

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this day of July 13, 1992, 1992, by and between Interstate Savings and Loan Association, Perryton, Texas (OTS No. 6301) ("Institution") for itself and any wholly-owned or partly-owned subsidiary, 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. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of Sections 902 and 907 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 (1989) (FIRREA), 12 U.S.C. §§ 1818(b)(1) and (i)(2) (Supp. I 1989)).

WHEREAS, the OTS is of the opinion that the Institution has not complied with certain of the regulations to which the Institution is subject in conducting the business of the Institution, specifically 12 C.F.R. §§ 563.43, 563.161(a), and 571.19, and has engaged in unsafe or unsound practices in conducting the business of the institution, thereby providing grounds for the initiation of cease and desist proceedings against the Institution by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against the Institution for its failure to comply with 12 C.F.R. §§ 563.43, 563.161(a), and 571.19, as of March 30, 1992, and its unsafe or unsound practices as set forth in the Institution's examination report dated March 30, 1992, so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, the Institution is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings:

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

Growth

1. Without the prior written approval of the Regional Deputy Director for the Midwest Regional Office of the OTS or his successor or designee ("Regional Deputy Director"), Interstate may not increase its total assets during any quarter. A limited growth exception which permits asset growth up to the amount of interest credited on deposit liabilities is available upon approval of the Director of the OTS or his designee. In addition, Interstate shall not engage in the following without the prior written approval of the Director or his designee, where appropriate:

- (i) Make any capital distribution (see definition of capital distribution at 12 C.F.R. Section 563.134(1));

- (ii) Add any individual to the board of directors or employ any individual as a senior executive officer of the Institution or holding company (see Section 914 of FIRREA and Thrift Bulletin 45, dated April 25, 1990);
- (iii) Act inconsistently with any other limitation on activities established by statute, regulation or by the OTS (including compliance with any existing supervisory orders or agreements).

Approval of Executive Officers and Directors

2. Pursuant to § 914 of FIRREA and any regulations promulgated thereunder, the Board of Directors shall notify the Regional Deputy Director of the proposed addition or employment of any director or senior executive officer before such addition or employment becomes effective. The Board of Directors may not add or employ any director or senior executive officer if the Regional Director issues a notice of disapproval before the end of 30 days from the date on which the notice was deemed complete by the Regional Director, beginning on the date the Regional Director receives notice of the proposed addition or employment.

Business Plan

3. (a) Within 90 days of the effective date of this Agreement, the Board of Directors shall prepare, adopt and submit to the Regional Deputy Director for review, a Business Plan that sets forth a plan for maintaining the Institution's compliance with its regulatory capital requirement. The Business Plan shall contain the following components:
 - (i) Financial projections for 2 years on a quarterly basis, including major balance sheet and income statement components and a budget with respect to the overall operations of the Institution;
 - (ii) A narrative description of the strategy to be implemented to manage the Institution in such manner as to make it profitable and interest-rate scenario assumptions upon which the Business Plan is based;
 - (iii) An evaluation of the adequacy of current management with regard to achieving the goals of the Business Plan;
 - (iv) An evaluation of operations including staffing, goals, income, expenses, and objectives;

- (b) The Board of Directors hereby agrees to make all revisions to the Business Plan that are reasonably requested by the Regional Deputy Director and to comply with the Business Plan, provided that any material revisions be subject to prior written review and approval by the Regional Director.
- (c) Beginning with the end of the quarter following the submission of the Business Plan, the Institution shall provide to the Regional Deputy Director, quarterly progress reports comparing the actual performance to the projections set forth in the Business Plan detailing all material variances.
- (d) The Institution shall update the 2-year Business Plan on a quarterly basis and submit to the Regional Deputy Director for review the updated Business Plan by 60 days after the end of the quarter.

Conflicts of Interest

- 4. (a) The Board of Directors shall review and familiarize themselves with 12 C.F.R. §§ 215.1-215.4, 215.7, 563.40, 563.41, 563.42, 563.43, 571.7, and 571.9, and 12 U.S.C. §§ 371c, 371c-1, 375a and 375b, and Section 11 of HOLA, 12 U.S.C. § 1468.
- (b) Within 60 days of the effective date of this Agreement, the Board of Directors shall revise the Institution's written policy for the avoidance of conflicts of interest to include procedures to be utilized to identify, disclose and resolve conflicts, and provide a plan for the continuous monitoring of potential conflicts. The revised policy must also cite and explain how the Institution will comply with each of the above regulations and statutes.
- (c) Minutes of the meetings of the Board of Directors shall henceforth include full disclosure of loan approvals and terms as required under 12 C.F.R. § 563.43(b)(2).

Establishment of Allowance for Losses

- 5. The Institution's policy for the establishment of allowances for losses shall provide for a review of the valuation allowances by the Board of Directors at least once each calendar quarter. Any deficiency in the valuation allowances shall be corrected in the quarter it is discovered, prior to the filing of the Thrift Financial Reports, by making additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board of Directors in determining the adequacy of the valuation allowances.

Reduction of Classified Assets

- 6. (a) The Institution shall take immediate and continuing action to protect its interest with regard to classified assets.

- (b) Within 60 days of the effective date of this Agreement, the Board of Directors shall adopt, implement, and submit to the Regional Deputy Director for review, written plans designed to eliminate the basis of criticism of each commercial asset classified in the most recent OTS report of examination as "substandard" or "special mention" or classified, at present or in the future, by the Institution's internal loan review systems. Such plans shall be amended as directed by the Regional Deputy Director. These plans shall include, at a minimum:
- (i) An identification of the expected source(s) of repayment;
 - (ii) The appraised value of supporting collateral and the position of the Institution's lien on such collateral, where applicable;
 - (iii) An analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and
 - (iv) The proposed action to eliminate the basis of the classification and the time frame of its accomplishment.
- (c) Within 60 days of the effective date of this Agreement, the Board of Directors shall adopt and implement written plans for the marketing of each parcel of real estate owned ("REO") at present. The Board shall similarly adopt and implement such plans for any parcels of real estate acquired in foreclosure subsequent to the effective date of this Agreement. These plans shall include, at a minimum:
- (i) A periodic reassessment of the property value;
 - (ii) The proposed time frame for disposal of the property;
 - (iii) Plans or strategies for maintaining the value of the property while awaiting final disposition;
 - (iv) A periodic analysis of income and expenses associated with the property; and
 - (v) The listing of each property targeting for sale, with a licensed real estate broker, and the manner and frequency with which Institution management will receive marketing status reports from the broker.
 - (vi) Plans adopted and implemented with respect to assets carrying a book value of \$100,000 or more shall be submitted to the Regional Deputy Director for review, within seven days after adoption by the Board.

- (d) The Board of Directors, or a duly authorized Committee thereof, shall conduct a review, on at least a quarterly basis, to determine:
 - (i) The status of each classified asset or classified portion thereof which exceeds \$250,000;
 - (ii) Management's compliance with the plan adopted pursuant to this Paragraph;
 - (iii) The status and effectiveness of the plans; and
 - (iv) The need to revise the plan or take alternative action.

A copy of each review shall be forwarded to the Regional Deputy Director on a quarterly basis.

Loan Collection Policies and Procedures

- 7. (a) Within 60 days of the effective date of this Agreement, the Board of Directors shall revise the Institution's collection policy as needed to provide for more effective collection practices. Such revisions should address, at a minimum, (i) adequate staffing to accomplish the policy's objectives and (ii) proper documentation of collection activities.
- (b) The Board of Directors shall conduct a review, at least quarterly, of compliance with the policy. The Institution shall maintain documentation to support its compliance with the policy.

Appraisal Policies

- 8. (a) Within 60 days of the effective date of this Agreement, the Board of Directors shall conduct a review of the Institution's appraisal policy and revise the policy as necessary to assure compliance with 12 C.F.R. §§ 563.172 and 564.
- (b) The Board of Directors shall conduct the review, at least quarterly, of compliance with the policy. The Institution shall maintain documentation to support the Board's initial review of the policy, and its compliance with the policy.

Investment Policy

- 9. (a) Within 60 days of the effective date of this Agreement, the Board of Directors shall revise the Institution's investment policy to assure compliance with 12 C.F.R. § 571.19.
- (b) The Board of Directors shall conduct a review, at least quarterly, of compliance with the policy. The Institution shall maintain documentation to support the Board's compliance with the policy.

Termination of Supervisory Agreement

10. Upon the effective date of this Agreement, the September 17, 1991 Supervisory Agreement between the Institution and the OTS, shall be terminated.

General Provisions

11. The Board of Directors shall adopt a resolution signed by each director, certifying that, to the best of his or her knowledge and belief, and based on a prudent review, during the previous calendar month, the Institution complied with each condition of this Agreement. This resolution shall set forth any exceptions to any conditions of this Agreement that were approved by the Regional Deputy Director. At the request of the Regional Deputy Director or his designee, the Institution shall submit to the Regional Deputy Director a copy of the minutes of each Board of Directors' meeting and the minutes of Board of Directors' committee(s) meetings, the aforementioned resolution, and any management report of the Institution.
12. (a) As used in this Agreement, the Regional Director, Interim Regional Director, Regional Deputy Director or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, § 723(d), 103 Stat. 183 (1989).
(b) As used in this Agreement, the term "subsidiary" or "subsidiaries" shall be as defined in 12 C.F.R. § 567.1(dd).
(c) As used in this Agreement, the term "savings association" shall have the meaning as set forth in Section 2(4) of the HOLA, as amended by Section 301 of the FIRREA, § 301, 103 Stat. 183 (1989).
(d) As used in this Agreement, the term "affiliate" shall be as defined in 12 U.S.C. § 371c(b).
(e) Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Agreement pursuant to Section 401(h) of the FIRREA, § 401(h), 103 Stat. 183 (1989), and references to successor provisions as they become applicable.

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, HOLA, and Federal Deposit Insurance Act ("FDIA", as amended ("FDIA")). Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

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.

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

**INTERSTATE SAVINGS AND LOAN ASSOCIATION
PERRYTON, TEXAS**

By: . 12 - 15/

Director

Director,

Director

Director

Director

Director

Director

Director

OFFICE OF THRIFT SUPERVISION

By: - _____
Interim Regional Director

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

I, the undersigned, being the duly qualified Secretary of Interstate Savings and Loan Association, Perryton, Texas (OTS No. 6301) ("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 July 13, 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 directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the Institution violated regulations to which the Institution is subject and has engaged in unsafe and unsound practices and that such violations and practices provide grounds for the initiation of cease and desist proceedings against the Institution by the OTS; and

WHEREAS the said directors have been informed that the OTS will forbear from the initiation of such proceedings as a result of the Institution's failure to comply with 12 C.F.R. §§ 563.43, 563.161(a), and 571.19, as of March 30, 1992, to which the Institution is subject, and the Institution's unsafe or unsound practices as set forth in an examination report dated March 30, 1992, if the attached Supervisory Agreement ("Agreement") is executed by the Institution and if its terms are thereafter carried out 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 July 13, 1992; and

WHEREAS after due consideration, the directors of the Institution have determined to enter into the proposed Agreement in the interest of regulatory compliance and cooperation: 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 and to comply with such Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of Interstate Savings and Loan Association, Perryton, Texas this 13th day of July, 1992.

15/

Secretary