

SUPERVISORY AGREEMENT

THIS SUPERVISORY AGREEMENT (Agreement) is made and effective this day of August 20, 1991, by and between InterFirst Federal Savings Bank, Ypsilanti, Michigan (OTS Docket No. 07459) (Institution), 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 12 U.S.C. Sections 1818 (b) and (i)(2), as amended.

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, 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 forebear at this time the initiation of cease and desist proceedings against the Institution for its failure to comply with certain statutes and/or regulations and its unsafe and unsound practices as set forth in the Institution's Report of Examination dated March 4, 1991, (the "Examination"); 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:

A. Board of Directors' Responsibilities

1. The Institution's Board of Directors shall provide adequate and timely direction to the Institution's management through the development of comprehensive policies and procedures. The Board of Directors shall focus upon adequately directing management so that the goals contained in Board-adopted policies and procedures can be satisfactorily met. The Board of Directors shall enforce its policies and procedures by evaluating in writing, on a quarterly basis, senior management's progress and performance in implementing them, to the satisfaction of the Board of Directors. This evaluation shall be filed with the Deputy Regional Director of OTS within sixty (60) days following the date of this Agreement and thereafter by the fifteenth (15th) day of the month following the end of each calendar quarter.
2. Although the Institution is required by this Order to submit certain proposed actions, policies, and procedures for the review or approval of the Deputy Regional Director of the OTS, the Board of Directors

retains the ultimate responsibility for the proper and safe and sound management of the Institution. The Board of Directors shall actively fulfill its fiduciary duty to ensure that the Institution is safely and soundly managed. The Institution's official minutes (including material documentation of the Board of Directors and its established committees) shall clearly reflect the level of decision making supervision exercised over the Institution by the Board of Directors.

3. The Institution's Board of Directors shall take all steps necessary to ensure full compliance by the Institution with the provisions of this Agreement and shall monitor and review such compliance on a monthly basis at Board of Directors meetings. Such review shall be fully reflected in the minutes of the Board of Directors meetings. A written report reviewing the Institution's compliance with this Agreement signed by all directors shall be submitted to the Deputy Regional Director of OTS by the fifteenth (15th) day of each month.

B. Board Minutes and Board Certification

Within fifteen (15) days of each regular Board of Directors meeting, the Institution shall submit to the Deputy Regional Director a copy of the minutes of each Board of Directors meeting (and minutes of any committee or subsidiary board of directors meetings), the aforementioned resolution, and the management report(s) of the Institution.

In addition to any reports or policies contained in this Agreement, the Deputy Regional Director may request, at his/her discretion, any such reports or policies, that in his/her judgment, may be necessary to adequately enforce or monitor this Agreement.

C. Policies, Procedures and Reports

1. The Board shall submit to OTS within (90) ninety days of the date of this Agreement, the following policies, developed, revised, and amended, as recommended in the Examination. The Deputy Regional Director shall have final authority to accept these policies or request that additional concerns be addressed by the Board and that the Board resubmit revised policies addressing the Deputy Regional Director's concerns no later than (30) thirty days following receipt of the Deputy Regional Director's request. The submission of the policies or the revised policies required herein within the deadlines stated herein, shall be deemed to be in compliance with this provision of the Agreement, unless the Institution is notified by the Deputy Regional Director, at any time, in his or her sole discretion, that the Institution is not in compliance with this provision of the Agreement.

- a. A Conflict of Interest Policy, incorporating compliance with Sections 23A, 23B, and 22(h) of the Federal Reserve Act, Federal Reserve Board Regulation O, and OTS Regulation 12 C.F.R. 563.43;
- b. An Officers, Directors, and Employees Travel Expense Reimbursement Policy;
- c. A Mortgage Banking Policy, incorporating policies for mortgage banking correspondents;
- d. An Investment Policy;
- e. An Interest Rate Risk Management Policy, incorporating a mortgage loan pipeline hedging strategy;
- f. A Commercial Lending Underwriting Policy. The Commercial Lending Policy shall restrict these types of loans to less than 2 (two) percent of total assets.
- g. A Commercial Real Estate Lending Underwriting Policy. The Commercial Real Estate Lending Policy shall require a debt service coverage ratio of no less than 115%, based on all contractually required payments. And,
- h. An Asset Classification Policy. The asset classification function shall be independent from the lending or mortgage banking department.

D. Loans to One Borrower

1. The Institution and its subsidiaries or affiliates shall not make, invest in, purchase, refinance, extend or otherwise modify or commit to make; invest in, purchase, refinance, extend or otherwise modify any loans in violation of 12 C.F.R. Section 563.93. Interpretation of this regulation shall be consistent with the conclusions of the Examination.
2. The Board shall immediately establish and maintain records of loans and extensions of credit for each multiple borrower to prevent loans in violation of 12 C.F.R Section 563.93.

E. Business Plan and Budget

1. The Institution shall develop business plans with corresponding budgets. The plans and budgets will cover the following periods and shall be submitted on or before the dates set forth below:

Requirement

Due Date

Business plan with operating budget for the annual period ending December 31, 1992.

November 15, 1991

Updated business plan with operating budget for the year ended December 31, 1993.

November 15, 1992

Subsequent years.

November 15 of each subsequent year

The business plans shall address management's strategy for bringing the Institution to profitability on an operating basis and maintaining capital at no less than then applicable minimum regulatory requirements.

The budgets will include a projection of the balance sheet and income statements. Procedures shall be established to monitor the Institution's actual results against these projections. The business plan and budget must be submitted to the OTS for approval. The OTS shall have the option to request that additional concerns be addressed and that the business plans and budgets be revised and resubmitted within (30) thirty days after receipt of the OTS's concerns. The OTS shall forward its concerns to InterFirst within (120) one hundred and twenty days of receipt of the business plans and budgets. The submission of the budgets and the business plans, or the revised budgets or business plans required herein, shall be deemed to be in compliance with the provisions of the Agreement, unless the Institution is notified by the Deputy Regional Director, at anytime, in his or her sole discretion, that the Institution its not in compliance with this provision of the Agreement.

Management will submit quarterly variance reports to the OTS indicating the difference between budgeted forecasts and actual results. These variance reports will be provided to OTS on or before the respective dates set forth on the following page:

Thrift Financial Report (Quarterly)
Due Date

Variance Report
Due Date

March 31
June 30
September 30
December 31

May 15
August 15
November 15
February 15

2. If at any quarter ending date, the Institution falls below any of the then applicable regulatory capital requirements, as determined by OTS, the Institution shall within 90 (ninety) days of such quarter ending date, shall submit a capital plan to the OTS projecting how it will meet and maintain regulatory capital compliance. Such capital plan will be in the format prescribed by OTS Thrift Bulletins (TB) 36a, TB 36-1, TB 36-2d, and any other regulations or OTS pronouncements then in effect. Furthermore, such capital plan will be subject to the approval of the Deputy District Director, and any other approvals required by applicable OTS procedures, regulations, and pronouncements.

F. Internal Audit

1. Within sixty (60) days after the date of this Agreement, the Institution shall submit to the Director for approval, a schedule for its internal audit function for the calendar year 1992.
2. The audit function will submit periodic, written reports of its activities to an Audit Committee of the Board of Directors, which committee has a majority of outside directors.
3. The Internal Auditor shall report directly to the Board of Directors and not to management.
4. The Internal Auditor's performance appraisal shall be performed by the Audit Committee.

G. General Provisions and Definitions

1. As used in this Agreement, the term "Board of Directors" or the "Board" shall mean the Board of Directors of InterFirst Federal Savings Bank.
2. As used in this Agreement, the term "Deputy Regional Director" shall mean the Deputy Regional Director of the Indianapolis Office of the Central Region of OTS or any other official designated to perform the function by the Regional Director of OTS, or by the Director of OTS or its successor.
3. As used in this Agreement, the term "loans" shall mean an obligation, or the extension or advances of credit, including the making or renewal of a loan, the granting of a line of credit or the extending of credit in any manner whatsoever as set forth in 12 C.F.R. 215.3(a).
4. As used in this Agreement, the term "Commercial Lending" shall mean loans which are for a commercial, corporate, business or agriculture purpose.
5. As used in this Agreement, the term "Commercial Real Estate Lending" shall mean loans which are for a commercial, corporate, business or agricultural purpose and are fully secured by real estate.

6. As used in the Agreement, the term "Savings Association" shall have the meaning as set forth in Section 2(4) of the Home Owners' Loan Act, as amended ("HOLA").
7. References in this Agreement to provisions of statutes, regulations, and OTS memoranda shall be deemed to include references to successor provisions as applicable.
8. 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 Corporation Act, as amended ("FDIC"). Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIC Act, or OTS Memoranda shall have meanings that accord with the best custom and usage in the savings and loan industry.
9. The terms and provisions of this Agreement shall be binding upon the parties hereto and their successors in interest.
10. This Agreement shall remain in effect until the Institution has effected full compliance with the provisions herein and until the Agreement is terminated by the OTS through the Deputy Regional Director. The Agreement may be modified by agreement of the Institution and the Deputy Regional Director. The Deputy Regional Director may suspend, in his or her sole discretion, any or all of the provisions of this Agreement. The Institution may request the termination, modification or suspension of the Agreement which request will be considered, if the Institution has fully complied with the provisions of this Agreement.
- ~~11. The Board of Directors, by execution of this Agreement, agree to comply with the terms and conditions contained herein. Execution of this Agreement by the Board of Directors of the Institution does not, in any way, indicate the Directors' agreement with the statements made in the recitals of this Agreement; however notwithstanding this provision, the Board of Directors, individually and collectively, acknowledge and agree that this Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. 1818 (b) and (i)(2), as amended.~~
12. Materials required to be sent to the OTS pursuant to this Agreement shall be mailed to: Deputy Regional Director, Office of Thrift Supervision, 8250 Woodfield Crossing Boulevard, Suite 305, Indianapolis, Indiana 46240.

