



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

FEB 5 1997

Dr. Oliver W. Wilson
3803 Monteith Drive
Los Angeles, California 90043

Dear Dr. Wilson:

This will respond to your request that the Board review the approval by the Federal Reserve Bank of San Francisco ("Reserve Bank") of an application under section 3 of the Bank Holding Company Act ("BHC Act") by South Coast Bancorp, Inc., Irvine, California, to become a bank holding company.^{1/} You have requested that the Board review the Reserve Bank's approval of the application in light of your allegations of improper conduct by South Coast in connection with your commercial loan for the construction of a restaurant and nightclub in Los Angeles, California ("the project").

Your request presents the following facts. In 1990, South Coast made a commercial loan to you in the amount of \$850,000 for the project. South Coast subsequently denied your request for additional financing to cover cost overruns, and you defaulted on the loan. In 1991, you filed a legal action to stop South Coast from foreclosing on the property securing the loan, and filed a separate legal action against South Coast alleging breach of contract and fraud in connection with the loan. You filed for bankruptcy in 1992, and South Coast was unable to foreclose on and sell the property. As part of the bankruptcy proceeding, South Coast agreed to a plan of reorganization that

^{1/} South Coast owns all the voting shares of South Coast Thrift and Loan Association ("Thrift") (together "South Coast"), an industrial thrift organization also in Irvine, California. Thrift will convert its charter to become a state-chartered commercial bank, which will be named South Coast Commercial Bank, and South Coast will retain all the voting shares of the bank.

reduced its claim against you to approximately \$550,000,^{2/} and replaced its original loan with two new loans totalling \$550,000. Your pending legal action against South Coast was settled as a result of the agreement. You defaulted on the new loans and South Coast obtained title to the property in a foreclosure action. In 1996, you filed a legal action against South Coast alleging breach of contract and other improper conduct. The action is still pending.

You and your attorney have provided documents relating to these proceedings to support your allegations that South Coast has engaged in improper conduct in its dealings with you, including breach of contract, fraud, and illegal discrimination,^{3/} and to respond to information regarding these events that was provided by South Coast in connection with the application. The record indicates that a number of your allegations were reviewed by the Department, the chartering authority for Thrift, which concluded its consideration of the matter without taking any action against South Coast.^{4/}

Section 3 of the BHC Act requires the Board to consider a number of factors in its review of applications under that act, including the managerial and financial resources and future prospects of the institutions involved, the convenience and needs of the communities to be served, and other supervisory factors. These factors were carefully considered in light of the facts of record including your comments and the relevant reports of examination assessing the managerial resources of Thrift by its state supervisor, the Department, and its primary federal supervisor, the Federal Deposit Insurance Corporation ("FDIC"). Thrift received a "satisfactory" rating in its most recent examination

^{2/} South Coast claimed that you owed approximately \$1.4 million, including interest and other charges, on the original loan.

^{3/} Your attorney also alleges that South Coast made your loan at a location where it was not authorized to conduct business, in violation of state law. See West's Ann. Cal. Fin. Code §§ 18165 and 18344. The California Department of Corporations ("Department") reviewed this allegation and found no violation of applicable law by South Coast.

^{4/} Contrary to your contention that the Department has deferred action on your complaint until the completion of your litigation, the Department has confirmed that the matter is considered closed.

for performance under the Community Reinvestment Act by the FDIC, and examiners found no evidence of discrimination on a prohibited basis or other illegal credit practices.

Your allegations represent an isolated dispute arising from an individual loan transaction with South Coast, and Board staff has provided a copy of your comments to Thrift's primary federal supervisor, the FDIC, for consideration. Moreover, the court in the pending legal action has sufficient authority to adjudicate your allegations and to provide redress to you if the allegations can be substantiated. The Board retains sufficient supervisory authority to take appropriate action if a court determines or an examination finds that South Coast management acted improperly in a manner that warrants supervisory action.

You also request, for the first time, a hearing before the Board on your contentions. Neither the Board's Rules of Procedure nor the BHC Act require such a proceeding before the Board. The procedures for processing an application under section 3 of the BHC Act comply with the procedural requirements applicable to informal adjudications, and you have had the opportunity to submit, and you have submitted, substantial comments that have been carefully considered. You have not shown why your written submissions did not adequately present your views. In light of all the facts of record, a hearing is not necessary to clarify relevant facts and is not otherwise warranted in this case.

Your requests have been presented to the members of the Board to give them an opportunity to determine whether your requests warrant review of the Reserve Bank's action under the Board's Rules Regarding Delegation of Authority (12 C.F.R. 265.3) or a hearing. For the reasons discussed above, and based on all the facts of record, no member of the Board has requested that the action by the Reserve Bank be reviewed or modified in any manner or that a hearing be convened. Accordingly, your requests are hereby denied.

Very truly yours,

(Signed) Jennifer J. Johnson

Jennifer J. Johnson
Deputy Secretary of the Board