

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 23rd day of April, 1992, by and between First Federal Savings & Loan Association of Hastings, Hastings, Minnesota, Docket No. 7170 (hereinafter referred to as the "Institution") 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 the Institution and the OTS. 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. §§ 1818(b) and (i), as amended.

WHEREAS, the OTS is of the opinion that Institution has engaged in certain acts and practices in conducting the business of the institution, which would provide grounds for the initiation of proceedings under 12 U.S.C. § 1818(b) against the Institution by the OTS, and

WHEREAS, in the interest of regulatory compliance and cooperation, but without admitting or denying any violations of law or regulation, Institution is willing to enter into this Agreement to avoid the initiation of such proceedings, and

WHEREAS, the OTS is willing to forbear from the initiation of such proceedings on the subjects covered by this Agreement for so long as Institution is in compliance with the provisions of the Agreement that pertain to such subjects,

NOW, THEREFORE, in consideration of the OTS's above-stated forbearance from initiation of such proceedings against Institution, it is agreed between the parties hereto as follows:

1. Accounting and Reports to OTS. The Institution shall take appropriate steps to ensure that financial reports submitted to OTS are accurately prepared on the basis of generally accepted accounting principles or as otherwise required or allowed by OTS rule or regulation. Such steps shall include, but not be limited to, proper training of accounting personnel, review and evaluation of personnel responsible for report preparation on at least a quarterly basis, senior management review and oversight of report preparation, and an annual review of financial reports submitted to OTS by the Institution's public accountants for accuracy and conformity with GAAP prior to submission to the OTS.

2. Policies and Procedures. Within sixty (60) days of the date of this Agreement, the Institution shall revise its policies, procedures, and practices as set out below:
 - a. Single Family Construction Loans. The Institution's Single Family Construction Lending policy must:
 - (1) provide minimum standards and procedures for insuring borrower equity during the construction phase;

Unless the borrower provides sufficient additional collateral beyond the institution's first mortgage on the subject property, the first disbursement from loan proceeds to purchase the lot and building permit(s) before

construction has started, may not exceed 90% of the land and the building permit(s) cost. Thereafter, all future loan disbursements must not cause aggregate loan disbursements to exceed sixty-five (65) percent of completed value evidenced by inspection;

- (2) provide minimum standards and more detailed procedures for change orders (a minimum variance allowance may be established);
- (3) require all borrowers to complete a loan application and provide current signed financial statements in accordance with regulatory requirements. Financial Statements must be analyzed to ascertain the financial strength of the borrower. The analysis of financial statements submitted by builders seeking to qualify for a construction loan to build a "spec-home" must include information regarding the builder's historical sales data, housing (lot) inventory, and current/pending sales;
- (4) identify documents required to close a construction loan to include, in addition to those required by regulation, construction loan agreement, mortgage rider, take-out commitment, and sworn construction statement;

(5) require that end loan financing on pre-sold homes be evidenced by take-out commitments or end loan commitment letters;

(6) to the extent possible, given lending staff size, stipulate separation of duties and controls between persons authorized to inspect properties, persons authorized to approve payment, and persons authorized to disburse funds.

b. Land Development Loan Policy. Except for single family construction loans, before making any new loan for the purpose of acquiring or improving unimproved real estate, the Institution shall establish and comply with minimum standards and procedures specific to land development lending, including, but not limited to, borrower equity requirements, disbursement procedures, release requirements for lot sales, and acceptable loan-to-value ratios.

c. Loan Underwriting Policies and Procedures. The Institution's Loan Underwriting Policies and Procedures must:

(1) require an annual review of the institution's major borrowers, including all builders or developers with "spec-home" construction loan relationships. Monitoring

standards for such builders must include, at a minimum, an analysis of current financial statements, sales history, and land, lot, and home inventory.

- (2) address issues regarding loans to one borrower and concentrations of credit to include a statement of institutional objectives, reference to applicable regulations, and a summary of regulatory requirements.
- (3) expand the documentation required in order to renew/extend a loan to include, at a minimum, current financial statement analysis, collateral valuation, and maximum loan terms, rates, and points.
- (4) be clarified to more specifically address letters of credit, including the purpose for issuance, terms, and acceptable collateral.

d. Appraisal Policy and Procedures. The Institution's Appraisal Policy and Procedures must:

- (1) require an appraisal at the earlier of foreclosure or in-substance foreclosure, as required by OTS Regulation 563.172(a). The policy must also require an appraisal of any property that is sold if it has not been appraised in the previous twelve (12) months.

- (2) require that adjustments to market comparables be based on sufficient supportable market data.
- (3) establish written guidelines consistent with OTS Regulation § 564.3(a)(4) and § 564.3(a)(5) to determine the extent of the valuation process needed for renewals of maturing real estate loans.
- (4) specifically identify which employees are authorized to order appraisals on behalf of the institution. The policy must require that all appraisal assignments be initiated through a letter of engagement which must contain the purpose of the assignment, property legal description, and pertinent data and documentation to be submitted for the appraiser's review.

The board of directors shall approve such policies, procedures, and practices, which shall be recorded in the minutes of the meeting of the board of directors. Thereafter, the Institution and its directors, officers, and employees shall implement and follow such policies and procedures.

3. Definitions. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms used in this Agreement have the meanings to them in this Paragraph 3; (b) all accounting terms not otherwise

defined have the meanings assigned to them in accordance with generally accepted accounting principles, except that if such terms are defined in the Rules and Regulations of the OTS, such regulatory definitions shall control; (c) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, and FIRREA, the Rules and Regulations of the OTS (including, without limitation, 12 C.F.R. §§ 500.1 et seq., 541.1, et seq., and 561.1, et seq. (1991)) or its publicly available Bulletins and Advisory Memoranda shall have the meanings assigned to them in such statutes, rules and regulations, Bulletins, and Advisory Memoranda; and (d) all technical words or terms not subject to a definition in this Agreement shall have the meanings that accord with the best custom and usage in the thrift and banking industries. As used in this Agreement:

- a. "make" means to enter into a binding obligation to provide loan funds.
 - b. "HOLA" means the Home Owners' Loan Act, as amended, 12 U.S.C. § 1464, et seq. (Supp. I 1989).
 - c. "FDIA" means the Federal Deposit Insurance Act, as amended.
 - d. "FIRREA" means the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183.
4. Termination. The provisions of this Agreement are effective upon its issuance by the OTS, through its authorized representative. This Agreement shall remain in effect until terminated, modified,

CERTIFIED COPY OF
RESOLUTION OF
BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of First Federal Savings & Loan Association of Hastings, Hastings, Minnesota ("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 April 23, 1992, that 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 Institution have been advised that OTS representatives believe Institution to have engaged in certain acts and practices in conducting the business of the institution, which would provide grounds for the initiation of proceedings under 12 U.S.C. § 1818(b) against Institution by the OTS, and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of such proceedings on the subjects covered by the attached Supervisory Agreement if it is executed by the Institution and its terms are thereafter carried out by the Institution, and

WHEREAS, the directors of Institution have read and considered the proposed Supervisory Agreement ("Agreement") attached to the minutes of the meeting of the board of directors held on April 23, 1992, and after due consideration, and in the interest of regulatory

compliance and cooperation, but without admitting or denying any violations of law or regulation, have determined to enter into the proposed Agreement:

NOW, THEREFORE, BE IT RESOLVED, That the proposed Agreement, a copy of which is attached hereto, be and is hereby approved by the board of directors of Institution. The President of the Institution is authorized to sign and execute this Agreement on behalf of the Institution. The officers and employees of 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 Institution this 23rd day of April, 1992.

~~Secretary~~

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