

UNITED STATES OF AMERICA
before the
OFFICE OF THRIFT SUPERVISION

In the Matter of)

First Federal Savings Bank)
Pineville, Kentucky)

Resolution No.: CIN 91-22

Dated: July 25, 1991

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 Bank, Pineville, Kentucky ("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 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(1) (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 Bank
Pineville, Kentucky
by a majority of its directors

/S/

Deputy Regional Director
Cincinnati District Office

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WHEREAS, First Federal Savings Bank, Pineville, Kentucky ("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

NOW THEREFORE, IT IS ORDERED that First Federal and its directors, officers, employees, agents, and service corporations shall cease and desist from violating its policies and procedures. Further, First Federal shall abide by the terms of this Order, as follows:

1. First Federal shall, within 30 days of the issuance of this Order, adopt policies and implement procedures for enhanced loan

underwriting, governing all types of loans engaged in by First Federal, which the board of directors shall review annually and update as necessary ("underwriting standards"). Said policies and procedures shall be submitted to the OTS Deputy Regional Director, Cincinnati District, or his designee ("Deputy Regional Director") for approval.

2. Prior to granting or committing to grant, or purchasing or committing to purchase any loan, First Federal shall have in its possession, as appropriate for the type of loan, documentary evidence of compliance with all requirements of its loan underwriting standards. First Federal shall make the following requirements for documentary evidence a part of its underwriting standards:

- (a) a written application signed and dated by the borrowers and guarantors stating the purpose of the loan;
- (b) written verification of the borrower's income and employment signed by the responsible First Federal employee;
- (c) written evidence that the borrower's debt to income ratio has been calculated by the responsible First Federal employee;
- (d) current written credit reports for all borrowers/ guarantors together with a written report signed by the responsible First Federal employee evaluating any outstanding negative items contained in any such reports;
- (e) for loans secured by real estate, documentary evidence that § 563.170(c)(1) of Title 12 of the Code of Federal Regulations ("the Regulations") has been fully

complied with, such as a note evidencing the borrower's obligation to repay the amount of the loan, a copy of the deed of trust or mortgage instrument on said real estate, one or more written appraisal reports, a current financial statement signed by the borrower disclosing its financial ability to repay the loan, and other required documentation.

3. The allowable debt to income ratio in First Federal's underwriting standards shall be no greater than thirty-six (36) percent.

4. All appraisals performed by First Federal employees must be completed by appraisers who are independent of the lending, investment and collection functions and not involved, except as an appraiser, in the federally related transaction, as required by § 564.5 of the Regulations.

5. The loan committee shall provide written documentation in First Federal's loan files that all appraisals after the date hereof comply with the proper standards, as outlined in Part 564 of the Regulations.

6. Within 30 days from the date of this Order, the Board of Directors shall adopt policies and implement procedures which require compliance with all aspects of § 22(h) of the Federal Reserve Act, 12 U.S.C. § 375b and Section 563.43(b)(3) of the Regulations. Included in such policies shall be a prohibition on overdrafts on any accounts held by First Federal employees, officers or directors.

7. First Federal shall reduce the compensation paid to any executive officers which was increased by more than five (5) percent in violation of § 4 of the Conditions to O.T.S. approval of First

Federal's Capital Plan, dated August 16, 1990. Such compensation shall be reduced to permitted levels until the prior written approval of the Deputy Regional Director shall be obtained.

8. Within 30 days from the date of this Order, the board of directors of First Federal shall adopt policies and procedures pursuant to which no employee, officer or director of First Federal shall receive any commissions or fees on insurance policies sold to First Federal customers, and First Federal shall use its best efforts to enforce such policies and procedures.

9. Within 30 days from the date of this Order, any loans or advances to affiliated persons presently outstanding which were made in violation of § 563.43(b)(3) shall be adjusted to the proper rate of interest based upon the cost of funds of First Federal at the time of each such loan or advance. In addition, within 60 days from the date of this Order, First Federal shall use its best efforts to ensure that any past recipients of such loans made below First Federal's cost of funds shall pay to the institution accrued interest, equal in amount to the difference between interest actually paid and the interest which would have been due from the inception of the loan, calculating interest at the institution's cost of funds at the time of the loan. As to recipients of any such loans or advances made by First Federal since the implementation of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, interest shall be calculated using market rates available at the time of the loan for non-affiliated persons.

10. Within 120 days from the date of this Order, First Federal shall, to the extent possible within the context of safe and sound banking, reduce its level of Classified Assets to an amount less than 100% of the institution's Tangible Capital plus general valuation allowances.

11. Within 30 days from the date of this Order, the Board of Directors shall submit a plan to the Deputy Regional Director detailing the means or methods to be employed in reducing Classified Assets, including means or methods to reduce repossessed assets and slow loans.

OFFICE OF THRIFT SUPERVISION

/S/

Deputy Regional Director
Cincinnati District Office