SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 12 day of January , 2011 (Effective Date), by and through the Board of Directors (Board) of First Federal Savings and Loan Association of Hammond, Hammond, Indiana, OTS Docket No. 02692 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Association is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices; and

WHEREAS, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the June 28, 2010 Report of Examination (2010 ROE), the Association and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on January 4 , 2011, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Liquidity Management.

1. Within thirty (30) days, the Association shall develop a written program for identifying, monitoring, and controlling risks associated with concentrations of volatile liabilities[1] (Liability Concentration Program) that addresses all corrective actions set forth in the 2010 ROE relating to concentrations of volatile liabilities. The Liability Concentration Program shall comply with all applicable laws, regulations and regulatory guidance. If the concentration limits in the Association's Liability Concentration Program are lower than the Association's existing concentration in volatile liabilities, the Association shall develop a reduction plan (Reduction Plan) to bring the Association into compliance with its Liability Concentration Program within sixty (60) days of the Effective Date. At a minimum, the Reduction Plan shall include:

   (a) concentration limits expressed as a percentage of (i) volatile liabilities to total assets and (ii) liquid assets to volatile liabilities;

   (b) timeframes for achieving the reduction in dollar levels identified in response to subparagraph (a) above;

   (c) provisions for the submission of monthly written progress reports to the Board for review and notation in the minutes of the meetings of the Board; and

   (d) procedures for monitoring the Association's compliance with the Reduction Plan.

2. Within thirty (30) days, the Association shall develop a contingency funding plan (Contingency Funding Plan) that addresses all corrective actions set forth in the 2010 ROE relating to liquidity and funds management. The Contingency Funding Plan shall comply with

[1] Volatile liabilities are wholesale and other rate sensitive deposits and short-term liabilities that can be withdrawn quickly and include, but are not limited to, brokered deposits, uninsured deposits, federal funds purchased, securities sold under agreements to repurchase, and other borrowings with remaining maturities of less than one year.

all applicable laws, regulations and regulatory guidance.

Business and Capital Plan.

3. By February 28, 2011, the Association shall submit to the Regional Director an updated business and capital plan for the period beginning January 1, 2011 through December 31, 2012 (Business and Capital Plan). At a minimum, the Business and Capital Plan shall conform to applicable laws, regulations, and regulatory guidance and include:

(a) establishment of a minimum Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio commensurate with the Association's risk profile;

(b) specific strategies and timeframes for achieving and maintaining the capital ratios of the Association to Board established targets;

(c) establishment of various triggers that if reached will result in the Association's merger with, or acquisition by, another federally insured depository institution or holding company thereof or filing of a voluntary dissolution application with the OTS;

(d) monthly cash flow projections for the Association for the period covered by the Business and Capital Plan that identify both the sources of funds and the expected uses of funds;

(e) quarterly pro forma financial projections (balance sheet and income statement) for the period covered by the Business and Capital Plan;

(f) strategies to stress-test and adjust earnings forecasts based on continuing operating results, economic conditions, and credit quality of the loan portfolio; and

(g) identification of all relevant assumptions made in formulating the Business and Capital Plan and a requirement that documentation supporting such assumptions be retained by the Association.

4. Upon receipt of written notification from the Regional Director that the Business and Capital Plan is acceptable, the Association shall implement and adhere to the Business and Capital Plan. A copy of the Business and Capital Plan shall be provided to the Regional Director within five (5) days after Board approval.

5. Any material modifications[2] to the Business and Capital Plan shall receive the prior, written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

6. By December 31, 2011, and each December 31st thereafter, the Business and Capital Plan shall be updated and submitted to the Regional Director pursuant to Paragraphs 3 and 4 above incorporating the Association's budget plan and profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

<u>Business and Capital Plan Variance Reports.</u>

7. Within forty-five (45) days after the close of each quarter, after implementation of the Business and Capital Plan, the Board shall review written quarterly variance reports on the Association's compliance with the Business and Capital Plan (Variance Reports). The Variance Reports shall:

(a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business and Capital Plan;

(b) contain an analysis and explanation of identified variances; and

[2] A modification shall be considered material under this Paragraph if the Association plans to: (a) engage in any activity that is inconsistent with the Business and Capital Plan; or (b) exceed the level of any activity contemplated in the Business and Capital Plan by more than ten percent (10%).

(c) discuss the specific measures taken or to be taken by the Association to address identified variances.

8. A copy of each Variance Report shall be provided to the Regional Director within five (5) days after review by the Board.

Problem Assets.

9. Within thirty (30) days, the Association shall submit a detailed, written plan with specific strategies, targets and timeframes to reduce[3] the Association's levels of real estate owned (REO) and adversely classified assets (Problem Asset Reduction Plan) to the Regional Director. The Problem Asset Reduction Plan, at a minimum, shall include:

(a) quarterly targets for the level of REO plus adversely classified assets as a percentage of Tier 1 (Core) capital plus the Allowance for Loan and Lease Losses (ALLL);

(b) a description of the methods for reducing the Association's level of REO plus adversely classified assets to the established targets; and

(c) all relevant assumptions and projections and documentation supporting such assumptions and projections.

10. Upon receipt of written notification from the Regional Director that the Problem Asset Reduction Plan is acceptable, the Association shall implement and adhere to the Problem Asset Reduction Plan. The Board's review of the Problem Asset Reduction Plan shall be documented in the Board meeting minutes. A copy of the final Problem Asset Reduction Plan shall be provided to the Regional Director within five (5) days of adoption by the Board.

[3] For purposes of this Paragraph, "reduce" means to sell REO and to collect, sell, charge off, or improve the quality of a loan sufficient to warrant its removal from adverse criticism or classification.

11. Within thirty (30) days, the Association shall develop individual written specific workout plans for each REO and each adversely classified loan or group of loans to individual relationships greater than one hundred thousand dollars ($100,000) (Asset Workout Plans).

12. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending March 31, 2011, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

(a) the current status of all Asset Workout Plans;

(b) the ratio of REO plus classified assets to Tier 1 (Core) capital plus ALLL;

(c) a comparison of REO and classified assets at the current quarter end with the preceding quarter;

(d) a discussion of the actions taken during the preceding quarter to reduce the Association's level of REO and adversely classified loans; and

(e) any recommended revisions or updates to the Problem Asset Reduction Plan.

13. Within fifty (50) days after the end of each quarter, a copy of the Quarterly Asset Report shall be provided to the Regional Director.

Allowance for Loan and Lease Losses.

14. Within thirty (30) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an adequate allowance for loan and lease losses level (ALLL Policy) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to the ALLL. The ALLL Policy shall comply with applicable laws, regulations, and regulatory guidance.

15. Upon receipt of written notification from the Regional Director that the ALLL Policy is acceptable, the Association shall implement and adhere to the ALLL Policy. The Board's review of the ALLL Policy shall be documented in the Board meeting minutes. A copy of the ALLL Policy shall be provided to the Regional Director within five (5) days of adoption by the Board.

Director Succession Plan.

16. By March 31, 2011, the Board shall develop and submit for Regional Director review and comment a plan for Board membership succession (Director Succession Plan). The Director Succession Plan shall ensure that the composition of the Board reflects the composition, ethics, experience, objectivity and diverse perspectives necessary for effective governance and, at a minimum, shall:

(a) require the Board to conduct an assessment of the skills and experience possessed by the current members of the Board by no later than January 31, 2011;

(b) require the Board to discuss and determine at a Board meeting held no later than February 28, 2011, whether the capabilities of the Board as a whole would be enhanced through the addition of persons with particular skills and experience;

(c) establish minimum qualifications for directors of the Association;

(d) develop an education plan for the Board that identifies the training to be provided, including but not limited to, training relating to a director's fiduciary responsibilities and the provision of information necessary to perform director responsibilities as contained in the OTS Directors' Guide to Responsibilities and the OTS Directors' Guide to Management Reports; and

(e) contain a specific timetable for completion of the actions set forth in the Director Succession Plan.

17. Within thirty (30) days after receipt of written comments from the Regional Director, the Board shall revise the Director Succession Plan, if necessary, based upon such comments and ensure that the Association implements and adheres to the Director Succession Plan. A copy of the Director Succession Plan shall be provided to the Regional Director within five (5) days after the Board meeting.

<u>Management Review.</u>

18. Within ninety (90) days, the independent[4] directors of the Association shall complete a management review and prepare a written report (Management Review) to be sent simultaneously to the Regional Director for review and comment and to the Board to aid in the development of an effective management structure of the Association consistent with the Association's current and long-term business plans and financial conditions. The Management Review shall consist of:

(a) an assessment of the current Senior Executive Officers, including but not limited to the Compliance Officer,[5] the Association's organizational structure, and staffing levels of the Association;

(b) the identification of present and future Senior Executive Officer and staffing requirements for the Association with particular emphasis on the need for qualified

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[4] For purposes of this Paragraph, a director who is "independent" with respect to the Association shall be any individual who:

(a) is not employed in any capacity by the Association or its subsidiaries, other than as a director;
(b) is not related by blood or marriage to any officer or director of the Association or any of its subsidiaries, and who does not otherwise share a common financial interest with any such officer or director;
(c) is not indebted, directly or indirectly, to the Association; and
(e) has not served as a consultant, advisor, auditor, underwriter, or legal counsel to the Association or any of its subsidiaries.

[5] The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

Senior Executive Officers to carry out the Association's business plan;

(c) detailed written job descriptions and qualifications for all Senior Executive Officers;

(d) an evaluation of each Senior Executive Officer's knowledge, skills, abilities and a determination of whether each of these individuals possesses the experience and other qualifications required to perform present and anticipated duties of each Senior Executive Officer's position;

(e) recommendations as to whether Senior Executive Officer or staffing changes should be made, including the need for additions to, or changes to, the current Senior Executive Officers to obtain the qualifications and expertise needed by the Association to carry out its business plan;

(f) objectives by which Senior Executive Officers' effectiveness will be measured;

(g) an evaluation of current lines of authority, reporting responsibilities and delegation of duties for all Senior Executive Officers, including identification of any overlapping duties or responsibilities or lack of independent checks and balances; and

(h) recommendations for correcting or eliminating any other deficiencies in the supervision or organizational structure of the Association.

19. Within thirty (30) days after receipt of written comments from the Regional Director, the Board shall revise the Management Review, if necessary, based upon such comments. Thereafter, the Association shall submit to the Regional Director for non-objection a written plan to address any identified management, organizational structure, or staffing level weakness noted in the Management Review (Management Plan).

20. Within thirty (30) days after receipt of written comments from the Regional Director, the Board shall revise the Management Plan, if necessary, based upon such comments and ensure that the Association implements and adheres to the Management Plan. A copy of the Management Plan shall be provided to the Regional Director within five (5) days after the Board meeting.

Interest Rate Risk Management.

21. Within forty-five (45) days, the Association shall revise its policies and procedures governing the Association's interest rate risk management (IRR Policy) to ensure that it corrects the mismatch of short-term liabilities funding longer term fixed rate assets**.** The Association's IRR Policy shall comply with all applicable laws, regulations and regulatory guidance and at a minimum:

(a) require the establishment by the Board of appropriate asset and liability concentration limits to address the Association's interest rate risk (IRR); and

(b) include specific action plans, with timeframes, to reduce interest rate risk in the event that the Association is not in compliance with the Net Portfolio Value (NPV) limits established by the Board; and

(c) require appropriate oversight and monitoring by the Board of the Association's compliance with its asset and liability concentration limits on at least a quarterly basis.

Growth.

22. Effective immediately, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the prior quarter without the prior written non-objection of the Regional Director.

Golden Parachute Payments.

23. Effective immediately, the Association shall not make any golden parachute payment[6] unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Directorate and Management Changes.

24. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H.

Employment Contracts and Compensation Arrangements.

25. Effective immediately, the Association shall not enter into any new contractual arrangement or renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such Senior Executive Officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Third Party Contracts.

26. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial

[6] The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

condition of the Association[7] or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (b) received written notice of non-objection from the Regional Director.

Effective Date.

27. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

28. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

29. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

Submissions and Notices.

30. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

31. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

[7] A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

(a) To: the OTS

Regional Director
Office of Thrift Supervision
One South Wacker Drive, Suite 2000
Chicago, Illinois 60606
Facsimile: (312) 917-5001

(b) To: the Association

Chairman of the Board
First Federal Savings & Loan Association of Hammond
130 Rimbach Street
Hammond, Indiana 46320
Facsimile: (219) 932-0383

No Violations Authorized.

32. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

33. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

34. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 25 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

35. The laws of the United States of America shall govern the construction and validity of this Agreement.

36. If any provision of 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 or her sole discretion determines otherwise.

37. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

38. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

39. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

40. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

41. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed

original(s) of this Agreement.

WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

FIRST FEDERAL SAVINGS & LOAN ASSOCIATION OF HAMMOND
Hammond, Indiana

/s/
William F. McNabney, Chairman

/s/
John A. Freyek, Director

/s/
Dr. Robert L. Hulett, Director

/s/
Alex J. Kozlowski, Director

/s/
Clyde E. Rector, Director

/s/
John F. Wilhelm, III, Director

OFFICE OF THRIFT SUPERVISION

By: /s/
Daniel T. McKee
Regional Director, Central Region