

**SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made and is effective this <sup>5<sup>th</sup></sup> day of August, 2008 (the Effective Date), by and between Family Federal Savings of Illinois, Cicero, Illinois (Family or the Association), OTS Docket No. 01638, a federal mutual savings association, and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting through its Central Regional Director or his designee (Regional Director).

**WHEREAS**, the OTS is the primary Federal regulator of Family pursuant to the Home Owners' Loan Act (HOLA), 12 U.S.C. §§ 1461 *et seq.*, and is Family's appropriate Federal banking agency for purposes of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. §§ 1811 *et seq.*;

**WHEREAS**, based upon the findings contained within the Association's December 28, 2007 Report of Examination (ROE), the OTS is of the opinion that Family has engaged in acts and practices that: (i) have resulted in violations of certain laws or regulations to which Family is subject; and (ii) are considered to be unsafe and unsound;

**WHEREAS**, the OTS is of the opinion that grounds exist for the initiation of an administrative proceeding against Family pursuant to 12 U.S.C. §§ 1464(d) and 1818(b);

**WHEREAS**, OTS is of the view that it is appropriate to take measures intended to ensure that Family will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices;

**WHEREAS**, Family wishes to cooperate with the OTS and to evidence its intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

**WHEREAS**, Family, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

**NOW THEREFORE**, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

### **Compliance with Laws and Regulations**

1. Family and its directors, officers, employees, and agents shall take all necessary and appropriate actions to comply with the following laws and regulations:
  - a) 12 C.F.R. § 563.170(c) (Establishment and maintenance of records – loan files);
  - b) 12 C.F.R. § 564.4(a) (Minimum appraisal standards);
  - c) 24 C.F.R. § 3500.14 (Prohibition against kickbacks and unearned fees);
  - d) 12 C.F.R. § 563.176 (Interest-rate-risk-management procedures); and
  - e) 12 C.F.R. § 572.3(a) (Requirement to purchase flood insurance where available).

### **Business Plan**

2. a) By August 29, 2008, the Board shall revise Family's current business plan (Business Plan), and incorporate the requirements contained within this Agreement and the suggestions contained within the ROE, as well as ensuring, at a minimum, inclusion of the following:
  - i. defined minimum target capital ratios and measures to be taken should capital decline below those levels;
  - ii. defined strategies for capital preservation and enhancement commensurate with the risk profile of the Association, including a detailed description of all activities and risks attendant to such activities that Family intends to engage in during the term of the Business Plan;
  - iii. detailed goals and objectives designed to reduce the level of classified assets and delinquent loans;
  - iv. detailed strategies designed to improve and sustain core earnings; and
  - v. detailed pro forma quarterly balance sheets and income statements for a three year period.
- b) By August 29, 2008, the Board shall forward a copy of the revised Business Plan to the Regional Director for review and comment. The Board shall revise the Business Plan within 10 days of receiving the Regional Director's comments, if any, and implement the revised Business Plan within 30 days thereafter. The Board shall send a copy of the Business Plan implemented by the Board to the Regional Director;
- c) On a quarterly basis, beginning with the first quarter end following the receipt of the Regional Director's comments on the Business Plan, the Board shall compare

projected operating results contained within the Business Plan to actual quarterly results. Additionally, as part of the variance analysis required pursuant to this subparagraph, the Board shall analyze and explain any material deviation between the projections contained in the Business Plan and actual results. The Board shall prepare a written report describing any material deviation between the projections and actual results to be included in the minutes of the Board meeting; and

d) Within 30 days of the close of each quarter, the Board shall provide the Regional Director with a copy of the variance analysis report required by subparagraph c) above.

#### **Asset Quality**

3. By September 30, 2008, the Board shall revise Family's current construction lending policy and procedures and incorporate the requirements contained within this Agreement and the suggestions contained within the ROE. Such revised policy and procedures shall comply with OTS regulations and guidance, including but not limited to, the guidance contained within Appendix A of Section 560.101 and Sections 208, 213, and 340-Appendix A of the OTS Examination Handbook.
4. The Board shall conduct a complete review of the Association's construction lending portfolio, address any underwriting deficiencies or weaknesses, and take corrective action for any identified deficiencies. A report of the Board's findings should be submitted to the Regional Director no later than September 30, 2008.

#### **Allowance for Loan Lease Losses**

5. Within 30 days of the Effective Date of this Agreement, the Board shall, where appropriate, revise Family's Allowance for Loan and Lease Losses (ALLL) policy and procedures, so as to incorporate the suggestions contained within the ROE and, at a minimum, the following:
  - a) establishment of well-documented methodologies for calculating the ALLL for non-homogeneous assets;
  - b) incorporation of procedures ensuring that the ALLL methodology considers historical losses and concentration levels (e.g. underlying collateral, geographic location, business type, loan type, etc.), as well as economic conditions and trends; and
  - c) Section 261 of the OTS Examination Handbook and the December 13, 2006 Interagency Policy Statement on ALLL.

## Management

6. Within 60 days of the Effective Date of this Agreement, the Board or a designated committee thereof, with the assistance of the Association's Chief Executive Officer, shall conduct a study of current management and Board supervision presently being provided to the Association. The study shall include:
  - a) the identification of present and future management and staffing requirements for each area of the Association, with particular emphasis given to loan administration;
  - b) an evaluation of the ability of current management, staff and directors;
  - c) objectives by which management's effectiveness will be measured;
  - d) the need for additions to or deletions from the current management team;
  - e) an assessment of whether Board members are receiving adequate information on the operation of the Association to enable them to fulfill their fiduciary responsibilities and other responsibilities under law;
  - f) an evaluation of the extent of responsibility of current management and/or the Board for present weaknesses in the Association's condition;
  - g) the establishment of a system for periodic, but not less than annual, review, evaluation, and written assessment of the performance of each member of management, including a determination of whether their performance and assigned responsibilities are commensurate with their compensation;
  - h) the establishment of an assessment of the skills and experience of the Board as a whole and determine whether the capabilities of the Board would be enhanced through the addition of persons with particular skills and experience; and
  - i) the establishment of a director education program designed to ensure that the Board has the skills and abilities necessary to effectively supervise the Association.
7. Within 10 days of completion of the study required in Paragraph 6, the Board shall forward a copy of the study to the Regional Director for review and comment. The Board shall enhance the study within 30 days of receiving the Regional Director's comments, if any. The Board shall develop, implement, and adhere to a written plan that will correct any deficiencies noted in the study and send a copy of the written plan to the Regional Director upon approval by the Board.
8. Within 60 days of the Effective Date of this Agreement, the Board or a designated committee thereof, with the assistance of the Association's Chief Executive Officer,

shall conduct a study of Family's current management succession plan. The study shall include:

- a) identification of key staff positions within the Association;
  - b) review of middle management capabilities;
  - c) identification of potential successors for vacancies in key positions, including the existing two outside director vacancies;
  - d) identification of temporary replacements in key positions if no individual in the Association is suitable on a permanent basis; and
  - e) description of the Board's plan to improve the depth of skills on the management team, provide for continuity, and ensure competent management is in place.
9. Within 10 days of completion of the study required in Paragraph 8, the Board shall forward a copy of the study to the Regional Director for review and comment. The Board shall enhance the study within 30 days of receiving the Regional Director's comments, if any. The Board shall develop, implement, and adhere to a written plan that will update and correct any deficiencies noted in the study and send a copy of the written plan to the Regional Director upon approval by the Board.

#### **Market Risk**

10. Within 60 days of the Effective Date of this Agreement, the Board shall revise, where appropriate, and thereafter ensure Association adherence to its written interest rate risk policy. In revising its policy, the Board shall refer to §563.176 of OTS regulations, Section 650 of the OTS Examination Handbook, and OTS Thrift Bulletin 13a. The policy shall address, at a minimum:
- a) establishment and guidance of the Association's strategic direction and tolerance for interest rate risk;
  - b) prudent limits on the nature and amount of interest rate risk as determined by the Board;
  - c) implementation of effective tools to measure and monitor the Association's performance and overall interest rate risk profile;
  - d) the review of adequate, periodic management reports on which to base sound interest rate risk management decisions; and
  - e) periodic review of the Association's adherence to the policy.

11. Within 75 days of the Effective Date of this Agreement, the Board shall forward a copy of the revised interest rate risk policy to the Regional Director for review and comment. The Board shall revise the policy within 10 days of receiving the Regional Director's comments, if any, and implement the revised policy within 30 days thereafter. The Board shall send a copy of the interest rate risk policy implemented by the Board to the Regional Director;

### Operations

12. Notice of Change of Director or Senior Executive Officer. The Association is and shall be subject to the requirements and limitations set forth in Subpart H of Part 563 of OTS regulations (12 C.F.R. §§ 563.550- .590). Without limitation on such requirements and limitations, this means, among other things, that except as otherwise permitted by 12 C.F.R. §563.590: (a) the Association must notify OTS at least thirty (30) days before adding or replacing any member of its Board, employing any person as a senior executive officer, or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive officer position; and (b) the proposed director or senior executive officer may not begin service except as permitted by 12 U.S.C. § 1831i and 12 C.F.R. §563.585.
13. Restrictions on Golden Parachute Payments. The Association is and shall be subject to the restrictions set forth in 12 C.F.R. Part 359. Such restrictions concern the making of agreements (including employment agreements) with severance provisions, "golden parachute payments" and "prohibited indemnification payments". The Association shall not make or agree to make any "golden parachute payment", as that term is defined in 12 U.S.C. § 1828(k) and in 12 C.F.R. Part 359, except as may be permitted by the statutory provision and 12 C.F.R. §§ 359.2 and 359.4.
14. Restrictions on Compensation or Benefits. The Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or senior executive officer of the Association, unless it first (a) provides a minimum of thirty (30) days advance notice of a proposed transaction and (b) receives a written notice of non-objection from the OTS Regional Director. See Section 310 (p. 310.17) of the OTS Examination Handbook and OTS Regulatory Bulletin 27b.
15. Restrictions on Certain Third Party Contracts. The Association shall not enter into any third-party contracts outside of the normal course of business without the prior written non-objection of the OTS Regional Director. To seek such non-objection the Association shall provide thirty (30) days advance written notice to the Regional Director of any such proposed contract. At a minimum, such notice shall set forth

the Association's reasons for seeking the contract and shall transmit a copy of the proposed contract pursuant to Section 310 (pp.310.18-19) of the OTS Examination Handbook and OTS Thrift Bulletin 82a.

16. Applications and Notices and Related Fees. The Association no longer qualifies for expedited treatment for applications and notices filed with the OTS. As a result, application fees may be higher. See 12 C.F.R. § 516.5 and OTS Thrift Bulletin 48-21.
17. OTS Assessments. The Association is subject to the payment of higher assessments if its composite CAMELS rating is a "3", "4" or "5". See 12 C.F.R. Part 502 and OTS Thrift Bulletin 48-25.

#### **Compliance with Agreement**

18. a) All policies, procedures, corrective actions, plans, programs, agreements, reviews and systems required by this Agreement (collectively referred to as Plans and Policies) shall conform to all applicable statutes, and regulations, as well as OTS policy and guidance. The Board shall revise Plans and Policies as required by the OTS within 30 calendar days of written direction from the OTS, unless otherwise provided for within this Agreement. The Plans and Policies shall be incorporated into this Agreement, and any deviation from such Plans and Policies shall be a violation of this Agreement.
- b) The Board and officers of the Association shall take immediate action to cause Family to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to carry out the provisions of this Agreement.
- c) ~~The Board shall have the ultimate responsibility for overseeing the safe and sound operation of Family at all times, including compliance with the OTS's determinations as required by this Agreement.~~
- d) By the last business day of the month following the end of the quarter, beginning with the third quarter of 2008, the Board shall adopt and submit to the OTS certified copies of a Board resolution (Compliance Resolution) formally resolving that, following a diligent inquiry of relevant information (including a report from the Association's management regarding Family's compliance with each provision of this Agreement), to the best of its knowledge and belief, during the immediately preceding quarter, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall specify in detail how, if at all, full compliance was found not to exist. In the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Compliance Resolution.

### **Definitions**

19. 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, the HOLA, the FDIA, or published OTS guidance. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

### **Successor Statutes, Regulations, Guidance, Amendments**

20. Reference in this Agreement to provisions of federal statutes, regulations, and OTS Publications shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date and references to successor provisions as they may become applicable.

### **Notices**

21. a) Except as otherwise provided herein, any request, demand, authorization, directions, notice, consent, waiver, or other document provided or permitted by this Agreement to be made upon, given or furnished to, delivered to, or filed with:
  - i. OTS shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, One South Wacker Drive, Suite 2000, Chicago, Illinois 60606 or telecopied to (312) 917-5002, and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address; and
  - ii. Family shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered in each case addressed to the Board of Directors of Family Federal Savings of Illinois, 5225 W. 25<sup>th</sup> St. Cicero, Illinois 60804 or telecopied to (708) 656-0153, and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- b) Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two business days after the date of the postmark on the envelope in which the notice was enclosed.

**Effect of Headings**

22. The section and paragraph headings herein are for convenience only and shall not affect the construction hereof.

**Separability Clause**

23. In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director, in his sole discretion, determines otherwise.

**No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted**

24. Nothing in this Agreement shall be construed as: (i) allowing Family to violate any law, rule, regulation, or policy statement to which it is subject, or (ii) restricting or estopping the OTS from taking any action(s), including without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate in fulfilling the responsibilities placed upon it by law.

**Time Limits**

25. Time limits for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted. The Regional Director may, in his sole discretion, extend any of such time limitations.

**Duration, Termination or Suspension of Agreement**

26. a) This Agreement shall become effective upon its execution by the OTS through its authorized representative whose signature appears below. The Agreement shall remain in effect until terminated, modified, or suspended, in writing, by the OTS, acting through its Director, Regional Director, or other authorized representative.
- b) The Regional Director, in his sole discretion, may, by written notice, suspend any or all of the provisions of this Agreement.

**Successors in Interest/Benefit**

27. 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. Nothing in this Agreement, expressed or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors

hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

**Integration Clause**

28. This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date of this Agreement, with respect to the subject matter.

**Enforceability of Agreement**

29. The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Family. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. § 1818.

**Counterparts**

30. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and each of which shall be deemed an original.

**Effective Date**

31. This Agreement is and will become effective on the Effective Date as defined herein.

**Signature of Directors**

32. Each Director signing the Agreement attests, by such act, that she or he voted in favor of a Board Resolution authorizing the execution of this Agreement by the Association. A copy of the Resolution of Family's Board authorizing the execution of the Agreement shall be delivered to the OTS along with the executed original of the Agreement.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Association hereby execute this Agreement as of the Effective Date of this Agreement.

**OFFICE OF THRIFT SUPERVISION**

By: \_\_\_\_\_ /s/  
Thomas A. Barnes,  
Regional Director, Central Region

**FAMILY FEDERAL SAVINGS OF ILLINOIS**

By: \_\_\_\_\_ /s/  
Gregory F. Sobotka  
President & Director

By: \_\_\_\_\_ /s/  
John S. Kociolko  
Director

By: \_\_\_\_\_ /s/  
Jerome J. Gralla  
Director

By: \_\_\_\_\_ /s/  
Barry R. Sobotka  
Director

By: \_\_\_\_\_ /s/  
Arthur G. Jaros, Jr.  
Director