

#00492  
95136

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 22 day of July, 1991, by and between Leader Federal Bank for Savings, Memphis, Tennessee (hereinafter "Leader"), 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 Leader, its directors, officers, employees, agents and service corporations. It is understood and agreed that this Agreement is a "written agreement" entered into with the Office of Thrift Supervision within the meaning of 12 U.S.C.A. § 1818(b)(1) and (1)(2) (West 1989).

NOW, THEREFORE, IT IS AGREED between the parties hereto as follows:

1. Leader shall not make new loans secured by commercial real estate, loans secured by residential real estate with five or more dwelling units, or construction loans.

Notwithstanding the above, Leader may:

- a. Modify or extend any existing commercial loan;
- b. Make a new loan on real estate owned (REO) property;
- c. Make a construction loan of up to \$350,000 for the purpose of constructing a single family residence on property located within 75 miles of a full service branch or agency office of Leader; however, the maximum loan amount shall be \$750,000 for a construction loan to an individual for the purpose of constructing the borrower's primary residence.

Provided, any new loan or modification of an existing loan as described in paragraphs a, b, and c above obligating Leader to lend in excess of \$500,000 shall be approved by the Board and be reviewed for regulatory compliance by Leader's general counsel. Furthermore, any

modification, extension or renewal of an existing loan covered in this paragraph 1, or loan to facilitate the sale of REO, of \$1 million or more that has been classified shall require ten days prior notice to the Deputy Regional Director.

The limitations on lending contained in this paragraph 1 shall remain in effect until Leader has achieved a ratio of classified assets, net of specific reserves, to tangible capital plus general valuation allowances of 75%, as determined by subsequent OTS examination.

Leader shall not advance additional funds for REO, except for the purpose of maintaining the property, i.e., taxes and insurance, except where there is evidence that said advancements will preserve or enhance the value of the REO. Leader shall maintain evidence of the purpose and necessity of such advancements.

2. Leader may originate for sale commercial real estate loans provided Leader has, at the time of closing of the loan, a firm commitment from FHLMC, FNMA, or a life insurance company to purchase such loans upon terms which Leader can satisfy. Leader may originate and/or retain in its portfolio ~~FHA and GNMA insured or guaranteed commercial real estate loans.~~ All loans sold to FNMA, FHLMC, or a life insurance company or insured or guaranteed by FHA or GNMA shall be without recourse to Leader.

3. Leader shall restrict its residential loans, except refinances of existing contractually current loans or loans to facilitate the sale of REO, to loans secured by real property located in the state of Tennessee or within 75 miles of a full service branch or loan origination office of Leader.

4. With the exception of loans secured by owner-occupied residential real estate, Leader shall obtain and review on all commercial real estate loans and residential construction loans a current financial statement on all borrowers and guarantors at the time each loan is approved. The documents securing Leader's loan shall provide that all borrowers and guarantors shall provide to Leader financial statements annually until the loan is paid in full. Financial statements shall include, at a minimum, balance sheets, income statements, and cash flow statements, which reflect the income stream generated by the property. The past three Federal income tax returns of all borrowers and guarantors will be secured prior to loan approval.

5. The single-family residential construction loans shall be bound by the restrictions set out in paragraph 1 above; however, in addition to the above restrictions, the aggregate loans to one borrower shall be restricted to \$1,500,000. Leader will begin the process of reducing to \$1,500,000, the loan level on all real estate residential construction loan borrowers who have loans in excess of \$1,500,000. Aggregate loans to one borrower for purpose of constructing dwellings which are not presold shall be limited to \$750,000. A dwelling will be considered presold if there is in place a binding contract to purchase and commitment for permanent financing from a financially sound lender and/or government agency. The loan approval process shall include guidelines which shall include, but not be limited to, a requirement that the borrower have liquid assets of at least one-eighth (1/8th) of the outstanding loan balance of the borrower.

6. Leader shall not make new non-mortgage commercial loans in excess of \$250,000 to any one borrower unless the loan is secured by a pledged savings account or marketable securities, provided the value of such security is at all times in an amount equal to or greater than the loan. The aggregate amount of non-mortgage commercial loans may not exceed \$9 million. Leader may review or extend existing non-mortgage commercial loans in excess of \$250,000 provided such loans are current and not adversely classified.

7. Leader shall cease the purchase or origination, in whole or in part, of mobile home loans, except loans made to finance the purchase of repossessed mobile homes from Leader. Leader shall retain the services of an independent advisor to evaluate its mobile home portfolio, including an analysis of the feasibility of disposing of such portfolio. Such advisor shall submit its recommendation to the independent asset review committee and to the Deputy Regional Director or his designee within 90 days of the date of this Agreement.

8. Leader shall adopt policies and implement procedures for enhanced internal asset review and classification which the board of directors shall review annually and update as necessary. As part of these enhanced procedures, Leader must clearly provide for identification of problem or potential problem assets, establish an independent asset review committee ("committee") and insure that the asset review committee maintains adequate records and documentation of its activities. Leader shall also institute a requirement for, at a minimum, annual documented physical inspections of major non-residential mortgage projects to assess any deteriorating

collateral value. Such asset classification policies and procedures shall be sufficient to insure compliance with 12 C.F.R. § 563.160 (1991). In this connection, Leader shall increase the size of its internal loan review staff so that a more detailed review of periodic financial statements and other loan documentation on major borrowers can be accomplished. The individuals responsible for the loan review function shall be independent from the individuals responsible for loan originations and/or servicing.

9. The asset review committee shall establish a written report which will set out the status of problem loans and REO and/or what steps have been and/or will be taken to correct any problems of deficiencies. The written report shall be presented to the Board monthly. The committee shall consist of the CEO, the CFO, the head of the applicable lending department, general counsel (as advisor), and an outside director appointed by the Chairman, and any other persons that the Chairman deems appropriate.

10. The asset review committee will review the report of Peat Marwick & Main (PMH) concerning Leader's servicing of FHA and VA loans. The committee will make recommendations to the Board and will request that the Board adopt its recommendations and establish a date as to any remedial procedures that will be implemented.

11. Leader shall adopt policies and implement procedures for the establishment of general valuations allowances, which shall give consideration to the level, security and trend of non-performing assets. Leader shall maintain adequate general valuation allowances and adopt policies which provide for increases should asset quality deteriorate.

12. Leader shall adopt policies and implement procedures for enhanced

loan underwriting and appraisal standards. Such policies and procedures shall require use of standardized appraisal review forms for income-producing properties. Such policies and procedures shall be sufficient to insure that Leader is in compliance with 12 C.F.R. §§ 563.170-.172(1991).

13. Leader, within ninety days (90) of the date of this Agreement, shall submit a revised five-year business plan to the Deputy Regional Director or his designee detailing:

a. Leader's compliance with fully phased-in capital requirements;

b. its reduction of classified assets to no more than 75% of tangible capital plus GVA's;

c. adoption of a plan for management succession and compensation. Such compensation plan should provide for no bonuses for senior management without the approval of the Deputy Regional Director. Leader shall also take steps to reduce the payment of interest on existing deferred compensation plans for senior management and directors to no more than the institution's cost of funds.

14. Leader and the involved directors shall eliminate the conflict created by the investments in PIC and Imageering as noted in comment 4 of the October, 1, 1990, Report of Examination by sale of the interests of Leader to unrelated third parties or writing off the investments.

15. Leader shall abstain from entering into transactions which would create a conflict of interest for any affiliated person and shall comply with all conflict of interest regulations, including 12 C.F.R. §§ 563.41, 563.43, and 571.1 (1991) and Sections 23A, 23B, and 22(h) of the Federal Reserve Act, 12 U.S.C.A. §§ 371C, 371c-1, and 375b (West 1989). The Board

of Directors of Leader shall develop and each director shall sign a written policy for avoidance of conflicts of interest, which policy shall delineate any and all applicable regulations and statutes.

16. Leader shall engage an investment banking concern to assist in the pursuit of a sale, merger, or conversion of the institution. The Board of Directors shall submit a quarterly report to the Deputy Regional Director outlining the status of all efforts in this regard.

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, Home Owners' Loan Act, Federal Deposit Insurance Act or OTS Memoranda, and all such technical words or terms used in this Agreement, and undefined by said statutes, rules and regulations, shall have meanings that accord 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 by the OTS, acting through its Deputy Regional Director. Any decision to amend or modify the Agreement is left to the discretion of the OTS Deputy Regional Director.

IN WITNESS WHEREOF, the parties have executed this Agreement by their Board of Directors or designated agent. A certified copy of the resolution of the Board of Directors of Leader authorizing the execution of this Agreement is attached hereto and made a part hereof.

OFFICE OF THRIFT SUPERVISION

By:

ISI  
Deputy Regional Director  
Cincinnati District Office

LEADER FEDERAL BANK FOR SAVINGS  
MEMPHIS, TENNESSEE

By a majority of its directors

ISI  
ISI  
ISI  
ISI  
ISI  
ISI  
ISI  
ISI