

Before The
OFFICE OF THRIFT SUPERVISION

Date: March 26, 1991

1. Consideration. The OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against First Federal pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)). First Federal desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation and, without admitting or denying that such grounds exist, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative cease-and-desist litigation against First Federal with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction. (a) First Federal is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act, as amended by FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1813(c)).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of the OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, First Federal is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)).
3. Consent. First Federal consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.
4. Finality. The Order is issued under Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the Regional Director for the Central Regional Office, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(i)).
5. Waivers. First Federal waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing and intending to be legally bound hereby, the OTS, by and through its Regional Director for the Central Regional Office, OTS, and First Federal, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

OFFICE OF THRIFT SUPERVISION

First Federal Savings and Loan of Proviso
Township by a majority of its directors?

By

/S/

Stuart M. Braffman
Regional Director
Central Regional Office

/S/

Irving M. Braun

/S/

Charles H. Braun

/S/

Martin W. Sheade

/S/

Monroe R. Passis

/S/

Eugene A. Rvdz

/S/

Charles F. Sebastian

/S/

Harry J. Waight

UNITED STATES OF AMERICA

Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of)

First Federal Savings Bank of)
Proviso Township)
_____))

Re: Resolution No. CHI-91-2

Date: March 26, 1991

ORDER TO CEASE AND DESIST

WHEREAS, First Federal Savings Bank of Proviso Township, ("First Federal"), through its board of directors ("Board"), has executed a Stipulation and Consent to Issuance of Order to Cease and Desist, which is incorporated herein by reference ("Stipulation") and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Central Regional Office; and

WHEREAS, First Federal, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act, as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)).

NOW THEREFORE, IT IS ORDERED THAT First Federal and its directors, officers, employees, agents, and service corporations 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 any violation of:

1. 12 C.F.R. § 563.170(c)(1)(iv), (v), (vi) and (viii), pertaining to records for loans secured by real estate;
2. 12 C.F.R. § 563.170(c)(2), pertaining to records for loans not secured by real estate;
3. 12 C.F.R. § 563.171(c)(1)(ii) and (iii), and (c)(2), pertaining to appraisal policies and practices;

4. 12 C.F.R. § 563d, pertaining to the preparation and filing of forms in connection with the Securities Exchange Act of 1934;

5. 12 C.F.R. § 563.93(c)(1), pertaining to the limitation on total loans to one borrower; and

6. 12 C.F.R. § 545.36(b)(2), pertaining to loans to acquire or to improve real estate.

IT IS FURTHER ORDERED THAT:

7. First Federal shall not in any way, through the granting, extending, renewing, or modifying of any loan(s) or extension(s) of credit, violate the lending limitations set forth at 12 C.F.R. § 563.93 (1990).

8. First Federal shall take immediate and continuing action in order to seek to bring any non-conforming loan(s) or extension(s) of credit into compliance with the lending limitations set forth at 12 C.F.R. § 563.93(c) (1990) pursuant to the provisions of Thrift Bulletin 32-1, dated December 5, 1989.

9. First Federal shall not grant, extend, renew, or in any way modify any commitment, loan, or extension of credit with Edward F. Havlik, Virgil Owings, United Development Homes, Inc., United Development Management Co. or any of their commonly controlled entities.

10. First Federal shall not grant, extend, renew, or in any way modify any commercial real estate loan, without prior written approval of the OTS. Such approval will be considered on a case-by-case basis, only with respect to the granting of commercial real estate loans secured by residential real estate.

11. Paragraphs Number 7, 9, and 10 of this Order shall not apply, for extensions, renewals, or modifications, if:

- a. First Federal's failure to extend, renew, or in any way modify an existing commitment or loan would be substantially detrimental to the best interest of First Federal;
- b. prior to extending, renewing, or in any way modifying an existing commitment, loan, or extension of credit, First Federal made every effort to secure repayment and documented that effort in writing;
- c. prior to extending, renewing, or in any way modifying an existing commitment, loan, or extension of credit, a majority of the full Board approves the action and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interest of First Federal. A copy of the Board's certification shall be maintained in the credit file of the affected borrower(s). In addition, a copy of the Board's certification shall be submitted to the OTS;

- d. First Federal receives the prior written approval of the OTS, for the extension, renewal, or modification of any commitment, loan, or extension of credit with Edward F. Havlik, Virgil Owings, United Development Homes, Inc., United Development Management Co. or any of their commonly controlled entities;
- e. with respect to those loans and extensions of credit that exceed the lending limitations of 12 C.F.R. § 563.93 (1990), the extension, renewal, or modification is consistent with guidelines set forth in Thrift Bulletin 32, dated September 8, 1989, and 32-1, dated December 5, 1989; and
- f. the commitment, loan, or extension of credit was not classified in the Report of Examination, dated June 11, 1990 ("Report"). Such loans or other extensions of credit are subject to Paragraphs Number 22 and 23 of this Order.

12. Within five (5) days from the date of this Order and henceforth on a monthly basis, First Federal, shall classify all closed-end consumer loans which are 120 days or more delinquent and open-end consumer loans which are 180 or more days delinquent as a loss. Any exception to this requirement must be consistent with the amended Asset Classification Policy required pursuant to Paragraph Number 25 of this Order. All consumer loans classified as a loss shall be immediately charged against First Federal's earnings pursuant to 12 C.F.R. § 563.46 (1990).

13. First Federal shall continue to report those assets classified as "Special Mention", "Substandard", "Doubtful", or "Loss" in the Report, beginning with the September 30, 1990 Thrift Financial Report ("TFR").

14. Henceforth, First Federal shall report those assets classified as "Special Mention", "Substandard", "Doubtful", or "Loss" in any subsequent Report of Examination or which are criticized by First Federal's internal asset classification policy in the TFR(s) filed subsequent to such classification or criticism.

15. First Federal shall maintain the specific allowance for loan losses established for those loans classified as "Loss" in the Report pursuant to 12 C.F.R. § 563.160(d) (1990). Such allowances shall remain until First Federal receives prior written approval by the OTS for any reduction.

16. Within ten (10) days from the date of this Order, First Federal shall establish and maintain, at a minimum, general valuation allowances ("GVAs") of \$1,100,000. The minimum GVAs of \$1,100,000 shall remain until First Federal receives prior written approval by the OTS for any reduction in the GVAs. The reserves are to be reported beginning with the September 30, 1990 TFR pursuant to 12 C.F.R. § 563.160(c) (1990).

17. First Federal shall take immediate and continuing action to protect its interest with regard to those assets criticized in the Report, or any subsequent Report of Examination.

18. Within sixty (60) days from the date of this Order, the Board shall submit to the OTS for review and approval a written work-out program designed to eliminate the basis of criticism of assets criticized in the Report as "Doubtful", "Substandard", or "Special Mention". This program shall include at a minimum:

- a. an identification of the expected source of repayment;
- b. the appraised value of supporting collateral and the position of First Federal's lien on such collateral where applicable;
- c. an analysis of current and satisfactory credit information, including a cash flow analysis for loans that are to be paid from operations; and
- d. the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

19. After the work-out program required in Paragraph Number 18 is approved by the OTS, First Federal shall adhere to it in all respects.

20. The Board, or a delegated committee (consisting of a majority of outside directors) thereof, shall conduct a review of the work-out program, required in Paragraph Number 18, on at least a monthly basis to determine:

- a. the status of the criticized assets compared to the work-out program's goals;
- b. management's adherence to the Board's approved work-out program;
- c. the status and effectiveness of the work-out program; and
- d. the need to revise the work-out program or take alternative action.

21. A copy of each review, required in Paragraph Number 20, shall be properly documented in the Board's minutes and forwarded to the OTS within ten (10) days following the Board's review date in a format similar to Appendix A (attached hereto).

22. First Federal shall not extend credit, directly or indirectly, including renewals, to any borrower whose loan(s) or other extension(s) of credit is classified in the Report or any subsequent Report of Examination.

23. The immediately preceding paragraph shall not apply if:

- a. First Federal's failure to extend further credit to the affected borrower would be substantially detrimental to the best interest of First Federal;

- b. a comparison to the written work-out program, adopted pursuant to Paragraph Number 18, shows that First Federal's formal program to collect or strengthen said classified asset is not compromised;
- c. prior to renewing, extending or capitalizing any additional credit, a majority of the full Board approves the credit extension and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interest of First Federal. A copy of the Board's certification shall be maintained in the credit file of the affected borrower(s). In addition, a copy of the Board's certification shall be submitted with the request for approval to the OTS;
- d. with respect to those loans and extensions of credit that exceed the lending limitations of 12 C.F.R. § 563.93 (1990), the extension, renewal, or modification is consistent with the guidelines set forth in Thrift Bulletin 32, dated September 8, 1989, and 32-1, dated December 5, 1989; and
- e. First Federal receives the prior written approval of the OTS.

24. A work-out program similar to that required by Paragraph Number 18 shall be adopted for all additional assets which are criticized by First Federal's internal asset classification policy.

25. Within sixty (60) days from the date of this Order, First Federal shall submit to the OTS for review and approval an amended Asset Classification Policy. Amendments to the policy shall include, but not necessarily be limited to, the following:

- a. the methodology used to determine the adequacy of the reserves;
- b. a detailed criteria for classifying assets substandard;
- c. a detailed criteria for classifying assets doubtful;
- d. a detailed criteria for classifying assets loss;
- e. provisions which address the composition of all of First Federal's assets;
- f. a clear and concise definition of consumer credit which is well secured consistent with the provisions of 12 C.F.R. § 561.13 (1990); and
- g. the considerations set forth in Section 260 of the Thrift Activities Handbook.

26. After the Asset Classification Policy required in Paragraph Number 25, is approved by the OTS, First Federal shall adhere to it in all respects.

27. Within sixty (60) days from the date of this Order, First Federal, to insure proper loan underwriting, shall submit to the OTS for review and approval an amended Loan Underwriting Policy. Amendments to the policy shall include, but not necessarily be limited to, the following:

- a. provisions which correct all underwriting deficiencies noted on Page Number 9 and 10 of the Report;
- b. a description of acceptable types of loans and real estate investments, including loans secured by personal property, made or purchased by First Federal;
- c. a provision that current and satisfactory credit information will be obtained on each borrower;
- d. a provision that, prior to funding or obligating itself to fund any loan or investment, First Federal must have obtained, as appropriate, each of the items required in 12 C.F.R. § 563.170 (1990);
- e. maturity scheduling related to the anticipated source of repayment, the purpose of the loan, and the useful life of the collateral; and
- f. maximum ratios of loan value to appraised value and acceptable debt service ratios for each type of loan offered.

28. After the revised Loan Underwriting Policy required in Paragraph Number 27, is approved by the OTS, First Federal shall adhere to it in all respects.

29. Within ninety (90) days from the date of this Order, First Federal shall insure that all loans granted between June 1, 1990 and the date of approval of the revised Loan Underwriting Policy required in Paragraph Number 27, at a minimum, adhere to that policy.

30. Within thirty (30) days from the date of this Order, First Federal shall submit to the OTS for review and approval a comprehensive written Appraisal Policy. The policy shall include, but not necessarily be limited to, the following:

- a. the definition of "fair market value" and "fair value";
- b. guidelines and procedures as to the hiring of appraisers in performing appraisals;
- c. a provision that the appraisal report be presented in a narrative format and contain sufficient information to enable a reviewer to readily ascertain the value and the rationale for that estimate;
- d. a provision that the prior sales history of the property be included in the appraisal report;

- e. that First Federal employ more than one appraising firm for its appraisal services; and
- f. to the extent not otherwise listed above, the provisions of 12 C.F.R. § 563.171 (1990).

31. After the Appraisal Policy required in Paragraph Number 30 is approved by the OTS, First Federal shall adhere to it in all respects.

32. The one year cumulative gap shall be reduced to less than negative 25% by March 31, 1991 and to less than negative 20% by April 30, 1991, and, at a minimum, shall remain less than negative 20%.

33. Within thirty (30) days from the date of this Order, First Federal shall revise its Interest Rate Risk Management Policy consistent with the provisions of Thrift Bulletin 13 and 12 C.F.R. § 563.176 (1990). The revised policy shall include measures by which the maximum exposure limits for the Market Value of Portfolio Equity are reduced to a reasonable level.

34. After the Interest Rate Risk Management Policy required in Paragraph Number 33 is revised, First Federal shall adhere to it in all respects.

35. First Federal shall file in a proper, accurate, and timely manner all forms required pursuant to 12 C.F.R. § 563d (1990), pertaining to the Securities Exchange Act of 1934. Such filings shall include, but not be limited to, Forms 10-K, Proxy Statements, Forms 4, and Forms 13-d.

36. First Federal shall properly and accurately file all appropriate reports pertaining to crimes and unexplained losses as required by 12 C.F.R. § 563.180(d)(2) and (4) (1990).

37. Any report or other document required by this Order to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 111 East Wacker Drive, Suite 800, Chicago, IL 60601, Attn: Assistant Director. All reports and other documents shall be deemed filed when mailed by United States mail, certified mail, return receipt requested, and postage prepaid.

38. Although the Board, by this Order, is required to submit certain proposed actions and programs for the review or approval of the OTS, the Board has the ultimate responsibility for proper and sound management of First Federal.

39. It is expressly and clearly understood and acknowledged by First Federal that if, at any time, the OTS deems it appropriate in fulfilling the responsibilities placed upon it by the several laws of the United States of America to undertake any action affecting First Federal nothing in this Order shall in any way inhibit, estop, bar, or otherwise prevent the OTS from doing so.

40. Any time limitations imposed by this Order shall begin to run from the date of this Order unless otherwise provided for. Such time limitations may be extended by the OTS for good cause upon written application by the Board.

41. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in the Rules and Regulations adopted by the OTS (including without limitation, Chapter V of Title 12 of the Code of Federal Regulations), or as such definition is amended after the execution of this Order. Any such technical words or terms used in this Order and undefined in the Code of Federal Regulations shall have meanings that accord with the best custom and usage in the thrift industry.

42. The provisions of this Order are effective upon issuance of this Order by the OTS, through its authorized representative whose signature appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated by the OTS.

IT IS SO ORDERED, this 26th day of March 1991.

THE OFFICE OF THRIFT SUPERVISION

By /S/

Stuart M. Brafman
Regional Director
Central Regional Office