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SUPERVISORY AGREEMENT

This Agreement ("Agreement") is made and is effective this 23rd day of October 1991 ("Effective Date"), by and between Home Federal Savings and Loan of Carbondale, Carbondale, Illinois (OTS No. 06700) ("Carbondale" or the "Institution") 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 Carbondale. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. Sections 1818(b)(1) and (i)(2).

WHEREAS, the OTS is of the opinion that Carbondale has engaged in certain practices in the conduct of its business, as set forth in the Report of Examination dated June 17, 1991 ("Report"), which provides grounds for the initiation of administrative proceedings against Carbondale by the OTS pursuant to 12 U.S.C. Section 1818(b); and

WHEREAS, the OTS is willing to forbear from the initiation of administrative proceedings pursuant to 12 U.S.C. Section 1818(b) against Carbondale for practices as set forth in the Report and matters specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, without admitting or denying that grounds exist for the initiation of administrative proceedings pursuant to 12 U.S.C. Section 1818(b) or for liability ~~on behalf of~~ ^{attributable to} the Institution, its Board of Directors or Officers in such capacities or individually, and in the interest of regulatory compliance and cooperation, Carbondale, by its Board of Directors ("Board"), is willing to enter into this Agreement, as referred to above, to avoid the initiation of administrative proceedings by the OTS on matters covered by this Agreement;

NOW, THEREFORE, in consideration of the above-stated forbearance by OTS from the initiation of administrative proceedings pursuant to 12 U.S.C. 1818(b), it is agreed between the parties hereto as follows:

Regulations

1. The Institution, acting under the direction of the Board, shall correct existing practices of supervisory concern cited in the Report and shall not knowingly initiate any action which would result in a violation of, or the aiding and abetting

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of recurrence of such practices of supervisory concern cited in the Report.

Commercial Loans

2. Within 45 days from the Effective Date of this Agreement, the Board shall adopt, implement and maintain revised written programs for commercial loans. These written programs shall contain, at a minimum:

- (a) A requirement for the submission of current financial statements before the granting, renewing, or modifying of commercial loans;
- (b) An effective method of obtaining annual financial statements; and
- (c) An analysis of all financial statements by qualified institution personnel, in a timely manner.

Within 60 days, a copy of the adopted programs or the documentation for not adopting particular programs, shall be forwarded to the OTS Manager.

Classified Assets

3. The Board shall cause the assets of Carbondale which were classified Substandard in the Report or subsequent Reports of Examination or by Carbondale's internal classification to be reduced as a percentage of the sum of Carbondale's Tangible Capital and General Valuation Allowances according to the following schedule:

<u>Date</u>	<u>Percent of Classified Assets to Tangible Capital plus General Valuation Allowances</u>
No later than December 31, 1991	100%
No later than June 30, 1992	85%
No later than December 31, 1992	75%

4. Within 45 days from the Effective Date of this Agreement, the Board shall adopt and implement a written program for each of the "Classified Assets" with a balance of \$25,000 or more identified in the Report. These programs shall be designed to eliminate the basis for criticism for the "Classified Assets". These programs shall include at a minimum:

- (a) An identification of the expected sources of repayment;
- (b) The appraised value of supporting collateral and the position of Carbondale'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 time frame for its accomplishment.

Within 60 days, a copy of the adopted programs or the documentation for not adopting particular programs shall be forwarded to the OTS Manager.

5. The Board, or a delegated Committee thereof, shall conduct a review of each program required in Paragraph 4, 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.

The Board review will begin the month after implementation of the written program referred to above in Paragraph 4.

6. 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).

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

- (b) The immediately preceding paragraph shall not apply if:
 - (i) Carbondale's failure to extend further credit to a criticized borrower would be substantially detrimental to the best interests of Carbondale;
 - (ii) A comparison to the written program adopted pursuant to Paragraph 4 shows that Carbondale'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 Carbondale. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).

Independent Underwriting

8. Management shall perform independent loan underwriting on all multi-family, commercial and agricultural loans originated or purchased from other institutions, and shall develop and maintain as part of the loan file, documentation clearly indicating such independent underwriting. At a minimum, this documentation shall include a discussion on the appraisal and borrowers' credit worthiness and shall include only information fully supported and documented in the loan file. The loan documentation shall also include the name and signature of the underwriter.

Closing

9. (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, subject to the provisions of applicable law, regulations and OTS approvals.
- (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.
- (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.
- (f) It is understood that the execution of this Agreement shall not be construed as an approval of any application or notices that are contemplated by the Institution.
- (g) Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 111 East Wacker Drive, Suite 800, Chicago, Illinois, Attn.: OTS Manager. All reports and other documents shall be deemed filed when received by the OTS.
- (h) In the event any provision of this Agreement shall be declared invalid, illegal, or unenforceable; the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.
- (i) The section headings used in this Agreement are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Agreement.
- (j) This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director or designee.
- (k) The Institution may, in writing, petition the OTS, acting through its Regional Director or designee, for the modification, suspension or termination of this Agreement following the completion of an OTS examination or upon the consummation of an OTS approved merger, stock conversion or other form of recapitalization.

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

THE OFFICE OF THRIFT
SUPERVISION

Chicago, Illinois

By:

Stuart M. Drafman
Regional Director

Home Federal Savings and Loan
Association of Carbondale
Carbondale, Illinois 62902

By:

Taffie Helleny

By:

Charles Hindersman

By:

William Huffman

By:

Clyde H. Arnold

By:

Armen Asaturian

By:

William J. Boor

By:

Robert Brown

By:

John T. Cherry