

95022

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 30th day of APRIL, 1992 ("effective date"), by and between First Carolina Federal Savings Bank, Kings Mountain, North Carolina, OTS No. 0850, for itself and its wholly owned service corporations and subsidiaries ("First Carolina Federal" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

This Agreement supersedes and replaces the Memorandum of Understanding of April 9, 1991 between First Carolina Federal and the OTS.

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

WHEREAS, First Carolina Federal, in the interest of regulatory compliance and cooperation, and without admitting or denying that such grounds exist, 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 Carolina 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 that pertain to such actions; 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 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:

1. (a) Within 60 days after the effective date of this Agreement, the Board of Directors of First Carolina Federal ("the Board") shall have completed a comprehensive review of all existing criticized assets, including but not limited to criticized assets identified in the Institution's January 21, 1992, OTS Report of

Examination ("1992 Exam"). The review shall be structured in a format designed to identify recurring, significant and/or common weaknesses that might be eliminated or reduced by modified lending practices. The Board shall maintain written documentation of the results of this review.

- (b) Within 30 days after completing the review required by Paragraph 1.(a) of this Agreement, the Board shall adopt and require Management to implement revisions to First Carolina Federal's lending policies and practices to reduce or eliminate the lending practices identified by the review which caused or contributed to unsatisfactory loan performance.
2. Within 60 days after the effective date of this Agreement, the Board shall adopt and require Management to implement revisions to the Institution's written Asset Classification Policy and practices to eliminate the deficiencies described in the 1992 Exam.
3. Within 60 days after the effective date of this Agreement, the Board shall adopt and require Management to implement a revised Interest Accrual Policy which incorporates the following provisions:
 - (a) interest accrual on loans shall be made only in accordance with Generally Accepted Accounting Principles; and
 - (b) the accrual of interest income will be discontinued when it is determined that collection of interest in cash from the borrower is less than probable or the collection of any amount of principal is doubtful; and
 - (c) loans greater than 90 days delinquent will be on non-accrual status unless the Board, or a committee thereof, makes and documents a determination that accrual of interest should continue. As a general practice, loans greater than 90 days past due will be on non-accrual status, unless collection is anticipated based upon a probable specific event, such as the closing of a negotiated sales contract, within 90 days of making the determination required in this section.

4. Within 60 days after the effective date of this Agreement, the Board shall adopt and require Management to implement written Real Estate Owned Policies and Procedures that include, but are not limited to, provisions addressing the deficiencies listed on page 7 of the 1992 Exam.
5. First Carolina Federal shall account for each parcel of real estate owned and in-substance foreclosure, and all other troubled debt restructurings, in accordance with Generally Accepted Accounting Principles set forth in Statements of Financial Accounting Standards Numbers 5 and 15, and in accordance with the provisions of 12 C.F.R. §§ 563.172 and 571.18.
6. (a) First Carolina Federal shall establish general and specific valuation allowances in accordance with the provisions of 12 C.F.R. § 563.160 and the guidance provided in Section 261 of the OTS Thrift Activities Handbook.

(b) The Board shall review the adequacy of, and if necessary, adjust the level of general valuation allowances no less frequently than once every calendar quarter.
7. Within 60 days after the effective date of this Agreement, the Board shall adopt and require Management to implement a written Collection Policy designed to reduce the level of the Institution's criticized assets and past due loans. The policy shall define delinquent credit obligations and shall dictate the appropriate reports to be prepared and submitted to the Board. The reports shall be sufficiently detailed to enable an assessment of the risk, loss potential, and alternative courses of action to effectuate collection of amounts due.
8. First Carolina Federal shall make no capital distributions, as that term is defined at 12 C.F.R. § 563.134(a)(1), unless and until:
 - (a) the Board has adopted and Management has implemented the Collection Policy required by Paragraph 7 of this Agreement; and
 - (b) the total of past due, non-accrual and repossessed assets, as calculated in accordance with the OTS Thrift Financial Report instructions are less than 5 percent of total consolidated assets.

9. Within 30 days after the effective date of this Agreement, the Institution shall have issued, or verify that it has previously issued, an accurate engagement letter to an appraiser meeting the requirements of 12 C.F.R § 564.6 to evaluate the security property for the four loans totalling \$1.187 million as shown on page A - 12.2 of the 1992 Exam. The letter shall indicate that time is of the essence regarding receipt of the appraisal and shall require that the appraisal comply with the provisions of 12 C.F.R. Part 564. The appraisal shall be reviewed by the Institution immediately upon receipt and shall be promptly forwarded to the OTS Regional Office upon acceptance by the Institution.
10. At each regular meeting of the Board of Directors, the Board shall review a sales report and sales projections for properties held for sale by the Institution's subsidiary.

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. 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, 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 Carolina Federal Savings Bank
Kings Mountain, North Carolina
OTS No. 0850

By: 151 _____ Date: 4-28-92
Director

By: _____ Date: _____
Director

OFFICE OF THRIFT SUPERVISION

By: 151 _____
John E. Ryan
Regional Director