

95148

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 9th day of August, 1991 ("Effective Date"), by and between Anchor Savings and Loan Association, Madison, Wisconsin (OTS No. 4474) ("Anchor") for itself and any controlled subsidiary, and the Office of Thrift Supervision ("OTS"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Anchor. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8(b)(1) and (i)(2) of the Federal Deposit Insurance Act, as amended by Title IX of 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. Sections 1818(b)(1) and (i)(2)).

WHEREAS, the OTS is of the opinion based on the results of the Reports of Examination as of November 13, 1989, July 31, 1990, and February 1, 1991 ("Reports of Examination"), that grounds exist for the initiation of administrative proceedings against Anchor by the OTS pursuant to 12 U.S.C. §1818(b); and

WHEREAS, the OTS is willing to forbear at this time from the initiation of such proceedings on the matters covered by this Agreement, as long as Anchor is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, Anchor, by its Board of Directors ("Board"), without admitting that grounds for proceedings pursuant to 12 U.S.C. §1818(b) exist, is willing to enter into this Agreement to avoid the initiation of such proceedings;

NOW, THEREFORE, in consideration of the above-stated forbearance by OTS, it is agreed between the parties hereto as follows:

Capital

1. Within 60 days, the Board shall adopt and submit to the OTS Manager, a plan to increase and maintain tangible capital to a level of 5.5% of tangible assets by June 30, 1992. The plan shall also contain specific time frames for the submission of any applications that are part of the plan.

2. Once adopted, the Board shall adhere to the plan in all respects.

Classified Assets

3. The Board shall take every action necessary to cause the ratio of assets of Anchor classified Substandard and Doubtful in the Reports of Examination or any subsequent Report of Examination or by Anchor's internal classification to be reduced as a percentage of the sum of Anchor's tangible capital and general valuation allowances to 75% or less by June 30, 1992, and to 50% or less by June 30, 1993.

Valuation Allowances

4. The Board shall increase the level of general valuation allowances to \$11 million immediately.

5. Within six months, the Board shall increase Anchor's general valuation allowance to a level consistent with its general policy for nonclassified assets plus an additional provision of 11.1% for assets classified Substandard and 30% for assets classified Doubtful, provided that any asset which is classified Doubtful, upon receiving the approval of the OTS Manager, may be transferred to the Substandard category.

6. The Board shall thereafter maintain adequate valuation allowances consistent with the requirements of 12 C.F.R. §563.160. Anchor shall develop a reliable methodology and rationale for maintaining adequate valuation allowances referencing the guidelines contained in Section 261 of the Thrift Activities Handbook. This methodology and rationale shall be submitted to the OTS Manager for approval. Further, Anchor shall maintain documentation which supports that particular level of valuation allowances.

Lending Restrictions

7. Until such time as Anchor is recapitalized as required in paragraph one of this Agreement, Anchor shall restrict its lending activities to residential mortgage and consumer loans unless an exception is granted by the OTS Manager. However, loans secured by residential property over four units may be granted only if the following conditions are met:

- (a) the properties are secured by a first mortgage on existing residential property;
- (b) the existing cash flow of the property will be sufficient to provide a 1.20 debt service coverage ratio;
- (c) the loan to value ratio does not exceed 75%; and
- (d) the individual loans do not exceed \$500,000 and total loans to any one borrower do not exceed the lesser of \$2,500,000 or the applicable loans to one borrower limitation.

8. The restrictions set forth in paragraph 7 shall not apply to (i) commercial loans to existing borrowers which are renewed or restructured within Anchor's existing credit limits, as well as loans-to-one-borrower limits, provided no additional funds are disbursed, or (ii) loans or extensions of credit made by Anchor to facilitate the resolution of loans criticized in the Report of Examination or loans, which subsequent to the latest date thereof, are classified by Anchor. However, exception (ii) is subject to the prior written approval of the OTS Manager if the loan amount exceeds \$500,000 or requires additional disbursement of funds.

Criticized Assets

9. Within 30 days, the Asset Resolution Committee shall recommend to the Board the adoption and implementation of a written program for each of the assets criticized in the Reports of Examination as Substandard, Doubtful, or Special Mention in excess of \$500,000. These programs will be designed to eliminate the basis for criticism for the assets criticized in the Reports of Examination. These programs will include, at a minimum:

- (a) an identification of the expected sources of repayment;
- (b) the appraised value and the OTS shared credit analysis of supporting collateral and the position of Anchor's lien on such collateral where applicable;
- (c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be paid from operations; and
- (d) the proposed action to eliminate the basis of criticism or to recover on the asset and the estimated time frame for its accomplishment.

10. Similar programs will be recommended for adoption by the Board for all additional assets which are criticized by Anchor's internal asset classification policy.

11. Within 60 days, the Board shall review the programs for each asset recommended by the Asset Resolution Committee and either adopt or clearly document the reasons for not adopting a particular program. A copy of the adopted programs or the documentation for not adopting particular programs will be forwarded to the OTS Manager.

12. The Board, or a delegated Committee thereof, shall conduct a review, on at least a monthly basis, to determine:

- (a) the status of each criticized asset or criticized portions thereof;
- (b) management's adherence to the program pursuant to this Article;

- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

13. A copy of each review shall be forwarded to the OTS Manager on a monthly basis in a format similar to Appendix A (attached hereto).

14. (a) Anchor shall not extend credit, directly or indirectly, including renewals, to any borrower whose loans or other extensions of credit are criticized in the Reports of Examination or any other subsequent Report of Examination.

(b) The immediately preceding paragraph shall not apply if:

- (i) Anchor's failure to extend further credit to a criticized borrower would be substantially detrimental to the best interests of Anchor;
- (ii) a comparison to the written program adopted pursuant to this Article shows that Anchor's formal plan to collect or strengthen said criticized asset is not compromised; and
- (iii) 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 interests of Anchor. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

#### Collection Procedures

15. The Board shall adhere to its revised program to improve and strengthen collection efforts.

#### Closings

16. (a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the OTS Manager or Regional Director, the Board has the ultimate responsibility for proper and sound management of the Institution.
- (b) It is expressly and clearly understood that if, at any time, the OTS deems it appropriate in fulfilling the lawful responsibilities placed upon it by the several laws of the United States of America to undertake any lawful action affecting the Institution, nothing in this Agreement shall in any way inhibit, stop, bar, or

- otherwise prevent the OTS from doing so.
- (c) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time limitations may be extended by the OTS Manager for good cause upon written application by the Board, which extension shall not unreasonably be withheld.
  - (d) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of this Agreement, 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 Code of Federal Regulations). Any such technical words or terms used in this Agreement and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.
  - (e) The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest.

17. Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director or his designee.

IN WITNESS WHEREOF, the OTS, acting through its Regional Director, and Anchor, by its board of directors, have executed this Agreement on the date first above written.

THE OFFICE OF THRIFT SUPERVISION

Chicago, Illinois

By: 15/  
~~Stuart M. Brauman~~ Regional Director 8/26/91

Anchor Savings and Loan Association  
Madison, Wisconsin

By: 15/  
Douglas J. Timmerman

By: 15/  
Bruce A. Robertson

By: 15/  
Paul A. Bowman

By: 15/  
Robert C. Buehner

By: 15/  
Thomas F. Duesler

By: 15/  
Archie M. Mucks, Jr. | U N

By: 15/  
Pat Richter