

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 18th day of November, 1991, by and between First Republic Savings Bank FSB, Roanoke Rapids, North Carolina, OTS No. 5451, for itself and its wholly owned service corporation (hereinafter, "First Republic" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is of the opinion that grounds exist to initiate administrative proceedings against First Republic pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b) (1988 & Supp. I 1989); and

WHEREAS, the Institution, in the interest of regulatory compliance and cooperation is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forbear from the initiation of such administrative proceedings against the Institution to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of the Agreement;

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking supervisory or enforcement measures on matters not specifically covered by this Agreement that the OTS considers appropriate under the circumstances.

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

GROWTH LIMITATIONS

1. (a) The Institution shall not increase its total liabilities within any 2-quarter period at a rate greater than 12.5 percent without the prior written approval of the Regional Director.

(b) To obtain prior written approval from the Regional Director for liability growth in excess of 12.5 percent within any 2-quarter period, the Institution shall submit a written growth plan meeting the requirements of 12 C.F.R. § 563.131(c), at least sixty (60) days prior to the beginning of the period covered by the growth plan.

(c) The Institution shall not alter nor materially diverge from any approved written growth plan without the prior written approval of the Regional Director.

BUSINESS PLAN/BUDGET

2. (a) The Institution shall develop, adopt and implement a written Business Plan. At a minimum, the Plan shall consider major business strategies, asset quality, projected capital levels, including plans to maintain the Institution's fully phased-in capital levels in accordance with 12 C.F.R. Part 567, and the requirements of this Agreement. The Plan shall emphasize traditional thrift activities and reduced reliance upon brokered deposits. The Plan shall incorporate quarterly financial projections and operating budgets, including all relevant assumptions, detailed quarterly income and expense projections, and pro forma quarterly balance sheet items.

(b) The Board shall review the Business Plan on a quarterly basis, at a minimum, to compare actual types and levels of activities, and actual quarterly financial results, with the projections contained in the Plan. The Board's review and related discussion, and management's explanation of major budget variances and their resolution, shall be incorporated in the Board meeting minutes.

(c) Within ninety (90) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that a written Business Plan has been developed, adopted and implemented in accordance with Paragraph 2(a) of this Agreement.

CONSUMER LENDING

3. (a) The Institution shall immediately revise, adopt, implement, and henceforth strictly adhere to prudent written policies, procedures and controls for the underwriting and documentation of consumer loans. Such policies and procedures shall require that the Institution perform appropriate and proper loan underwriting and maintain documentation necessary to facilitate and document safe and prudent lending decisions; and address compliance with all applicable regulatory requirements, including 12 C.F.R. § 563.170.

(b) The revised consumer loan underwriting policies and procedures required pursuant to Paragraph 3(a) of this Agreement shall, at minimum:

- (1) clearly identify the types of consumer loans the Institution will and will not make;
- (2) establish specific lending authority for each loan officer;

- (3) establish loan underwriting procedures which adequately address borrower credit history requirements, ability to pay, stability of income and employment, debt/income ratios, loan/value ratios, acceptable collateral, and loan terms for each type of loan made;
- (4) establish minimum standards of loan documentation and for the perfection of security interests;
- (5) require that no consumer loan shall be granted without documentation that has been analyzed supporting the credit decision, which documentation shall be maintained in the loan file, in good order, and shall include a certification, signed by the responsible loan officer, stating that every requirement of the Institution's applicable consumer loan underwriting policies and procedures and documentation requirements has been complied with in a satisfactory manner; and
- (6) require that prior to renewal or modification of any consumer loan, the Institution use its best efforts to (a) have the loan repaid or obtain a material curtailment of such loan (a material curtailment is a minimum of 10% of the outstanding principal balance plus payment of all accrued interest), and the loan file is documented to this effect; or (b) with regard to single payment loans, convert the loan to a fully amortizing loan requiring monthly payments of principal and interest, and the loan file is documented to this effect.

4. (a) Within thirty (30) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that the Institution's consumer loan underwriting policies and procedures have been revised, adopted and implemented in accordance with Paragraph 3 of this Agreement.

(b) The Institution shall immediately take all necessary steps to obtain vehicle titles and current insurance information on all loans referred to in the Examination as lacking such information.

5. (a) The Board shall establish an independent Internal Loan Review Committee ("Committee"), which shall regularly review a representative sample of consumer loan files for compliance with the revised underwriting policies and procedures adopted and implemented in accordance with Paragraph 3 of this Agreement and all applicable regulatory requirements. Such Committee shall submit a written report of its findings to the Board at each regularly scheduled Board meeting, with such report incorporated in the Board minutes.

(b) Within sixty (60) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that an Internal Loan Review Committee has been established in accordance with Paragraph 5(a) of this Agreement.

CONSTRUCTION LENDING

6. (a) The Board shall review Section 213 of the Thrift Activities Handbook, and shall develop, adopt, implement and thereafter comply with prudent written construction lending policies and procedures designed to eliminate the deficiencies noted on pages eleven and twelve of the Examination. Such policies and procedures shall establish, at a minimum, construction loan application review and approval procedures; minimum standards of documentation; and a formal system of loan administration governing inspection and disbursement procedures.

(b) Within sixty (60) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that construction lending policies and procedures have been developed, adopted and implemented in accordance with Paragraph 6(a) of this Agreement.

APPRAISAL POLICY

7. (a) The Board shall review the provisions of 12 C.F.R. Part 564, 12 C.F.R. §§ 563.170(b) and 571.1, and Section 208 of the Thrift Activities Handbook, and shall develop, adopt, implement and henceforth comply with written appraisal policies and procedures consistent with the requirements of 12 C.F.R. Part 564. Such policies and procedures shall specifically prohibit directors and officers from participating in any vote or approval involving assets on which they performed an appraisal.

(b) Within sixty (60) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that the Institution's appraisal policies and procedures have been revised, adopted and implemented in accordance with Paragraph 7(a) of this Agreement.

TRANSACTIONS WITH AFFILIATED PERSONS

8. (a) The Board shall review the provisions of 12 C.F.R. Part 215, and 12 C.F.R. §§ 563.41 and 563.43, and shall develop, adopt, and implement written policies and procedures ensuring that transactions with affiliated persons are conducted strictly in conformance with applicable regulatory requirements. The Institution shall comply thereafter with its written policies and procedures governing transactions with such persons.

(b) Within thirty (30) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that the Institution has developed, adopted and implemented written policies and procedures in accordance with Paragraph 8(b) of this Agreement.

ASSET CLASSIFICATION

9. The Board shall review 12 C.F.R. §§ 563.160, 571.18 and 571.26, Sections 260 and 261 of the Thrift Activities Handbook and Thrift Bulletin 3, and shall revise its asset classification policy to specify methodologies for determining Loss classifications based upon fair value and net realizable value calculations, in accordance with generally accepted accounting principles, and will comply with its revised asset classification policy.

10. (a) The Institution shall maintain adequate valuation allowances on an ongoing basis, in compliance with the requirements of 12 C.F.R. § 563.160(d)(3) and the guidance provided in 12 C.F.R. § 571.26 and Section 261 of the Thrift Activities Handbook. The revised asset classification policy will specifically identify the methodology utilized in determining the appropriate level of valuation allowances, and will provide for documented review of the adequacy of the Institution's valuation allowances by the Board not less than quarterly.

(b) Within sixty (60) days after the effective date of this Agreement, the Institution shall provide the Regional Director with a certified Board resolution attesting that the Institution's asset classification and valuation allowance policy has been revised, adopted and implemented in accordance with Paragraphs 9 and 10(a) of this Agreement.

PROBLEM ASSET WORKOUTS

11. (a) Within sixty (60) days after the effective date of this Agreement, the Institution shall develop, adopt and implement written plans for the resolution of each of those criticized assets identified on pages A-12.1 through A-12.3 of the Examination if the Institution's total exposure to the borrower exceeds \$200,000 in the aggregate. The Institution shall adopt and implement a written plan for the resolution of any other asset within thirty (30) days after it initially self-classifies such asset in accordance with 12 C.F.R. § 563.160(c)(2), and its revised asset classification policy, if the Institution's total exposure to the borrower exceeds \$200,000 in the aggregate. Such plans shall include, but not be limited to:

- (1) an identification of the expected source(s) of repayment or resolution;

- (2) the appraised value of the collateral and the Institution's lien position;
- (3) an analysis of the borrower's financial condition, as applicable;
- (4) specific steps to be taken, including appropriate targets and timeframes, for the resolution or disposal of each criticized asset; and
- (5) assignment of specific responsibility for each target and timeframe set forth in accordance with Subsection (4) above.

(b) The Institution shall update said individual plans at least quarterly. The Board shall review on a monthly basis, and maintain a written record of each review, all criticized assets for which a written resolution plan has been implemented, to determine:

- (1) the status of the asset and its underlying collateral;
- (2) compliance with the written plan, including progress toward stated targets and timeframes, and with all loan agreements; and
- (3) action taken by the Institution to eliminate the basis for classification of each criticized asset, including specific action taken to address any failure to meet stated targets and timeframes toward resolution.

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 Chapter V of Title 12 of the Code of Federal Regulations, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Agreement, references to regulations, bulletins, memoranda and publications shall include any successor regulations, bulletins, memoranda and publications.

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of First Republic. It is understood and agreed that this Agreement is a "written agreement entered into with the agency" as that phrase is used in Section 8(b)(1) of the FDIA, 12 U.S.C. § 1818(b)(1).

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.

This Agreement shall remain in effect until terminated, modified or suspended by the OTS, acting through the Regional Director. The Regional Director may suspend, in his sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director, and the Institution, by its duly elected directors, have executed this Agreement.

First Republic Savings Bank FSB
Roanoke Rapids, North Carolina
OTS No. 5451

By: *RS*
Director

By:
Director

OFFICE OF THRIFT SUPERVISION

By: *RS*
John E. Ryan
Regional Director

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of First Republic Savings Bank FSB, Roanoke Rapids, North Carolina, OTS No. 5451, on _____, 1991, held at _____, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between First Republic and the Office of Thrift Supervision.

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| <u>ISI</u> | <u>11-6-91</u> |
| (Name) | (Date) |

**CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly qualified Secretary of First Republic Savings Bank FSB, Roanoke Rapids, North Carolina, OTS No. 5451, ("Institution"), hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on November 6, 1991, and at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

RESOLUTION

WHEREAS, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C 1818(b); and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on November 6, 1991, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement without admitting or denying that grounds exist for the initiation of the administrative proceedings, as referred to above:

NOW, THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of First Republic Savings Bank FSB, this sixth day of November, 1991.

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Secretary