

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 10th day of September, 1992 ("effective date"), by and between First Federal Savings and Loan Association of Charlotte, Charlotte, North Carolina, OTS No. 4772, for itself and its wholly owned service corporations and subsidiaries ("First Federal" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, the Director of the OTS is responsible for the examination, safe and sound operation, and regulation of savings associations pursuant to Section 3 of the Home Owners' Loan Act of 1933 ("HOLA"), 12 U.S.C.A. Section 1463(a)(1) (West Supp. 1992), and for the administration and enforcement of statutory and regulatory requirements for savings and loan holding companies pursuant to Section 10 of the HOLA, 12 U.S.C.A. Section 1467a(g); and

WHEREAS, First Federal is a "savings association" within the meaning of Section 3 of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C.A. Section 1813(b) (West 1989 & Supp. 1992), and of Section 2 of the HOLA, 12 U.S.C.A. Section 1462; and

WHEREAS, Fairfield Communities, Inc. of Little Rock, Arkansas ("Fairfield") is a "savings and loan holding company" within the meaning of Section 10 of the HOLA, 12 U.S.C.A. Section 1467a(a); and

WHEREAS, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against First Federal pursuant to Section 8(b) of the FDIA, 12 U.S.C.A. Section 1818(b); and

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

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking further supervisory or enforcement measures on matters not specifically

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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:

PRECEDING AGREEMENTS

1. The Supervisory Agreement dated October 17, 1990, and the Memorandum of Understanding dated May 15, 1991, between the OTS and First Federal are hereby terminated.

TRANSACTIONS WITH AFFILIATES

2. Without the prior written approval of the Regional Director, neither the Institution nor any service corporation thereof shall, directly or indirectly, enter into any transactions with Fairfield or any of Fairfield's non-insured affiliates or subsidiaries, excluding service corporations of the Institution, except as follows:
 - (a) Deposit relationships with the Institution; or
 - (b) Transactions undertaken in accordance with the July 22, 1991 Servicing Agreement among Fairfield, the Institution, and First Commercial Trust, National Association, and upon its execution and effectiveness, the Servicing Agreement proposed to be entered into as of September 14, 1992, among such parties; or
 - (c) Transactions undertaken in accordance with the July 22, 1991 Remarketing Agreement by and between Fairfield and the Institution, and upon its execution and effectiveness, the Remarketing Agreement proposed to be entered into as of September 14, 1992, between such parties; or
 - (d) Transactions undertaken in accordance with the August 17, 1990 Tax Sharing Agreement, as amended November 21, 1990, by and between Fairfield and the Institution, and the Second Amendment to the Tax Sharing Agreement proposed to be entered into as of September 14, 1992, between such parties; or
 - (e) Transactions undertaken in accordance with loan or servicing agreements existing as of October 3, 1990, including, but not limited to, the loan to Fairfield Equities; however, the Institution shall not modify or refinance any such loan or

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agreements.

MANAGEMENT

3. Within 90 days after the effective date of this Agreement, the Board of Directors (the "Board") shall develop and submit a detailed written plan to the Regional Director that sets forth the Institution's strategy for the hiring and retention of additional qualified management personnel. The plan shall clearly and specifically set forth the duties and responsibilities of all senior management personnel and provide that all such personnel shall be vested with sufficient authority to carry out their respective duties and responsibilities. The plan also shall evidence the Board's commitment to ensure that adequate managerial resources are devoted to addressing the current problems of the Institution, as described in the Institution's February 3, 1992 Report of Examination (the "1992 ROE"). The plan shall: (a) detail the Board's strategy for reducing the level of criticized assets at the Institution, including, specifically, the Board's decision to hire an experienced asset work-out officer and/or employ a firm that specializes in asset work-outs; (b) require the Institution to conduct an independent review of the accuracy and completeness of all records received from Fairfield relating to delinquent, cancelled, and remarketed contracts and maintain adequate records to account for the current balance of cancelled contracts in accordance with the Remarketing Agreement; and (c) provide for a qualified successor to the Institution's current president in the event of his incapacitation or retirement.

BUSINESS PLAN

4. The Board shall, at a minimum, review the Institution's business plan on a quarterly basis to compare actual types and levels of activities, and actual quarterly financial results, with the projections contained in the plan. The Board will submit a revised business plan to the Regional Director within 60 days after the end of the quarter in which one of the following occurs:
 - (a) Significant adverse variances between actual financial results and projections; or
 - (b) Significant changes in the overall strategic direction of the plan; or
 - (c) Significant changes in budgeted projections.

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LENDING

5. Prior to making, purchasing, investing in, refinancing or otherwise modifying any loan or group of loans in which the total exposure of all outstanding loans to one borrower will be equal to or greater than \$500,000 but less than \$1,000,000, a committee of directors ("Directors' Loan Committee") shall approve such loans. Further, written documentation for such loans shall be maintained in the appropriate loan file to support (1) that the action is in the Institution's best interests; and (2) that the Institution has complied with its loan underwriting standards and all applicable regulatory requirements, including 12 C.F.R. Section 563.170 and Part 564.
6. Prior to making, purchasing, investing in, refinancing or otherwise modifying any loan or group of loans in which the total exposure of all outstanding loans to one borrower will be equal to or greater than \$1,000,000, the Board shall approve such loans. Further, written documentation for such loans shall be maintained in the appropriate loan file to support (1) that the action is in the Institution's best interests; and (2) that the Institution has complied with its loan underwriting standards and all applicable regulatory requirements, including 12 C.F.R. Section 563.170 and Part 564.
7. The Board or Directors' Loan Committee, as appropriate, shall approve, in advance, any modification, refinance, advance of additional funds, or capitalization of interest involving a criticized asset in which the total exposure of all outstanding loans to the borrower exceeds \$500,000. The Board's or Directors' Loan Committee's determination in this regard shall be supported by written documentation maintained in the loan file indicating that the action is in the Institution's best interests.

CRITICIZED ASSETS

8. (a) The Institution shall maintain a written strategy for reducing the level of the Institution's criticized assets. This strategy shall require the preparation of individual written action plans for the resolution of all criticized assets in which the Institution's total exposure to the borrower exceeds \$500,000. Further, within 30 days after First Federal or the OTS classifies any other asset pursuant to 12 C.F.R. Section 563.160, the Institution shall develop and implement a written action plan for the resolution of any such asset in

which the Institution's total exposure to the borrower exceeds \$500,000. Such plans shall set reasonable targets and timeframes for resolution, assign specific responsibilities, and require reports to the Board evidencing progress towards such targets.

- (b) The Institution shall, at a minimum, update the individual action plans and prepare new fair value or net realizable value calculations, as appropriate, for assets covered by such plans on a quarterly basis. On a monthly basis, the Board shall review all assets for which a written plan has been implemented to: (a) determine the status of each asset and, where applicable, its underlying collateral; (b) monitor compliance with the written plans and all loan agreements; (c) ensure that proper fair value or net realizable value calculations have been prepared and that, where appropriate, current and satisfactory appraisals, credit, and/or collateral information has been obtained; and (d) identify those action(s) that have been taken or that need to be taken by the Institution to eliminate the basis for the classification of such assets. The Board also shall review, on a monthly basis, all actions taken by the asset work-out officer and asset work-out firm to determine the effectiveness of such actions. The Institution shall maintain a written report of each of the Board's monthly reviews and fully document any action(s) taken as a result of the Board's reviews.

NET REALIZABLE AND FAIR VALUE CALCULATIONS

- 9. Within 60 days after the effective date of this Agreement, First Federal shall review its criticized assets and, where appropriate, prepare and document proper fair value and net realizable value calculations for all such assets in accordance with Generally Accepted Accounting Principles, 12 C.F.R. Sections 563.172 and 563.234(a), and the recommendations set forth on page 5 of the 1992 ROE. Whenever losses are produced by the recording of these fair values and net realizable values, First Federal shall immediately make appropriate allowances or charge-offs for such losses in accordance with 12 C.F.R. Section 563.160. Further, the Institution also shall promptly and accurately prepare fair value and net realizable value calculations for all future criticized assets and immediately make appropriate allowances or charge-offs for any resulting losses.

ASSET CLASSIFICATION AND VALUATION ALLOWANCES

10. The Institution shall continue to comply with its asset classification and valuation allowance policies and procedures.

INTERNAL AUDIT PROGRAM

11. The Board shall maintain an independent internal audit program appropriate to the needs of the Institution. The Board shall ensure that the internal auditor obtains adequate training and resources to perform his duties in a satisfactory manner. The internal auditor will report directly to the Board or an audit committee thereof.

EDP PROGRAM

12. The Board shall revise and implement the Institution's written electronic data processing policies, procedures, and controls to address the deficiencies cited in the 1992 ROE. The Institution shall comply with all written policies, procedures, and controls, as revised.

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 the Institution. 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.A. Section 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.

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

By: <u>151</u> Director	Date: <u>8/26/92</u>
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By: <u>151</u> Director	Date: _____

OFFICE OF THRIFT SUPERVISION

B. 151
John E. Ryan
Regional Director

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of First Federal Savings and Loan Association of Charlotte, Charlotte, North Carolina, OTS No. 4772, held on the 22 day of August, 1992, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between First Federal Savings and Loan Association of Charlotte and the Office of Thrift Supervision.

By: 15/
Director

By: 15/
Director

By: 15/
Director

By: 15/
Director

By: 15/
Director

By: 15/
Director

By: 15/
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By: 15/
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By: 15/
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By: 15/
Director

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

I, the undersigned, being the duly qualified Secretary of First Federal Savings and Loan Association of Charlotte, Charlotte, North Carolina, OTS No. 4772, ("Institution"), hereby certify that the following is a true copy of a resolution duly adopted by the Institution's Board of Directors at a meeting duly called and held on this 26th day of August, 1992, 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.A. Section 1818(b) (West 1989 & Supp. 1992); 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 the 26th day of August, 1992, and, after due consideration and in the interest of regulatory compliance and cooperation have determined to enter into the proposed Agreement:

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 Federal Savings and Loan Association of Charlotte this 26th day of August, 1992.

151
Secretary