

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 28th day of January 1992 ("Effective Date"), by and between Avondale Federal Savings Bank (OTS No. 01985), Chicago, Illinois ("Avondale") for itself and any controlled subsidiaries, 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 Avondale. 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 Avondale has not complied with certain of the regulations to which Avondale is subject in conducting the business of Avondale, specifically 12 C.F.R. § 563.170(c); 12 C.F.R. § 571.7(b); 12 C.F.R. § 561.47; 12 C.F.R. § 563.46; 12 C.F.R. § 563.160(d)(1); 12 C.F.R. § 563.160(d)(2); 12 C.F.R. § 563.160(d)(3); 12 C.F.R. § 226; 12 C.F.R. § 528.2; 12 C.F.R. § 202.9; 31 C.F.R. § 103; and 12 C.F.R. § 563e, and has engaged in unsafe or unsound practices in conducting the business of Avondale, thereby providing grounds for the initiation of cease and desist proceedings against Avondale by the OTS; and

**WHEREAS**, without admitting or denying the violation of any regulations or that grounds exist for the initiation of cease and desist proceedings against Avondale by the OTS, but in the interest of regulatory compliance and cooperation, Avondale, by its Board of Directors ("Board") is willing to enter into this Agreement to avoid the initiation of cease and desist proceedings against Avondale by the OTS; and

**WHEREAS**, the OTS is willing to forebear from the initiation of cease and desist proceedings against Avondale based on the information known to the OTS as of the Effective Date of this Agreement for Avondale's failure, in the OTS's opinion, to comply with statutes and regulations, and unsafe and/or unsound practices as set forth in the Avondale's Report of Examination, dated March 18, 1991, and the Report of Compliance Examination, dated July 30, 1990, for so long as Avondale is in compliance with the provisions of this Agreement; and

**WHEREAS**, the OTS explicitly reserves the right to bring any and all actions against institution affiliated parties of Avondale for violations and unsafe and/or unsound practices or breaches of fiduciary duties.

**NOW, THEREFORE**, in consideration of the above-stated forbearance by OTS from the initiation of cease and desist proceedings against Avondale, it is agreed between the parties hereto as follows:

1. Within sixty (60) days from the Effective Date of this Agreement, Avondale and its controlled subsidiaries shall correct existing violations cited in the Report of Examination, dated March 18, 1991, ("Report of Examination") and the Report of Compliance Examination, dated July 30, 1990, ("Report of Compliance Examination").

Internal Audit

2. Within ninety (90) days from the Effective Date of this Agreement, Avondale shall develop an independent internal audit program appropriate to the needs of Avondale, subject to the approval of the Board. The program, at a minimum, shall provide for:

- (a) the establishment of the scope and frequency of internal audits;
- (b) the submission of periodic reports to the Board or a delegate committee acting under the direction of the Board; and
- (c) the monitoring of adherence by operating personnel to regulatory requirements and policies approved by the Board.

3. Within one hundred (100) days from the Effective Date of this Agreement, the Board shall submit a copy of the internal audit program identified in paragraph 2 to the OTS Manager for review and comment.

4. Within forty-five (45) days from the Effective Date of this Agreement, the Board or a delegated committee acting under the direction of the Board, shall hire a capable individual to serve as an internal auditor and Avondale shall keep the OTS apprised in this regard. The internal auditor shall, at a minimum, assist the Board in maintaining compliance with the terms of this Agreement and the internal audit program identified in paragraph 2.

5. Prior to the employment of an individual to the internal audit position, Avondale, under the direction of the Board shall submit the name and qualifications of the prospective employee to the OTS Manager for review and written approval.

Books and Recordkeeping

6. Within sixty (60) days from the Effective Date of this Agreement, Avondale, under the direction of the Board shall develop, and the Board shall adopt and maintain written policies, procedures and internal controls so as to provide an accurate, complete and timely record of all business Avondale transacts as required by, and in compliance with, 12 C.F.R. Section 563.170(c). The following describes the various specific minimum actions which these policies, procedures and internal controls shall take in the area of Avondale's books and records:

- (a) all subsidiary ledger accounts shall be reconciled to its respective general ledger account on a timely basis, but at least monthly;
- (b) stale items, as that term is employed in the Report of Examination, shall be written off after six months;
- (c) all bank/transaction accounts shall be reconciled at least monthly;
- (d) each general ledger account shall be reviewed at least every six months for necessity, and any account determined to be unnecessary shall be closed;
- (e) accurate liquidity records shall be maintained as required by, and in compliance with, 12 C.F.R. Section 566.2(c);
- (f) a complete and accurate loan register shall be maintained;
- (g) a complete and accurate listing of unfunded credit cards and equity line loans shall be maintained; and
- (h) securities invoices shall be maintained for all purchases and sales.

System of Internal Controls

7. Within sixty (60) days from the Effective Date of this Agreement, Avondale, under the direction of the Board shall develop, adopt and maintain a comprehensive system of internal controls. At a minimum, the system of internal controls shall include:

- (a) written procedures reasonably designed to prevent errors and/or irregularities from occurring and to limit the length of time errors and/or irregularities go undetected;

- (b) the separation of employee duties, authority limits and conduct rules applicable to each employee;
- (c) control features to insure that accurate information is being maintained;
- (d) all significant procedures relating to Avondale's operations shall be reduced to writing;
- (e) a review and, if necessary, amendments to Avondale's current policy and procedures for teller balancing and teller posting to and balancing of the over and short general ledger accounts;
- (f) written procedures to insure that interest rates on equity line of credit loans are being adjusted as required under the terms of the corresponding notes;
- (g) written procedures for the establishment, use and replenishment of the petty cash account and for the issuance of expense checks;
- (h) written procedures and dual controls for all negotiable securities and other negotiable items;
- (i) training shall be provided to all appropriate employees to insure that a comprehensive understanding is maintained of their respective reports provided by Avondale's electronic data processing servicer; and
- (j) written procedures to avoid the double payment of invoices.

#### Policies and Procedures

8. Within ninety (90) days from the Effective Date of this Agreement, Avondale, under the direction of the Board shall complete a review of Avondale's asset classification, lending and investment policies for structure, content, compliance with regulations, bulletins and other applicable memoranda issued by the OTS. The Board shall, during the course of conducting its review, address all deficiencies and concerns noted in the Report of Examination and the Compliance Report of Examination.

9. Upon completion of the review identified in paragraph 8, Avondale, under the direction of the Board shall make all necessary revisions to Avondale's policies.

Conflict of Interest

10. Within thirty (30) days from the Effective Date of this Agreement, the Board shall develop, adopt and maintain a written comprehensive conflict of interest policy to be applicable to all directors, officers, and employees of Avondale. The policy, in addition to defining a conflict of interest, shall address:

- (a) disclosure of actual and potential conflicts of interest to the Board, and periodic disclosure of "related interest" as defined by 12 C.F.R. Section 215.2(k);
- (b) avoidance of conflicts of interest, the appearance of conflicts of interest and violations of fiduciary duty;
- (c) requirements for arms-length dealing in any transactions by insiders involving Avondale's sale or purchase of property and services;
- (d) usurpation of corporate opportunities;
- (e) disclosure of any material interest in the business of a borrower, an applicant or other customer of Avondale;
- (f) involvement in the loan approval process of insiders who may benefit directly or indirectly from the granting of the credit; and
- (g) restrictions on and disclosure of receipt of anything of value by insiders, directly or indirectly, from borrowers, loan applicants, other customers, or suppliers of Avondale.

11. Avondale shall, on at least a monthly basis, submit a report to its Board, indicating Avondale's adherence and the adherence of all affiliated parties to the conflict of interest policy identified in paragraph 10 and in conformance with 12 C.F.R. Section 571.7.

Compensation

12. Prior to the Board's adoption of any findings contained, in whole or in part, in any study(ies), program(s) and/or policy(ies) addressing Avondale's compensation issues, such study(ies), program(s) and/or policy(ies) shall be presented to the OTS Manager for approval.

Travel and Entertainment Policy

13. Within sixty (60) days from the Effective Date of this Agreement, Avondale, under the direction of the Board, shall establish and the Board shall adopt a written, detailed and comprehensive Travel and Entertainment Policy ("T&E Policy") that imposes appropriate controls on the travel and entertainment expenses of the directors, officers, and employees of Avondale and its subsidiaries in accordance with 12 C.F.R. Section 563.161. The T&E Policy shall include, at a minimum, responsibilities, authorities, policies, and procedures concerning defined official Avondale business travel and entertainment. In addition, the following minimum standards shall be included in the T&E Policy:

- (a) Avondale shall only reimburse employee business related travel and entertainment expenses that were actually incurred;
- (b) Avondale shall establish specific limits for those expenses incurred by spouses, family members, and/or affiliates of Board members, officers and employees of Avondale;
- (c) travel advances shall be properly documented and approved by an independent party consistent with adopted policy; and
- (d) Avondale shall establish specific limitations on payments and/or reimbursement(s) for any club or membership fees incurred by any director, officer, and/or employee.

14. Within ten (10) calendar days of the Board's adoption of the T&E Policy, specified in paragraph 13, the Board shall submit the written T&E Policy to the OTS Manager for written approval. Upon receiving written approval from the OTS Manager, Avondale shall adhere to the T&E Policy in all respects.

Paid Bills and Expenses

15. Within sixty (60) days from the Effective Date of this Agreement, Avondale, under the direction of the Board, shall establish and the Board shall adopt a written detailed and comprehensive expense management system. This expense management system shall include, at a minimum, the following requirements:

- (a) guidelines defining acceptable business expenses;
- (b) adequate documentation requirements;
- (c) proper authorization of acceptable expenses;
- (d) detailed approval procedures;
- (e) approval guidelines shall call for a fair and independent review of all employee paid expenses;
- (f) appropriate supporting documentation shall be retained for all expenses and bills paid by Avondale including but not limited to cash register or charge card receipts, sales invoices, stated business purpose, and payment approval and processor signature; and
- (g) all expenses and bills incurred and paid by Avondale shall be addressed to Avondale.

16. Within ten (10) calendar days of the Board's adoption of the expense management system, specified in paragraph 15, the Board shall submit the written expense management system to the OTS Manager for written approval. Upon receiving written approval from the OTS Manager, the Board shall adhere to the expense management system in all respects.

17. Avondale agrees that it shall not make payment or reimbursement for entertainment expense incurred by Irving V. Boberski unless written approval is received by a designated committee of non-employee members of the Board.

18. All board and/or committee meetings shall be held at the Avondale Centre located at 20 North Clark Street, Chicago, Illinois, or any branch facility of Avondale.

#### Classified Assets

19. Avondale, under the direction of the Board, shall consider open-end consumer credit delinquent 90 to 149 days as slow consumer credit as required under 12 C.F.R. Section 561.47. Furthermore, these assets shall be classified as substandard unless documented evidence detailing why the assets should not be classified as such is presented to and approved by the OTS Manager.

20. Avondale, under the direction of the Board, shall charge all open-end consumer credit loans classified as loss in the Report of Examination and/or by Avondale's internal classification policy against Avondale's current earnings as required by 12 C.F.R. Section 563.46.

#### General Valuation Allowances

21. Within thirty (30) days from the Effective Date of the Agreement, the Board shall submit to the OTS Manager for approval, its methodology and rationale for determining adequate general valuation allowances ("GVAs").

22. Within fifteen (15) days from the date of approval from the OTS Manager, as required under paragraph 21, the Board shall establish and maintain GVAs as calculated by the Board's methodology.

#### Internal Compliance Program

23. Within thirty (30) days from the Effective Date of the Agreement, Avondale, under the direction of the Board shall develop and submit to the OTS Manager for approval a detailed written job description for the position of Community Reinvestment Act ("CRA") Officer. The job description shall assign this position with the appropriate level of responsibility and authority to carry out the duties of a CRA Officer. The job description shall also delineate the reporting responsibilities of the CRA Officer.

24. Within sixty (60) days from the Effective Date of this Agreement, the Board, or a delegated committee acting under the direction of the Board, shall appoint or hire a qualified CRA Officer. The proposed appointee's or hiree's name and qualifications shall be submitted to the OTS Manager for approval prior to appointment or employment.

25. Within sixty (60) days from the Effective Date of this Agreement, the Board shall receive training from a source acceptable to the Board and also acceptable to the OTS Manager with regards to their duties and responsibilities pertaining to nondiscrimination, consumer protection, and other public interest laws and regulations, as well as, performance under the CRA.

26. Within one hundred twenty (120) days from the Effective Date of this Agreement, the Compliance Officer, CRA Officer and the Board shall develop, adopt and maintain a written compliance program ("Program") designed to ensure that Avondale is operating in compliance with all applicable consumer protection laws, rules and regulations. The Program shall at a minimum include:

- (a) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Avondale personnel in the performance of their duties and responsibilities;
- (b) a detailed self-assessment program to test for compliance with consumer laws, rules and regulations;
- (c) procedures to ensure that exceptions noted in the compliance self-assessment program are corrected and responded to by the appropriate Avondale personnel in a timely manner;
- (d) periodic reporting of the results of Avondale's compliance with the self-assessment program to the Board or a committee thereof;
- (e) the education and training of all appropriate Avondale personnel in the requirements of all applicable consumer protection laws, rules and regulations;
- (f) a comprehensive policy to assure compliance with all applicable Regulation Z (12 C.F.R. Section 226) requirements. The policy should include, at a minimum; procedures to monitor the effectiveness of Avondale's compliance with Regulation Z; procedures to ensure that complete and accurate Truth-in-Lending disclosures have been submitted to customers, as applicable; procedures to ensure complete and accurate savings account loan notes; and the assignment of compliance responsibilities to specific officers and/or other staff;
- (g) a comprehensive loan underwriting policy that is free from possible discriminatory interpretation and provides specific information regarding the types of loans that Avondale is authorized to grant;
- (h) the establishment of policies to ensure compliance with all applicable mortgage loan disclosure and notification requirements;

- (i) the establishment of a policy to ensure that Avondale complies with the requirements of the Nondiscrimination in Lending regulations. The policy should include, at a minimum; procedures to ensure the accurate completion and maintenance of loan application registers; procedures to ensure that documentation is maintained regarding the Board's annual review of Avondale's loan underwriting standards; and the business practices implementing them, to ensure equal opportunity in lending; and
- (j) the establishment of a policy to ensure that Avondale's adverse action procedures and practices comply with Regulation B (12 C.F.R Section 202.9).

Bank Secrecy Act ("BSA")

27. Within ninety (90) days from the Effective Date of this Agreement, Avondale, under the direction of the Board shall develop and the Board shall adopt a written program to establish a system of internal controls and audit procedures designed to ensure compliance with the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act (31 U.S.C. Section 5311) and the regulations promulgated thereunder at 31 C.F.R. Section 103 (collectively referred to as the "Bank Secrecy Act"). At a minimum, the written program shall include:

- (a) operating procedures for the detection of multiple transactions, if they are by or on behalf of any person or entity, and result in either cash in or cash out totaling in excess of \$10,000 during any single business day;
- (b) procedures governing the accurate and timely filing of currency transaction reports;
- (c) procedures identifying all customers whose transactions with Avondale are exempt from the reporting requirements of the BSA;
- (d) a formal record retention schedule which meets the requirements of 31 C.F.R. Section 103;
- (e) a comprehensive ongoing training program for all tellers and appropriate supervisory personnel to ensure their awareness of and compliance with the requirements of the BSA;

- (f) regular, periodic verification procedures as part of Avondale's regular audit program to ensure adherence to the requirements of the BSA; and
- (g) prompt management response and follow-up to all audit exceptions or other recommendations of Avondale's auditor or compliance officer.

28. Once adopted by the Board, a copy of this program shall be submitted to the OTS Manager for approval. Subsequent to the approval of this program by the OTS Manager, Avondale, under the direction of the Board, shall comply with it in all respects.

Community Reinvestment Act ("CRA")

29. Within sixty (60) days from the Effective Date of this Agreement, Avondale, under the direction of the Board shall undertake a formal assessment of its current community delineation under the CRA to ascertain the demographics of those communities to be completed within ninety (90) days of the Effective Date. The results of Avondale's demographic analysis should be considered, in addition to Avondale's lending patterns, its future lending plans, its charitable contributions, and any previously conducted deposit analysis, in Avondale's assessment of the reasonableness of Avondale's current delineated communities under the CRA.

30. Within one hundred twenty (120) days from the Effective Date of this Agreement, Avondale, under the direction of the Board shall produce a written analysis of the credit needs of Avondale's community. In preparing the written analysis, Avondale shall take into consideration Section 220 of the OTS's Regulatory Handbook regarding Compliance Activities, as well as:

- (a) any written, signed public comments received in response to Avondale's CRA statement(s);
- (b) existing studies concerning local credit needs particularly in low- and moderate-income neighborhoods; and
- (c) direct communications with community members and organizations including Avondale's customers, the PTA, local government officials, neighborhood organizations, block clubs, minority organizations, small business groups, and consumer groups.

31. Within one hundred twenty (120) days from the Effective Date of this Agreement, the Board, utilizing the analysis required in paragraph 30 shall develop and adopt a CRA plan designed to satisfy the credit needs of the community. The CRA plan shall also include procedures for investigating participation in government-insured, guaranteed or subsidized loan programs, improving marketing and advertising strategies, and to remain consistent with the safe and sound operation of Avondale. The CRA plan shall, at a minimum, contain the following:

- (a) a written description of the various types of credit that Avondale is prepared to extend within the community;
- (b) a description of the methods that Avondale will use to communicate the availability of its credit services to the community; such methods may include utilizing media targeted to the community such as neighborhood or minority newspapers and radio stations;
- (c) a marketing program designed to encourage applications for loans in Avondale's community, particularly in low- and moderate-income neighborhood;
- (d) an accurate CRA statement of what types of credit Avondale makes available to its community;
- (e) procedures for the Board to periodically monitor the effectiveness of and Avondale's adherence to the plan;
- (f) procedures for an annual Board review and/or revision of Avondale's community delineation and CRA plan. A copy of Avondale's community delineation and the CRA plan, including any revisions to the CRA plan, shall be retained at Avondale for review by OTS examiners; and
- (g) procedures to monitor the geographic distribution of Avondale's credit extensions, credit applications, and credit denials such that the Board may determine whether Avondale is meeting the credit needs of the community, particularly low- and moderate-income neighborhoods.

32. After the CRA plan required pursuant to paragraph 31 is adopted by the Board, Avondale shall adhere to it in all respects.

Closings

33. (a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the Deputy Regional Director or his/her designee, the Board has the ultimate responsibility for proper and sound management of Avondale. In exercising and fulfilling its fiduciary duties, the Board may consider the reports of management, counsel, and other agents and consultants of the Board. Nothing contained herein shall require the Board or any member or agent thereof to take any action or omit to take any action inconsistent with his or her fiduciary duties.
- (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 Avondale, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the OTS from doing so; provided, however, the OTS shall forebear from initiating cease and desist proceedings against Avondale based upon information known to OTS as of the Effective Date of this Agreement, for so long as Avondale is in compliance with the provisions of this Agreement.
- (c) Any time limitations imposed by this Agreement shall begin to run from the Effective Date of this Agreement. Unless otherwise provided for. Such time limitations may be extended by the Deputy Regional Director or his/her designee 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 Avondale.
- (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, Chicago, Illinois, 60601, Attn: Manager, Larry E. Ferries. 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 his designee.
- (k) Avondale and its Board of Directors agree to revise any policies, reports, and procedures so as to be in compliance with the rules, regulations, and laws pertaining to Avondale subsequent to the Effective Date of this Agreement.
- (l) Upon a review of any policy or procedure requiring OTS Manager approval as provided for in this Agreement, the OTS Manager shall provide written comment as to his/her approval or denial of such policy or procedure. If a policy or procedure is denied by the OTS Manager, the basis for such a denial and the actions necessary to effectuate approval shall be in writing.



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

THE OFFICE OF THRIFT SUPERVISION

By: <sup>7</sup> 151  
Stuart M. Brafman  
Regional Director

AVONDALE FEDERAL SAVINGS BANK  
Chicago, Illinois

By: \_\_\_\_\_  
Director Irving V. Boberski

By: \_\_\_\_\_  
Director Timothy J. Haas

By: \_\_\_\_\_  
Director Betty Jane Chesney

By: \_\_\_\_\_  
Director Thomas R. Eiff

By: 151  
Director Henry C. Pociask

By: \_\_\_\_\_  
Director James Simpson, III

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