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SUPERVISORY AGREEMENT

OTS-CINCINNATI

This Agreement ("Agreement") is made and is effective this 28 day of Oct, 1991 ("Effective Date"), by and between Harlan Federal Savings and Loan Association, (OTS No. 7429), Harlan, Kentucky ("Harlan Federal" or the "Institution"), for itself 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)(1) and (i)(2).

WHEREAS, the OTS is of the opinion that Harlan Federal has not complied with certain regulations to which the institution is subject in the conducts of its business as referred to in the Report of Examination dated May 30, 1991, and the Report of Compliance Examination dated July 8, 1991, ("Reports"), 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 pursuant to 12 U.S.C. Section 1818(b); and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against the institution pursuant to 12 U.S.C. Section 1818(b) for its non-compliance with regulations referred to in the Reports, and unsafe and/or unsound practices as set forth in the referenced Reports for so long as the institution is in compliance with the provision of this Agreement; and

WHEREAS, without admitting or denying that grounds exist for the initiation of proceedings or for liability attributable to the Institution, its Board of Directors or Officers in such capacities or individually, and in

the interest of regulatory compliance and cooperation, the institution by its Board of Directors ("Board"), is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings relating to matters covered by this Agreement;

**NOW, THEREFORE,** in consideration of the above-stated forbearance by OTS from the initiation of cease and desist proceedings against Harlan Federal pursuant to 12 U.S.C. Section 1818(b), it is agreed between the parties hereto as follows:

1. Harlan Federal shall correct certain practices subject to comment in the Reports and shall not knowingly initiate any action which would result in a recurrence of, or the aiding and abetting of any recurrence of regulatory non-compliance as cited in the referenced Reports.

2. Within 60 days from the date of this Agreement, the Board of Directors of Harlan Federal shall adopt written policies stating the institution's objectives regarding regulatory compliance with the matters of supervisory comment cited in the Reports, and management shall implement procedures to insure compliance with the regulations referenced in the Reports. Such policies and procedures shall provide for review of Harlan Federal's compliance with applicable regulations on at least a quarterly basis by an officer or employee designated to be Compliance Officer. The Board shall approve the selection of the Compliance Officer and the percentage of time such individual shall devote to regulatory compliance duties.

3. Within 60 days from the date of this Agreement, Harlan Federal shall adopt written procedures for processing adjustable rate mortgages (ARMs) and for applying Regulation Z, 12 C.F.R. Part 226. Sources of regulatory and industry guidance for ARM processing and Regulation Z compliance shall be listed and utilized as resources in the design of such internal procedures.

Harlan Federal shall prepare a training program for at least one officer and at least one other employee who shall be responsible for ARM processing and compliance with Regulation Z. The procedures and training program shall be reviewed and approved by the Board.

4. Within 90 days from the date of this Agreement, Harlan Federal shall, with the assistance of the institution's independent auditor, develop procedures for the review of internal controls relating to regulatory compliance. Such procedures shall, at a minimum, provide for an internal audit of the adequacy of the internal controls by a specifically designated employee on at least an annual basis. The internal audit report shall be reviewed by either the entire Board, or alternatively, by an Audit Committee of the Board consisting of a majority of outside directors.

5. On at least a quarterly basis, management shall submit reports to the Board of efforts taken and progress made in (a) resolving ARM processing errors, and (b) resolving Regulation Z restitution errors and incorrect disclosures. Such reports shall include identification of instances in which borrowers have been overcharged interest and/or have erroneous principal balances. The Board shall approve such reports, including actions taken to correct borrowers' accounts.

6. Within 90 days from the date of this Agreement, the Board shall submit for approval to the Assistant Director a revised three year Business Plan. Such Plan shall, at a minimum, identify strategies for improving earnings, for the formation of capital, and for reducing delinquent loans, classified assets and operating expenses. Such Plan shall also describe how Harlan Federal will address the declining local economy.

7. (a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the Deputy

Regional Director or his/her designee, the Board has the ultimate responsibility for proper and sound management of Harlan Federal subject to the provisions of applicable law, regulations, and policies. In exercising and fulfilling its fiduciary duties, the Board may consider the reports of management, counsel, and other agents and consultants of the Board. Nothing contained herein shall require the Board or any member or agent thereof to take any action or omit to take any action inconsistent with his or her fiduciary duties, as referred to in this paragraph.

(b) It is expressly and clearly understood that if, at any time, the OTS deems it appropriate in fulfilling the lawful responsibilities placed upon it by the several laws of the United States of America to undertake any lawful action affecting Harlan Federal, nothing in this Agreement shall in any way inhibit, stop, bar, or otherwise prevent the OTS from doing so.

(c) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time limitations may be extended by the Deputy Regional Director or his/her designee for good cause upon written application by the Board.

(d) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provision of this Agreement, shall, insofar as applicable, have meanings as defined in the rules and regulations adopted by the OTS (including, without limitation, Chapter V of Title 12 Code of Federal Regulation). Any such technical words or terms used in this Agreement and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.

(e) 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.

(f) It is understood that the execution of this Agreement shall not be construed as an approval of any application or notices that are contemplated by Harlan Federal.

(g) Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 525 Vine Street, Suite 700, Cincinnati, Ohio 45202, Attn: Assistant Director. All reports and other documents shall be deemed filed when received by the OTS.

(h) In the event any provision of this Agreement shall be declared invalid, illegal, or unenforceable; the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(i) The section headings used in this Agreement are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Agreement.

(j) This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director or his designee.

(k) The Institution may, in writing, petition the OTS, acting through the Deputy Regional Director or designee, for modifications, extension, or termination of this Agreement subsequent to the completion of an OTS examination, approved merger, stock conversion, or any other form of recapitalization.

IN WITNESS WHEREOF, the OTS, acting through its Deputy Regional Director,  
and Harlan Federal, by its board of directors, have executed this Agreement on  
the date first above written.

THE OFFICE OF THRIFT SUPERVISION  
Cincinnati, Ohio

By: 151  
Jerry M. Benham  
Deputy Regional Director

HARLAN FEDERAL SAVINGS AND LOAN  
ASSOCIATION  
Harlan, Kentucky

By: 151  
Director

By: 151  
Director