

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION
DEPARTMENT OF THE TREASURY

In the Matter of)
)
HOWARD CHARLES MORROW)
Former Chairman of the Board,)
Chief Executive Officer,)
and Controlling)
Shareholder of)
Torrance Bank, S.S.B.)
Torrance, California, and)
)
Former Member of the Board of)
Directors and Former Holder)
of Voting Rights)
Representing a Controlling)
Interest in South)
Bay Holdings Corp., former)
holding company of)
Torrance Bank, S.S.B.)

Re: Order No. SF-96-012
Date: September 11, , 1996

STIPULATION AND CONSENT TO ISSUANCE OF
ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision ("OTS"), based upon information derived from the exercise of its regulatory responsibilities, has informed HOWARD CHARLES MORROW ("MORROW") that the OTS is of the opinion that grounds exist to initiate administrative proceedings against him for the issuance of administrative orders, pursuant to 12 U.S.C. § 1818(b); and

WHEREAS, MORROW desires to cooperate with the OTS and to avoid the time and expense of such administrative proceedings, and without admitting or denying the grounds for such proceedings

or the findings and conclusions of the OTS, except as to Jurisdiction set forth in Paragraph I below which is admitted, hereby stipulates and agrees to the following terms:

I. Jurisdiction

A. Torrance

1. At all pertinent times, Torrance Bank, S.S.B., was a state-chartered savings and loan association maintaining its principal place of business at 22759 Hawthorne Blvd., Torrance, California ("Torrance"). The stock of Torrance was, until June 30, 1996, wholly-owned by South Bay Holdings Corporation, ("Holdings"), at which time, Holdings completed a cash merger of Torrance with and into Regency Savings Bank, FSB, Naperville, Illinois.

2. At all pertinent times Torrance was a "savings association" as defined by Section 2(4) of the Home Owners' Loan Act ("HOLA"), (12 U.S.C. § 1462(4)) as amended by Financial Institutions Reform, Recovery and Enforcement Act of 1989, ("FIRREA") and Section 3(b) of the Federal Deposit Insurance Act ("FDIA") (12 U.S.C. § 1813(b), and was an "insured depository institution" as defined by Section 3(c) of the FDIA, as amended by Section 204 of the FIRREA, 12 U.S.C. § 1813(c); and

B. As a principal shareholder, director and officer prior to August 9, 1989, MORROW was a person participating in the conduct of the affairs of Torrance; from and after August 9, 1989, MORROW was an "institution-affiliated party" of Torrance as that term is defined by Section 3(u) of the FDIA, as amended by Section 204 of the FIRREA (12 U.S.C. § 1813(u)).

C. Pursuant to Section 3(q) of the FDIA, 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking Agency" to maintain an enforcement proceeding against a person participating in the conduct of the affairs of an institution or institution-affiliated parties. Therefore, MORROW is subject to the jurisdiction of the OTS to initiate and maintain a cease and desist proceeding against him pursuant to Section 8 of the FDIA (12 U.S.C. § 1818(b)).

II. Consent MORROW consents to the issuance by the OTS of the Order. He further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

III. OTS Findings of Fact The OTS finds that MORROW violated laws, rules, and regulations, engaged in unsafe and unsound practices, and breached his fiduciary duties when he did the following:

(A) (1) While serving as a director, loan committee member, and the Chief Executive Officer ("CEO") of Torrance, MORROW voted to approve primary loans from Torrance to borrowers. MORROW failed to disclose that these borrowers also received secured, secondary loans from MORROW's wholly owned lending company or that MORROW benefitted from the funding of the secondary loans by his wholly owned lending company because it received high interest returns, hefty origination fees, and continuing fees for servicing the loans.

(2) While serving as a director, loan committee member, and CEO, MORROW voted to approve a primary loan from Torrance to a borrower who owed money to MORROW's wholly owned lending company on two troubled loans ("Torrance refinance"). MORROW failed to disclose that the Torrance refinance not only paid off the borrower's two loans to MORROW's company, but also paid off late charges due to MORROW's company, and delinquent property taxes owed on the underlying property.

(3) While serving as a director, loan committee member, and CEO of Torrance, MORROW failed to abstain from voting on loan transactions in which he had a personal interest.

(B) While serving as director, loan committee member, and CEO, MORROW failed to disclose to other board members that his \$1.7 million home loan from Torrance was made under terms not available to the general public, in that the property had negligible paid-in equity (less than 2 percent) and that the financing from Torrance paid off existing liens that MORROW and his wholly owned lending company held on the underlying property.

(C) While serving as CEO, MORROW failed to disclose varied personal business transactions in the Management Questionnaires submitted to the OTS, and in one case, personally signed and certified that the information provided in the questionnaire was true and correct when that was not the case.

(D) While serving as director and CEO of Torrance, MORROW engaged repeatedly in transactions where there was a conflict of interest between his interests and those of Torrance. For example,

MORROW caused Torrance to use foreclosure and escrow companies owned, in whole or in part, by MORROW without conducting any written, comparative market analysis on the rates charged to Torrance. MORROW also failed to abstain from voting on transactions in which he had a personal interest, such as in matters related to his compensation at Torrance. MORROW also failed to fully advise the board that he had engaged in personal business transactions with officers and directors of Torrance, which did or could have impacted the operations of Torrance.

(E) During MORROW's tenure as Chairman of the Board of Holdings, the Board caused Holdings to pay impermissible cash dividends to its shareholders on certain restricted stock. As one of the owners of that restricted stock, MORROW received \$18,323.45 in impermissible dividends. MORROW refused to reimburse Holdings for the improper dividends despite demands by the regulators.

IV. Finality The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).

V. Waivers MORROW waives the following:

A. the right to be formally served with a notice of the OTS's charges against him;

B. the right to an administrative hearing of the OTS's charges provided by Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1);

C. the right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order; and

D. any and all claims for the award of fees, costs or expenses relating to this OTS enforcement matter and/or the Order, including any claims under the Equal Access to Justice Act, 5 U.S.C. 504 and 28 U.S.C. § 2412.

VI. Other Governmental Actions Not Affected

A. MORROW acknowledges and agrees that the consent to entry of the Order is for the purpose of resolving this OTS enforcement matter only, and does not release, compromise, settle, dismiss, resolve, preclude or in any way affect any other civil or criminal proceeding which may be or has been brought against him by the OTS or any other governmental agency.

B. By signing this Stipulation and Consent to Entry of an Order to Cease and Desist, MORROW agrees that he will not assert this proceeding, his consent to the entry of the Order, and/or the entry of the Order, as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other federal or state governmental entity.

VII. Indemnification

MORROW represents that he has not received, directly or indirectly, any sums from Torrance (or any holding companies, affiliates, subsidiaries, service corporations, or successors thereof), for the purpose of indemnifying or reimbursing him for

any expense incurred by MORROW in connection with OTS Formal Examination No. SF-94-008 ("OTS Investigation"). MORROW shall neither cause nor permit Torrance (or any holding companies, affiliates, subsidiaries, service corporations, or successors thereof) to incur, directly or indirectly, any expense for any legal (or other professional expenses) incurred relative to the OTS Investigation or the negotiation and issuance of the Order, nor obtain any indemnification (or other reimbursement) from Torrance (or any holding companies, affiliates, subsidiaries, service corporations, or successors thereof) with respect to such expenses. In the event that any such payments are received by or on behalf of MORROW in connection with this action, MORROW agrees to promptly notify the OTS of the receipt of such payments and to return such payments without delay to Torrance (or any holding companies, affiliates, subsidiaries, service corporations, or successors thereof).

VIII. Miscellaneous

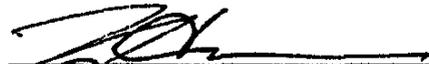
A. The construction and validity of this Stipulation and the Order shall be governed by the laws of the United States of America.

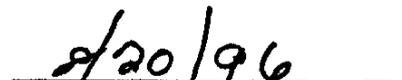
B. All references to the OTS in this Stipulation and the Order shall also mean any of the predecessors, successors and assigns of the OTS.

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

D. This Stipulation and the Order represent the final written agreement of the parties with respect to the subject matters set forth in Section III above, and constitute the sole agreement of the parties with respect to such subject matters. WHEREFORE, HOWARD MORROW executes this Stipulation intending to be legally bound thereby.

By:


Howard Charles Morrow


Date

Accepted by:


John F. Robinson
Regional Director
West Region
Office of Thrift Supervision


Date

sbe/grn: morrowfn.stp

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Before The
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DEPARTMENT OF THE TREASURY

In the Matter of)

HOWARD CHARLES MORROW)
Former Chairman of the Board,)
Chief Executive Officer,)
and Controlling Shareholder)
of Torrance Bank, S.S.B.,)
Torrance, California, and)

Former Member of the Board)
of Directors and Former Holder)
of Voting Rights Representing)
a Controlling Interest in)
South Bay Holdings Corp.,)
the former holding company of)
Torrance Bank, S.S.B.)
_____)

Re: Order No. SF-96-012

Date: September 11, , 1996

CONSENT ORDER TO CEASE AND DESIST

WHEREAS, HOWARD CHARLES MORROW ("MORROW"), an Institution-Affiliated Party and Person Participating in the Affairs of Torrance Bank, S.S.B., Torrance, California, ("Torrance"), has executed a Stipulation and Consent to the Issuance of Order to Cease and Desist ("Stipulation"); and

WHEREAS, MORROW, by his execution of the accompanying Stipulation, has consented and agreed to the issuance of this Consent Order to Cease and Desist ("Order"), pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b); and

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Directors of the OTS the authority to issue Orders to Cease and Desist on behalf of the OTS where respondents have consented to the issuance of the Orders;

NOW, THEREFORE, IT IS ORDERED that:

1. MORROW shall cease and desist from any violation of, or aiding and abetting violations of any Federal banking law or regulation.

2. MORROW shall not serve as an officer, director or other Institution-Affiliated Party of Torrance (or its successor in interest, Regency Savings Bank, FSB, Naperville, Illinois), or participate in any manner in the conduct of the affairs of Torrance, without the prior written approval of the OTS or its successor.

IT IS FURTHER ORDERED that:

3. Fiduciary Duties. Whenever MORROW is an Institution-Affiliated Party (as defined at Paragraph 10, herein) of a Banking Institution (as defined at Paragraph 10), he shall fulfill his fiduciary duties to such institution, including his fiduciary duties of loyalty, candor and care.

4. Conflicts of Interest. At any and all times in which MORROW serves as an Institution-Affiliated Party, he shall comply with the following:

(a) MORROW shall, at all times, avoid placing himself in a position which creates, leads to, or could lead to, a conflict of interest or the appearance of a

conflict of interest with the Banking Institution. MORROW shall, at all times, avoid placing his own personal interests above those of the Banking Institution.

- (b) If, at any time, MORROW is uncertain whether paragraph 4(a) is at issue, or if MORROW is uncertain about his duties arising from paragraph 4(a), he shall obtain, at his own expense, the written advice of Independent Counsel (as defined in Paragraph 10) regarding his duties and responsibilities. MORROW shall abide by the written advice of Independent Counsel in such matter(s).
- (c) MORROW shall provide the board of directors of the Banking Institution with a copy of the written advice he has obtained from counsel promptly after receipt and in no case later than five days following receipt of said written advice.

5. Abstentions. When serving as an Institution-Affiliated Party, MORROW shall abstain from voting on, and shall not participate in any manner in, consideration of any form of credit approval including loans, investments, or transactions submitted for the approval of the management or the board of directors of the Banking Institution that involve services to be rendered by: (a) MORROW directly (e.g., as a consultant), or (b) any Affiliated Business (as defined in Paragraph 10), or (c) any entity in which MORROW has a financial interest, directly or indirectly. MORROW

shall cause such abstention to be specifically recorded in the Banking Institution's corporate records, including the board minutes. In addition, MORROW shall fully disclose to the board of directors of the Banking Institution the reason for such abstention, including the nature of any conflict of interest, potential conflict of interest, or appearance of conflict of interest, and shall cause such disclosure to be recorded in the Institution's corporate records.

6. Disclosure. When serving as an Institution-Affiliated Party of a Banking Institution, MORROW shall make full disclosure, on behalf of himself, any Affiliated Business, and his Immediate Family (collectively, the "Affiliate Group") to the board of directors regarding all loans, investments, partnership interests, stock ownership, and other business relationships between the Affiliate Group and persons or entities which are borrowers, depositors, board members, officers, and/or Institution-Affiliated Parties of the Institution. Such full disclosure shall be made promptly upon execution of this Order, and in no event later than fifteen (15) days following execution of the Order, and at least annually thereafter. Furthermore, MORROW shall have a continuing obligation to update the disclosure promptly in the event of a change in circumstances, and in no event later than fifteen (15) days following the change in circumstances. MORROW shall cause each such disclosure to be recorded in the Institution's corporate records.

7. Notice to Banking Institution. Prior to accepting any position as an Institution-Affiliated Party, MORROW shall provide a copy of the Order to the chief executive officer and all directors of the Banking Institution with which MORROW is to be affiliated.

8. Notice to Regulators. Prior to accepting any position as an Institution-Affiliated Party, MORROW shall provide Notice to the OTS and any other Appropriate Federal Banking Agency (as defined in Paragraph 10) of his intention to accept a position in a Banking Institution. Such Notice shall include written certification by MORROW that he has complied with Paragraph 7 of the Order.

9. Responses to Requests. MORROW shall promptly and appropriately respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Order.

10. Definitions. For purposes of this Order:

(a) "Affiliate," as used in this Order, shall have the meaning set forth at 12 C.F.R. § 574.2(d);

(b) "Affiliated Business" means any business in which:
(i) HOWARD MORROW and/or his Immediate Family (as defined in this paragraph) is a controlling owner, directly or indirectly, (ii) MORROW or his Immediate Family serves or acts as a director, officer, partner, or other similar management official, and/or (iii) MORROW or his Immediate Family exercises control through a trust established by MORROW or his Immediate Family, for MORROW or his

Immediate Family, or of which MORROW or his Immediate Family serves as Trustee (including but not limited to the Geraldine Morrow Irrevocable Trust);

- (c) "Appropriate Federal Banking Agency," as used in this Order, shall have the meaning set forth at 12 U.S.C. § 1813(q);
- (d) "Banking Institution" refers to any and all of the following: any "insured depository institution" as that term is defined at 12 U.S.C. § 1813(c) (including but not limited to banks and savings associations); any direct or indirect subsidiary of an insured depository institution, whether wholly or partly owned; any "insured credit union" within the meaning of 12 U.S.C. § 1752(7); any "savings and loan holding company" within the meaning of 12 U.S.C. § 1467a(a)(1); any "bank holding company" within the meaning of 12 U.S.C. § 1841; and any direct or indirect subsidiary of any such holding companies, whether wholly or partly owned;
- (e) "Company," as used in this Order, shall have the meaning set forth at 12 C.F.R. § 574.2(f);
- (f) "Control" or "Controlled," as used in this Order, is defined at 12 C.F.R. § 574;
- (g) "Immediate Family," as used in this Order, shall have the meaning set forth at 12 C.F.R. § 574.2(j);

- (h) "Independent Counsel," means an attorney, licensed to practice law in the state where the Banking Institution does business, who is in no way affiliated with the Banking Institution, with MORROW, his Immediate Family, or his Affiliates.
- (i) "Institution-Affiliated Party," as used in this Order, shall have the meaning set forth at 12 U.S.C. § 1813(u);
- (j) Any terms used herein that are defined in other paragraphs of this Order (including the Stipulation incorporated herein) shall have the meanings ascribed to them in such paragraphs; and
- (k) Except as otherwise expressly provided in this Order, any terms used herein that are defined in the Home Owners' Loan Act or the Federal Deposit Insurance Act shall have the meanings ascribed to them in said statutes. See, e.g., 12 U.S.C. § 1813.

11. Notice. Any notice to the OTS required under this Order shall be provided to the following address:

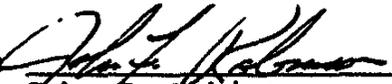
Regional Director, West Region
Office of Thrift Supervision
One Montgomery Street, Suite 400
San Francisco, CA 94104
Facsimile No.: (415) 616-1752 or 1753

12. Stipulation. The Stipulation is made a part hereof and is incorporated herein by this reference.

13. Effectiveness of Order. This Order shall become effective on the date it is issued, as shown in the caption hereof.

This Order shall remain in effect until it is terminated, modified, or suspended, which may occur only by formal written action of the OTS, acting by and through its Regional Director, or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By 
John F. Robinson
Regional Director
West Region

sbegrn: a:\morrow2.ord