

UNITED STATES OF AMERICA
before the
OFFICE OF THRIFT SUPERVISION

_____)	
In the Matter of)	
First Federal Savings and Loan)	Resolution No.: CIN 91-20
Association of Giles County)	Dated: July 2, 1991
Pulaski, Tennessee)	
_____)	

STIPULATION AND CONSENT TO ISSUANCE OF
ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS") by and through its Deputy Regional Director for the Cincinnati District Office of OTS and First Federal Savings and Loan Association of Giles County, Pulaski, Tennessee ("First Federal"), stipulate and agree as follows:

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 the Federal Deposit Insurance Act, § 8(b), 12 U.S.C.A. § 1818(b) (West 1989). First Federal desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation and, without admitting 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" and an "insured depository institution" as defined by 12 U.S.C.A. §§ 1462 and 1813 (West 1989 and Supp. 1990).

(b) The Director of OTS is the "appropriate Federal Banking agency" to maintain a cease and desist proceeding against such savings association, pursuant to 12 U.S.C.A. § 1818(b) (West 1989), therefore, First Federal is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it.

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 its issuance and stipulates that the Order complies with all requirements of law.

4. Finality. The Order is issued under 12 U.S.C.A. § 1818(b) (West 1989). Upon its issuance by the Cincinnati District Office, OTS, it shall be a final Order, effective and fully enforceable by the OTS under the provisions of 12 U.S.C.A. § 1818(i) (West 1989).

5. Waivers. First Federal waives its right to a notice of charges and the administrative hearing provided by 12 U.S.C.A. § 1818(b) (West 1989), and further waives its right to seek judicial review of the Order, including any such right provided by 12 U.S.C.A. § 1818(h) (West 1989), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Deputy Regional Director for the Cincinnati District 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
ASSOCIATION OF GILES COUNTY
PULASKI, TENNESSEE
by a majority of its directors

/S/

Thomas A. Hamilton
Deputy Regional Director
Cincinnati District Office
Office of Thrift Supervision

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ORDER TO CEASE AND DESIST

WHEREAS, First Federal Savings and Loan Association of Giles County, Pulaski, Tennessee ("First Federal"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist ("Stipulation") which is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Deputy Regional Director for the Cincinnati District Office, and is incorporated herein by reference; and

WHEREAS, First Federal, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to the Federal Deposit Insurance Act, § 8(b), 12 U.S.C.A. § 1818(b) (West 1989).

NOW THEREFORE, IT IS ORDERED that First Federal and its directors, officers, employees, agents and service corporations shall cease and desist from all violations of the Supervisory Agreement entered into November 30, 1984, between First Federal and the Federal Home Loan Bank Board ("Agreement"), all applicable statutes and regulations, and internal policies and procedures currently in place or as subsequently amended.

IT IS FURTHER ORDERED:

1. First Federal shall, by July 31, 1991, evaluate and enhance, where appropriate, specific policies and procedures governing loan underwriting. Said policies and procedures shall be submitted for approval to the OTS Deputy Regional Director for the Cincinnati District Office or his designee ("Deputy Regional Director").

2. Prior to the OTS approval of enhanced loan policies, First Federal shall not grant any additional loans, except single-family residential mortgage loans with loan-to-value ratios of 80 percent or less or 95 percent if private mortgage insurance or government insurance is obtained, and loans fully secured by deposits, including interest accrual. Prior to the OTS approval of enhanced loan policies, First Federal may renew existing loans if they are in accordance with existing loan policies and the requirements of documentary evidence set forth in paragraph three below are met.

3. Prior to granting, renewing, or manually extending any loan, First Federal shall have in its possession documentary evidence that each and every requirement of its loan underwriting policies and procedures has been complied with in all respects. Such documentary evidence shall include, but not be limited to:

- (a) for all loans, a written application signed and dated by the borrowers and guarantors stating the purpose of the loan;
- (b) except for loans fully secured by deposits, financial statements of borrowers and guarantors certified by such borrowers and guarantors as true and correct. Financial statements of prospective borrowers and guarantors where

total loans to the borrowers exceeds \$500,000 shall be prepared in accordance with guidelines published by the American Institute of Certified Public Accountants;

- (c) except for loans fully secured by deposits, current credit reports for all borrowers and guarantors together with a written report signed by the responsible First Federal employee evaluating and justifying any outstanding negative items contained in any such report;
- (d) except for loans fully secured by deposits, a document signed by the responsible First Federal employee evidencing that material items in the borrowers' and guarantors' financial statements have been verified and analyzed to reasonably insure that the borrower and guarantor has sufficient assets, and income, and, in the case of loans to businesses to be repaid from operations, cash flow to retire the loan under the terms of the note and guarantee;
- (e) for every loan secured by real estate, regardless of the amount of the loan or the institution's classification as a mortgage, consumer, or commercial loan, an appraisal report which meets the requirements of 12 C.F.R. §§ 563.170(c)(1)(iv) and 564 (1991), provided that appraisal reports as described herein would not be required for extensions of credit under an existing deed of trust, secured by owner occupied, single family dwellings, in an amount not to exceed the original loan amount or 80% loan to value ratio, whichever is lower.

- (f) for loans secured by property other than real estate, which documentation meets the requirement of 12 C.F.R. § 563.170(c)(2)(1991), an appropriate statement of value prepared by an independent party, or, in the case of an automobile, a verification of the value as set forth in the NADA guide, a verification of the lien status of the security property current through the date of loan closing, and where appropriate, documentation evidencing the existence of the proposed security property and that it is owned and/or titled in the name of the proposed borrower or guarantor or will be as of the date of loan closing;
- (g) documentation evidencing the borrower's or guarantor's investment of cash or another form of equity, in the security property;
- (h) for construction loans, written cost estimates and breakdowns, prepared by an engineer, architect, or other person qualified to prepare such an estimate;
- (i) written market or feasibility studies, where appropriate to the proposed loan, and required by the underwriting standards, prepared by a qualified professional, which demonstrates that the project securing the loan can be sold in a period of time and at a sufficient price to provide for repayment of the loan according to its terms and conditions; and
- (j) in the case of loans to undercapitalized corporate borrowers, personal guarantees, from the principal

shareholder or shareholders or other persons or entities financially capable of repaying loans granted to such borrowers.

4. First Federal shall, by September 30, 1991, collect the documentation necessary to perform the asset review and classification required by paragraph ten for all commercial and consumer loans extended since July 1, 1989. First Federal shall provide the Deputy Regional Director with a monthly report of its progress. Said report shall include at a minimum the number and dollar amount of loans reviewed, documented, and classified.

5. First Federal shall immediately accept the resignation or terminate the employment of George Magnusson without compensation.

6. First Federal shall not issue, renew, or manually extend term loans for terms in excess of 180 days, except that one-year term loans may be made to borrowers (such as cattlemen, farmers or agriculture related businesses) whose income is seasonal. At maturity, all term loans shall require the repayment of all accrued but unpaid interest, fees, and any insurance premium or real estate taxes capitalized to the principal balance. Term loans which are not fully secured by deposits, cannot be renewed without a minimum principal reduction of 20 percent or conversion to an amortizing loan.

7. First Federal shall not electronically manipulate due dates and/or maturity dates. First Federal shall correct the manipulations cited in the February 4, 1991, OTS Report of Examination and make diligent efforts to determine if any manipulations other than those disclosed in said Report exists.

8. First Federal shall, by July 31, 1991, develop a policy regarding account overdrafts, which shall include, but not be limited to the following: (a) First shall not allow any accounts, including demand accounts, N.O.W. accounts, Money Market Deposit Accounts, and Super N.O.W. accounts to remain in a negative balance status beyond 5 business days; (b) any account that has been in a negative balance status for 5 business days or longer as of the date of this Order shall be closed and collection efforts shall be forthcoming to collect the negative balance; (c) any item presented for payment on an account with a negative balance shall not be honored unless the accountholder has previously been authorized overdraft protection.

9. First Federal shall, by July 31, 1991, adopt policies and implement procedures for enhanced internal asset review and classification which the board of directors shall review at least annually and update as necessary. First Federal must include the following as part of these enhanced policies and procedures:

- (a) clear provision for identification of problem or potential problem assets;
- (b) establishment of an independent asset review committee, consisting of a majority of outside directors and/or officers not involved in the troubled lending or investment decisions; and
- (c) requirement that the asset review committee maintain adequate records and documentation of its activities.

10. First Federal shall immediately commence a special review of all loans granted or renewed since July 1, 1989, pursuant to the policies and procedures for asset review and classification adopted in accordance with

paragraph 9. First Federal shall immediately recognize in its books and records, and report in the Thrift Financial Reports submitted to the OTS, the dollar amount of assets adversely classified as recommended in the February 4, 1991, OTS Report of Examination. First Federal shall reduce the amount of such classified assets only by the amount of charge-offs or pay-offs of loans until such time as asset review required by this paragraph is completed. Any reductions of classified assets must be specifically addressed and supported by the minutes of the independent asset review committee required by paragraph 9(b) herein.

11. First Federal shall immediately establish general valuation allowances consistent with the recommendations in the February 4, 1991 OTS Report of Examination. By July 31, 1991, First Federal shall adopt policies and implement procedures for the establishment of general valuation allowances, which shall give consideration to the level, security, and trend of nonperforming assets, and income earning assets. First Federal shall either establish specific valuation allowances or write off assets classified as loss.

12. First Federal's board of directors shall continue to meet at least once each month to review the prior month's operations, consider various loan applications, consider the need for policy changes, evaluate management's compliance with statutory and regulatory requirements, as well as existing board policies and procedures, timely respond to regulatory correspondence and inquiries, and other actions normal for an effective and active board of directors. First Federal will submit a draft of its board minutes to the Deputy Regional Director within ten days from the date of each meeting.

13. Funding of legally binding commitments or lines of credit existing as of the date of this Order shall not constitute a violation of this Order, but any renewal or manual extension of loans made under such commitments or lines of credit are subject to the provisions hereof.

All technical words or terms used in this Order, for which meanings are not specified or otherwise provided herein, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act, or the Federal Deposit Insurance Act, and any such technical words or terms used in this Order, and undefined by said statutes, rules and regulations shall have meanings that accord with the normal custom and usage in the savings and loan industry.

This Order shall remain in effect until terminated by the OTS, acting through its Deputy Regional Director. In the event of an OTS approved merger of First Federal into another institution, this Order shall automatically be terminated upon the effective date of the merger.

OFFICE OF THRIFT SUPERVISION

/S/

Thomas A. Hamilton
Deputy Regional Director
Cincinnati District Office
Office of Thrift Supervision