

UNITED STATES OF AMERICA
BEFORE THE
OFFICE OF THRIFT SUPERVISION

In the Matter of:)

FIRST NORTHERN SAVINGS AND)
LOAN ASSOCIATION)
Greeley, Colorado)
_____)

Resolution No.: DAL-91-19
Dated: April 24, 1991

STIPULATION AND CONSENT TO ISSUANCE OF
ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the Midwest Regional Office, OTS, and First Northern Savings and Loan Association, Greeley, Colorado, its subsidiaries, service corporations and affiliates ("First Northern" or the "Institution"), hereby agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that First Northern has violated the provisions contained within paragraphs 2(a)(5), 2(c) and 9 of the July 24, 1990 Supervisory Agreement entered into by and between the Institution, and is further of the opinion that First Northern has violated 12 C.F.R. Section 563.43, 12 C.F.R. Section 563.160, 12 C.F.R. Section 563.170, and 12 C.F.R. Section 571.18, thereby providing grounds to initiate an administrative cease and desist proceeding against First Northern 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") 12 U.S.C.S.

§1818(b) (Law. Co-op. Supp. 1990). First Northern desires to cooperate with the OTS to avoid the time and expense of such administrative litigation, and without admitting or denying any of the grounds alleged, 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 Northern with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) First Northern is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owner's 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, 12 U.S.C.S. §1813(c) (Law. Co-op. Supp. 1990).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the OTS is the "appropriate Federal banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, First Northern 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, 12 U.S.C.S. §1818(b) (Law. Co-op. Supp. 1990).

3. Consent. First Northern 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.

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Re: Resolution No. DAL-91-19
Dated: April 24, 1991

ORDER TO CEASE AND DESIST

WHEREAS, First Northern Savings and Loan Association, Greeley, Colorado ("First Northern" or the "Institution"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist ("Stipulation") that is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Midwest Regional Office ("Regional Director"); and is incorporated herein by reference; and

WHEREAS, First Northern, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to §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"), 12 U.S.C.S. § 1818(b) (Law. Co-op. Supp. 1990);

NOW, THEREFORE, IT IS ORDERED that First Northern and its directors, officers, employees, agents, subsidiaries and service corporations shall cease and desist from any violation of, or the aiding and abetting of any violation of:

- a. Section 563.43 of the Rules and Regulations of the Office of Thrift Supervision ("OTS Regulations"), 12 C.F.R. Section 563.43 (1990);
- b. Section 563.160 of the OTS Regulations, 12 C.F.R. Section 563.160 (1990);
- c. Section 563.170 of the OTS Regulations, 12 C.F.R. Section 563.170 (1990); and
- d. Section 571.18 of the OTS Regulations, 12 C.F.R. Section 571.18 (1990).

IT IS HEREBY FURTHER ORDERED that:

I. DEFINITIONS

1. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), or the Federal Deposit Insurance Act ("FDIA"), and any such technical

words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, or FDIA shall have meanings that accord with the best custom and usage in the savings and loan industry.

2. For the purposes of this Order, except as otherwise indicated, the following definitions shall apply:

- a. a "set" is a group of loans, participations, investments, securities, or other assets related, by being sold or pledged to, purchased from, or exchanged with any persons, entities, or institutions acting together in a single transaction;
- b. "invest in" means to make, originate, purchase, acquire, guarantee, refinance, modify, extend, renew, or to commit to do any of these;
- c. "transfer" means to sell, assign, pledge, exchange, or to commit to do any of these;
- d. "real estate investment" means the net book value of real estate purchased, acquired by foreclosure or deed in lieu thereof, or owned in any manner, inclusive of any expenditures incurred in connection with holding or improving such real estate and following adjustment for any loss reserves or allowances.

II. OPERATING RESTRICTIONS

3. Without prior written approval of the Deputy Regional Director for the Midwest Regional Office or his designee ("Deputy Regional Director") the Institution shall not, and shall not allow any wholly-owned or partly-owned subsidiary or affiliate of the Institution to:

a. invest in any loans or contracts secured by real estate or participations therein (including any acquisition, construction and development loans) or any set of such loans or participations, except loans made at current market interest rates and terms which are:

- (1) to finance the bona fide purchase of, or construction of pre-sold, 1-4 family residences secured by first liens on such properties that do not exceed in each case One Hundred Seventy Five Thousand Dollars (\$175,000); or to finance construction loans to builders on speculative construction of 1-4 family residences secured by first liens on such properties not to exceed One Hundred Thousand Dollars (\$100,000); or

- (2) to refinance loans on existing 1-4 family residences secured by first liens on such properties that do not exceed in each case One Hundred Seventy Five Thousand Dollars (\$175,000), or
- (3) to be secured by second liens on existing 1-4 family residences where the loan to value ratio of the first and second liens combined does not exceed 80% and the combined debt does not exceed One Hundred Seventy Five Thousand Dollars (\$175,000); or
- (4) to finance residential real estate other than 1-4 family residences where the loan to value ratio does not exceed 80% and such loan does not exceed One Hundred Seventy Five Thousand Dollars (\$175,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA 12 U.S.C.S. Section 1464(c)(2) and (u) (Law. Co-op. Supp. 1990); or
- (5) to refinance residential real estate other than 1-4 family residences if such loan does not exceed One Hundred Seventy Five Thousand Dollars (\$175,000); provided, however, such loans shall not exceed the limitations

contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA, 12 U.S.C.S. Section 1464(c)(2) and (u) (Law. Co-op. Supp. 1990); or

(6) to finance nonresidential real estate where the loan to value ratio does not exceed 80% and such loan does not exceed One Hundred Thousand Dollars (\$100,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA, 12 U.S.C.S. Section 1464(c)(2) and (u) (Law. Co-op. Supp. 1990); or

(7) to refinance nonresidential real estate if such loan does not exceed One Hundred Thousand Dollars (\$100,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA, 12 U.S.C.S. Section 1464(c)(2) and (u) (Law. Co-op. Supp. 1990);

b. transfer any loan secured by real estate or participation therein or any set of such loans or participations if the net book value of any such loan or participation exceeds One Hundred

Thousand Dollars (\$100,000), except loans made at current market interest rates and terms to finance bona fide purchases of, or refinance existing owner-occupied 1-4 family residences secured by a first lien on such residences; and except loans secured by 1-4 family residences conforming to FNMA, GNMA and FHLMC guidelines purchased through the secondary market;

c. invest in or transfer any commercial loan or letter of credit, whether secured or unsecured, with a book value in each case in excess of Fifty Thousand Dollars (\$50,000); provided, however, such investments shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA, 12 U.S.C.S. Section 1464(c)(2) and (u) (Law. Co-op. Supp. 1990); and

d. invest in any consumer, education, or home improvement loan if the principal amount of such loan exceeds Fifty Thousand Dollars (\$50,000);

4. Within sixty (60) days after the effective date of this Order, the Institution shall submit a revised annual operating plan ("Operating Plan") which details projected business strategies, budget assumptions, and operations for the Institution and its subsidiaries through June 30, 1992, in a form acceptable to the Deputy Regional Director. The Operating

Plan shall be updated and revised as of July 1, 1992, and prepared annually thereafter and should include pro forma financial statements (with relevant assumptions) for the fiscal year, or part thereof, covered by the plan and should be consistent with providing sound and economical home financing and shall incorporate, as appropriate, the provisions of this Order. In addition, the Operating Plan shall incorporate the following plans, policies, and procedures or guidelines:

- a. the interest-rate-risk- management policy required by 12 C.F.R. Section 563.176; and
- b. policies and procedures for the pricing of loans and savings products.

The Operating Plan, before implementation, shall be subject to the review and approval of the Deputy Regional Director, and any material deviations from the Operating Plan once approved shall require the prior written approval of the Deputy Regional Director. The board of directors of the Institution shall review and approve said Operating Plan and shall monitor this Operating Plan on a continuing basis. Upon approval of the Operating Plan, the association will prepare, on a quarterly basis, written reports containing a comparison of the Institution's year-to-date operating results against the projected results in the Operating Plan as of the end of each calendar quarter. If the actual operating results fail to meet the projected results of the Operating Plan in any material respect, the report shall include an explanation of such

deviation and a specific description of the measures that have been implemented or proposed to correct and/or abate any adverse deviations. The board of directors of the Institution shall review this report each quarter and the minutes of its meetings shall disclose the extent of the board of directors' involvement in the monitoring process. A copy of the minutes and a copy of the written report shall be filed with the Deputy Regional Director within forty-five (45) days following the end of each quarter.

5. Within thirty (30) days after the effective date of this Order, the Institution shall submit to the Deputy Regional Director for approval a revised asset classification policy. This revised policy shall adhere to the guidelines set forth in 12 C.F.R. Section 563.160 and OTS Thrift Bulletin #3 and shall specifically address the Institution's policies and procedures for reviewing and classifying commercial and consumer credits.

6. Within thirty (30) days after the effective date of this Order, the Institution shall submit to the Deputy Regional Director for approval, revised policies and procedures for the management of problem assets, including policies relating to loan modifications for troubled debt restructuring. This policy shall state the terms and conditions upon which modifications will be considered, the levels of approval required and, a commitment to follow generally accepted accounting principles ("GAAP") in recording and reporting modified loans.

7. The Institution shall continue to submit to the Deputy Regional Director a quarterly problem asset report which should include, at a minimum, the following information:

- a. loan/property identification and location;
- b. current balance;
- c. current interest rate;
- d. current payment status;
- e. latest appraised value of collateral and date of appraisal;
- f. status of any pending workout arrangements;
- g. amount of specific reserves established;
- h. internal asset classification; and,
- i. current plans for disposition.

8. Within sixty (60) days after the effective date of this Order, the Institution shall submit to the Deputy Regional Director for approval, revised loan and investment policies and procedures that shall govern all loans, other extensions of credit, and loan investments made or purchased by the Institution or its subsidiaries ("Underwriting Standards"). These Underwriting Standards, at a minimum, shall require that prior to making or purchasing (or committing to make or purchase) any loan, other extension of credit or loan investment, the Institution or its subsidiaries must have obtained, as appropriate per the requirements set forth in

Section 563.170(c) (1990), each of the items listed in subsections (a) through (p) of paragraph 9 and subsections (a) through (c) of paragraph 10 of this Order.

9. Until it has received approval of the Underwriting Standards from the Deputy Regional Director, the Institution or any of its subsidiaries shall not make or purchase any loan, (other than 1-4 family dwelling loans from FHLMC, FNMA, or GNMA supervised lenders) other extension of credit or loan investment -- without having first obtained, as appropriate, each of the following:

- a. a written application signed by the borrowers and guarantors stating the purpose of the loan, extension of credit or investment, and the identity of the security property;
- b. signed financial statements of the borrowers and guarantors;
- c. a signed statement disclosing the purchase price paid by the borrowers;
- d. current credit reports for each borrower and guarantor together with a written report signed by an employee of the Institution responsible for analyzing the loan, extension of credit or investment ("Underwriter") explaining all outstanding derogatory items in the report and reflecting compliance with the Equal Credit Opportunity Act;

- e. a written report, signed by the Underwriter, evidencing that material items in the borrowers' and guarantors' financial statements have been verified and analyzed to ensure that the borrowers and guarantors have sufficient assets and cash flow to retire the loan under the terms of the note and/or guaranty;
- f. in the case of a loan or extension of credit upon real property or real property interests, an appraisal report which complies with 12 C.F.R. Section 563.170(c)(1)(iv) (1990) and 12 C.F.R. Part 564 and conforms to generally-acceptable appraisal policy and practice guidelines;
- g. in the case of a loan secured by property other than real estate, an appropriate statement of value of the security property prepared by a qualified person, a verification of the lien status of the security property current through the date of the loan or commitment decision and, where appropriate, documents verifying the existence of the proposed security property and that it is owned by and/or title is held by the proposed borrower;
- h. written evidence, duly verified, that the borrower has invested cash or another form of equity, as appropriate, in the security property;

- i. in the case of construction loans or multiple disbursement loans for improvements, written cost estimates and breakdowns prepared by a qualified engineer, architect, or other person qualified to prepare such an estimate;
- j. written market feasibility studies prepared by a qualified professional for all acquisition, development, and construction loans;
- k. a written approval form showing when and by whom the loan, other extension of credit or investment was approved and the terms and conditions of such approval;
- l. title insurance commitment or acceptable attorney's opinion establishing the quality and validity of the Institution's lien on any real estate securing the extension of credit, and subsequent to closing of the loan, a title insurance policy or acceptable attorney's opinion reflecting the required quality and validity of the Institution's lien, and as supported by a current, signed survey reflecting all physical improvements above and below ground, encroachments, flood plain status, easements, and boundary line descriptions;

- m. written documentation showing that the Institution, upon the closing of the loan, or other extension of credit, furnished the borrowers or guarantors a statement setting forth in detail all charges and fees paid and obligated to be paid, including, but not limited to, the loan settlement statement;
- n. a written record showing the status of taxes, assessments, insurance premiums, and other charges on the security of the loan, other extensions of credit or investment;
- o. written documentation evidencing hazard insurance, in full force and effect, to protect the Institution from loss, as outlined in the policy statement at 12 C.F.R. Section 571.4 (1990); and
- p. the file for each loan or loan commitment granted or purchased by the Institution shall include a written certification by an officer or other employee of the Institution that upon actual review, knowledge, and belief the loan complies with all acceptable provisions of the OTS Regulations and this Order.

10. The Institution shall not disburse funds on existing participations, loans in process, loan investments or other extensions of credit (other than 1-4 family residential loans and investments eligible as assets qualifying for liquidity as defined in 12 C.F.R. Section 566.1) without first having obtained, as appropriate, each of the items listed in subsections (a) through (p) of paragraph 9 of this Order. Furthermore, the Institution shall not disburse funds for any loan, participation, or other extension of credit unless it has obtained the following:

- a. written documentation showing the date, amount, purpose, and recipient of every disbursement;
- b. written documentation evidencing all modifications to the original contract, including appropriate approval of each modification; and
- c. written documentation supporting all releases of any portion of the collateral supporting the loan or other extension of credit.

Every disbursement of funds, except as excluded above, of Twenty-five Thousand Dollars (\$25,000) or more shall be approved in advance by a committee established by the Institution's board of directors, which committee shall consist of at least one outside director. The minutes of each meeting of such committee shall reflect such approval and shall adequately describe the nature and purpose of the disbursement.

11. The Institution and its subsidiaries shall comply in all respects with the requirements of Sections 563.41 and 563.43 of the OTS Regulations, 12 C.F.R. Sections 563.41 and 563.43 (1990), and Sections 23A, 23B, and 22(h) of the Federal Reserve Act. Furthermore the Board of Directors shall immediately take any measures necessary to bring the Institution into full compliance with OTS Regulations 563.41 and 563.43, and Sections 23A, 23B and 22(h) of the Federal Reserve Act, including, but not limited to:

a. within thirty (30) days after the effective date of this Order, the Institution shall provide to the Deputy Regional Director a list of all loans to affiliated persons or affiliates outstanding as of the date of this Order. The information for each loan shall include:

- i. the identity of the obligor and guarantor, if any;
- ii. the date of the loan;
- iii. the total amount disbursed;
- iv. the loan amount remaining to be disbursed;
- v. the terms of the loan;
- vi. the publicly available terms for similar loans;
- vii. the collateral for the loan;
- viii. the prospects for repayment; and

b. Within thirty (30) days after the effective date of this Order, the Institution shall submit to the Deputy Regional Director a written policy concerning loans and other extensions of credit (including overdrafts) to employees and other affiliated persons. This policy, before being implemented, shall be subject to the review and approval of the Deputy Regional Director.

12. From and after the effective date of this Order, without the prior written approval of the Deputy Regional Director, First Northern shall not accept, renew or roll-over any funds obtained, directly or indirectly, by or through any deposit broker, for deposit into one or more deposit accounts, except as permitted pursuant to Section 29 of the FDIA, as added by FIRREA (to be codified at 12 U.S.C. Section 1831f).

13. The Institution shall file all financial reports required by the OTS including monthly and quarterly reports by the required due date and such other reports requested by the Deputy Regional Director by the requested due date.

14. The Board of Directors shall ensure that the President of First Northern prepares a monthly compliance report for review by the directorate at each regularly scheduled board meeting. This report shall detail the Institution's compliance with the terms of this Order. The President shall present this report in its entirety to the directorate at each regularly scheduled meeting. The board shall also ensure that the

President's report is entered into the minutes of each meeting. Each official minute book copy of the minutes of the Board's meetings shall be signed and dated by each director.

15. No later than the final day of each calendar month, the board of directors of the Institution shall adopt a resolution, similar to the attached resolution, signed by each director, certifying that the Institution has complied with all conditions of this Order during the preceding calendar month.

The Institution shall retain these resolutions at its home office.

16. The Institution and the OTS agree that the July 24, 1990 Supervisory Agreement entered into by and between the Institution and the OTS is hereby terminated.

17. The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

18. This Order shall remain in effect until terminated by the OTS.

OFFICE OF THRIFT SUPERVISION

/S/

Billy C. Wood
Regional Director
Midwest Regional Office