

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

In the Matter of

AFFINITY FINANCIAL CORPORATION,
Newport Beach, California

and

WATERFIELD FINANCIAL SERVICES, INC.
(now known as AFFINITY FINANCIAL
CENTERS, INC.), Indianapolis, Indiana

Docket Nos. 16-007-B-HC;
16-007-B-DEO

Order to Cease and Desist Upon
Consent Pursuant to the Federal
Deposit Insurance Act, as Amended

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”), pursuant to section 8(b) of the Federal Deposit Insurance Act, as amended (the “FDI Act”), 12 U.S.C. § 1818(b), issues this Order to Cease and Desist (the “Order”) upon the consent of AFFINITY FINANCIAL CORPORATION (“AFC”), Newport Beach, California; and WATERFIELD FINANCIAL SERVICES, INC. (“WFS”), Indianapolis, Indiana, now known as AFFINITY FINANCIAL CENTERS, INC.;

WHEREAS, AFC was a savings and loan holding company, under section 10(1)(a)(D)(i) of the Home Owners Loan Act (“HOLA”), as amended (12 U.S.C. § 1467a(a)(1)(D)(i));

WHEREAS, AFC conducted banking operations through its wholly-owned subsidiary Waterfield Bank (the “Bank”), a federal savings bank, as defined in 12 U.S.C. § 1813(b)(2), chartered by the Office of Thrift Supervision (“OTS”) until March 5, 2010, when the Bank was closed by the OTS;

WHEREAS, AFC also conducted financial activities through its wholly-owned

subsidiary WFS;

WHEREAS, between January 8, 2008 and March 5, 2010 (the “Relevant Period”), WFS operated a deposit-gathering program (“Program”) in which:

a. WFS marketed various deposit products offered by or through the Bank directly to affinity groups and their members (i.e., the customers);

b. Program customers entered into a contract with WFS and the Bank, which provided that customer funds placed into the Program would either be retained at the Bank or placed by WFS, as “agent for the customer,” at other banks unaffiliated with the Bank with which WFS had contracted to accept Program funds (“Participating Banks”);

c. WFS’s and the Bank’s deposit terms and conditions made representations to customers concerning the interest rates and maturities of the deposits being offered to them, and that the Program funds would be repaid with the offered interest rates and maturities, regardless of whether the funds were maintained at the Bank or at a Participating Bank;

d. In some cases, rather than placing each individual customer’s deposit in a Participating Bank in the same type of deposit account selected by the customer, WFS instead invested aggregate customer funds at Participating Banks in deposit accounts that had different maturities and different rates of interest than the deposit accounts selected by customers under the Program;

e. In November 2009, WFS invested approximately \$200 million of Program deposits, some of which were short term, into a certificate of deposit with a fixed term of ten years at a fixed rate of interest at a Participating Bank. The maturity and interest rate of this certificate of deposit did not match the maturities and interest rates provided under

the terms and conditions of the deposit accounts selected by customers within the Program;

f. In January 2010, WFS placed approximately \$150 million of Program deposits, some of which were short term, into a five year fixed-term deposit instrument at a fixed rate of interest at a Participating Bank. The maturity and interest rate of the fixed-term deposit did not match the maturities and interest rates provided under the terms and conditions of the deposit accounts selected by customers within the Program;

g. Because WFS invested customers' deposits in Participating Bank deposit accounts that had different maturities and interest rates than the deposit accounts selected by these customers under the Program, WFS was subject to liquidity risk because customers may have demanded the return of many or all of their deposits before the maturity dates negotiated by WFS with the Participating Banks, and/or WFS obtained less in interest from deposits at Participating Banks than it owed to customers for the deposit accounts they had selected;

WHEREAS, WFS was not subject to oversight as a depository institution, oversight that is in part designed to require the institution's maintenance of adequate liquidity to meet customer demands for funds;

WHEREAS, WFS's practice of placing short-term deposits in longer maturity deposits at Participating Banks and assuming interest rate obligations on customer deposits placed at Participating Banks was an unsafe and unsound practice;

WHEREAS, on July 21, 2011, pursuant to Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. 111-203, 124 Stat. 1376 (2010), the Board of Governors became the appropriate federal banking agency for WFS and AFC, as set forth in 12 U.S.C.

§ 1813(q)(3)(F);

WHEREAS, D. Jean Veta of Covington & Burling LLP, as counsel for WFS and AFC is authorized to enter into this Order on behalf of WFS and AFC, respectively; and

WHEREAS, WFS and AFC consent to the issuance of this Order by the Board of Governors and have agreed to comply with each and every applicable provision of this Order, and have waived any and all rights each might have pursuant to 12 U.S.C. § 1818, 12 CFR Part 263, or otherwise: (a) to the issuance of a notice of charges on any matter implied or set forth in this Order; (b) to a hearing for the purpose of taking evidence with respect to any matter implied or set forth in this Order; (c) to obtain judicial review of this Order or any provision hereof; and (d) to challenge or contest in any manner the basis, issuance, terms, validity, effectiveness, or enforceability of this Order or any provision hereof.

NOW, THEREFORE, before the filing of any notices, or the taking of any testimony or the adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony:

IT IS HEREBY ORDERED, pursuant to sections 8(b)(1) and (3) of the FDI Act (12 U.S.C. §§ 1818(b)(1) and (3)), that AFC, WFS, and its institution-affiliated parties, as defined in sections 3(u) of the FDI Act (12 U.S.C. § 1813(u)), shall cease and desist and take affirmative action as follows:

Prior Approval

1. Neither WFS nor AFC, nor their successors or assigns shall engage in any deposit gathering program, including as a deposit broker as defined in 12 C.F.R. § 337.6(a)(5), without prior written approval of the Board of Governors or the appropriate federal banking agency.

2. If either WFS or AFC, or their successors or assigns intend to engage in any deposit gathering activity, WFS and AFC shall prepare and submit a business plan to the Board of Governors (or the appropriate federal banking agency), which shall include how the proposed activity will comply with applicable laws and regulations and be operated in a safe and sound manner. The plan shall, at a minimum, address:

- a. policies to ensure compliance with any regulatory approvals;
- b. policies to address any liquidity risk associated with the deposit gathering activity;
- c. policies to ensure that consumers receive material information concerning any deposit product in a manner that is timely, accurate, and clear; and
- d. the maintenance of all records, reports and materials related to the product or service provided.

Notices

3. All communications regarding this Order shall be addressed to:
 - a. Richard M. Ashton, Esq.
Deputy General Counsel
Patrick M. Bryan, Esq.
Assistant General Counsel
Board of Governors of the Federal Reserve System
20th & C Streets, N.W.
Washington, DC 20551
 - b. AFFINITY FINANCIAL CORPORATION
620 Newport Center Drive
Suite 1100
Newport Beach, CA 92660

- c. AFFINITY FINANCIAL CENTERS, INC (f/k/a WATERFIELD FINANCIAL SERVICES, INC.)
620 Newport Center Drive
Suite 1100
Newport Beach, CA 92660

With a copy to:

- d. D. Jean Veta
Covington & Burling LLP
One City Center
850 Tenth Street, N.W.
Washington, DC 20001-4956

Miscellaneous

4. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, or any other Federal or state agency or department, from taking any other action affecting AFC or WFS.

5. The provisions of this Order shall be binding upon AFC, WFS, and any successors or assigns, and their institution-affiliated parties in their capacities as such.

6. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Board of Governors.

7. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto and their successors or assigns hereunder, any legal or equitable right, remedy or claim under this Order.

By Order of the Board of Governors of the Federal Reserve System effective this 13th day
of June, 2016.

WATERFIELD FINANCIAL SERVICES, INC.
(n/k/a AFFINITY FINANCIAL CENTERS, INC.)

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ D. Jean Veta
D. Jean Veta
Covington & Burling LLP
Counsel for Affinity Financial Centers, Inc.

By: /s/ Robert deV. Frierson
Robert deV. Frierson
Secretary of the Board

AFFINITY FINANCIAL CORPORATION

By: /s/ D. Jean Veta
D. Jean Veta
Covington & Burling LLP
Counsel for Affinity Financial Centers, Inc.