

(1) the Board's review of information provided by management and outside auditors; and

(2) as may be required from time to time by the OTS or the Federal Deposit Insurance Corporation ("FDIC"). The Institution shall evaluate, and the Board shall review and approve the Institution's level of ALLL/GVAs on at least a quarterly basis, or more frequently if deemed reasonably necessary for the prudent operation of the Institution.

(b) The ALLL/GVA policy shall specify the Institution's methodology for establishing sufficient ALLL/GVAs. Such methodology shall require stratification of the Institution's asset portfolio and assign appropriate ALLL/GVA requirements for classified assets and non 1-4 family first trust deed, owner-occupied loans. The methodology shall further be based, in part, on analysis of the Institution's lien position, repayment history, the source(s) of repayment, loan purpose and other factors identified in the Thrift Activities Handbook Section 261. The Board shall review and fully document in the minutes of the meetings of the Board the adequacy of the Institution's ALLL/GVAs on at least a quarterly basis.

## PART III - GENERAL PROVISIONS

### Section 3.1 Definitions.

All technical words or terms used in this Directive, for which meanings are not specified or otherwise provided by the provisions of this Directive, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, HOLA, FDIA or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

### Section 3.2 Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Directive to provisions of statutes and regulations shall be deemed to include references to all amendments to such provisions as have been made as of the effective date hereof and references to successor provisions as they become applicable.

### Section 3.3 Notices.

Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Directive to be made upon, given or furnished to, delivered to, or filed with the OTS or the Institution shall be in writing and mailed, by first class mail

or overnight courier, sent by electronic transmission, or physically delivered, and addressed as follows:

|                         |                                   |
|-------------------------|-----------------------------------|
| OTS: West Region Office | Institution: Torrance Bank, S.S.B |
| Attn: Timothy J. Lane   | Attn: President/CEO               |
| 18300 Von Karman Ave.   | 22733 Hawthorne Blvd.             |
| Irvine, CA 92715        | Torrance, CA 90505                |

Section 3.4 Duration, Termination or Suspension of the Directive.

(a) The terms and provisions of this Directive shall be binding upon the Institution and its successors in interest.

(b) The Directive shall remain in effect until terminated, modified or suspended in writing by the OTS.

(c) The OTS, in its discretion, may, by written notice, suspend any or all provisions of the Directive, except for Section 2.1.

Section 3.5 Effect of Heading.

The Part and Section headings herein are for convenience only and shall not affect the construction hereof.

Section 3.6 Separability Clause.

In case any provision in this Directive 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 OTS, in its sole discretion, determines otherwise.

Section 3.7 No Violations Authorized; Consequences of Directive.

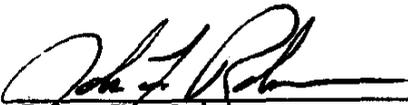
Nothing in this Directive, including, without limitation, any of the timeframes for actions set forth in Part I, shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject; or (ii) restricting the OTS from taking such actions as are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, actions pursuant to Section 38 of the FDIA, or taking any other type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

Section 3.8 Other Enforcement Documents.

This Directive supersedes the Cease and Desist Order issued to the Institution by OTS on May 10, 1994, provided, however, that certain of the restrictions and requirements contained in the Cease and Desist Order have been restated in Section 2.5 of this Directive and are effective and enforceable pursuant to this Directive.

IT IS SO ORDERED.

OFFICE OF THRIFT SUPERVISION

By: 

John F. Robinson  
Regional Director, West Region