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SUPERVISORY AGREEMENT

OTS-CINCINNATI  
SUPERVISION

This Supervisory Agreement ("Agreement") is made and is effective this 9th day of August, 1990, by and between Cavalry Banking Federal Savings and Loan Association, Murfreesboro, Tennessee, (hereinafter "Cavalry") and the Office of Thrift Supervision (hereinafter "OTS").

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Cavalry. 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. Section 1818(b)1 and (i)(2) as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (hereinafter "FIRREA"), Pub. L No. 101-73, Sections 902 and 907 (1989). While it is the opinion of the OTS that regulatory violations and/or unsafe or unsound practices have occurred at Cavalry, the execution of this Agreement by Cavalry does not constitute an admission on its part that it has violated any OTS regulations or engaged in any unsafe or unsound practices.

NOW, THEREFORE, it is agreed between the parties hereto as follows:

1. Cavalry will develop within 30 days of the date of this Agreement, and adhere to, a loan underwriting policy and procedures specifically for acquisition, development, and construction loans. The policy and procedures will cover land acquisition loans, land development loans, construction loans, and loans involving any combination of land acquisition, land development, and construction. Such policy and procedures will hereinafter be referred to as the "ADC Loan Underwriting Policy and Procedures."

2. Regardless of how a loan may be defined and categorized for purposes other than this Supervisory Agreement, when the ultimate purpose of a loan (or other extension of credit, such as a line of credit) is for land acquisition, land development, construction, or any combination thereof, Cavalry will underwrite the loan in conformance with:

- a. the ADC Loan Underwriting Policy and Procedures, and
- b. Section 563.170(c)(1) of the OTS Regulations.

The loans covered by this Paragraph Number 2 will be covered by, and subject to, the requirements of the ADC Loan Underwriting Policy and Procedures and Section 563.170(c)(1) of the OTS Regulations in the same manner as the loans discussed in Paragraph Number 1 hereinabove.

3. The ADC Loan Underwriting Policy and Procedures will be adopted by Cavalry's Board of Directors and contain the following specific requirements:

- a. The maximum loan-to-value ratio will be 75 percent, with the exception that the maximum ratio may be 80 percent for loans for the construction of single-family houses.
- b. Pursuant to Section 563.170(c)(1)(iv) of the OTS Regulations and Paragraph Number 2 hereinabove, an appraisal report satisfying the requirements of Section 563.170(c)(1)(iv) of the OTS Regulations must be obtained for each loan covered by the ADC Loan Underwriting Policy and Procedures. In addition to satisfying the requirements of Section

563.170(c)(1)(iv) of the OTS Regulations, each appraisal report must specifically address, consider, and support the anticipated economic feasibility of the real estate project, cite all significant market data, and contain analysis sufficient in detail to support the appraiser's forecast of the probable success of the proposed use.

- c. Loan proceeds to be used for land development and loan proceeds to be used for construction may be disbursed only from a loans-in-process account as development and construction costs are incurred. In addition, Cavalry shall require for such loans, at a minimum, that:
- (i) The borrower/builder shall provide complete cost estimates;
  - (ii) All disbursements of funds by Cavalry under the loan shall be pursuant to a written draw schedule, which may be modified as appropriate, from time to time, prepared by or approved by Cavalry and included as part of the loan agreement. Such schedule shall be consistent with the customary practices of the thrift industry;
  - (iii) All disbursements shall be made on the basis of a written inspection report prepared and signed by a person responsible to Cavalry stating that the stage of construction or development justifies the disbursement pursuant to the draw schedule;
  - (iv) The loan agreement shall require, and Cavalry shall pursue, diligent efforts to insure that at all times the loan-in-process account contains sufficient funds to complete construction or development of the project;
  - (v) The percentage of the agreed-upon amount of contractor's profit or management fees, if any, which is to be paid, shall be paid periodically over the term of the agreement and such periodic payment shall not exceed, on a prorated basis, the percentage of completion of the project. At least 10% of such funds shall be withheld until successful completion of the construction or development project; and
  - (vi) As may be necessary under appropriate state law to preserve the priority of the mortgages or deeds of trust securing such loans, files for construction and development loans shall contain evidence of one or more of the following: (1) signed lien waivers obtained from the contractors, subcontractors and suppliers for each prior disbursement, before, or contemporaneously with, any subsequent disbursement, (2) AIA Draw Request Form together with affidavit of the borrower or general contractor that all bills have been paid, (3) affidavit of borrower or general contractor that all bills have been paid, (4) two or more party checks issued for such bills containing waiver of lien language, or (5) title insurance (including updates if necessary) insuring the priority of mortgage or deed of trust.

- d. For loans in excess of \$500,000.00, (i) the appraisal report must be prepared by an appraiser who is independent of Cavalry, and (ii) the loan must be approved in advance by Cavalry's Board of Directors.
- e. If the real estate is located more than 100 miles from any full service or loan origination office of Cavalry, Cavalry will not make or purchase the loan unless both (i) Cavalry's percentage ownership interest in the loan, including any contingent ownership position such as recourse, will not exceed 25 percent, and (ii) the loan originator, if other than Cavalry, is contractually required to retain a percentage ownership interest in the loan of at least 15 percent throughout the life of the loan which is subordinate to Cavalry's ownership interest.
- f. Aggregate speculative construction loans to any one borrower will not exceed \$500,000 in the case of Cavalry's prime borrowers and \$250,000 for all other borrowers.

4. In addition to the specific requirements in Paragraph Number 3 hereinabove, the ADC Loan Underwriting Policy and Procedures will specify:

- a. acceptable types of acquisition, development, and construction projects;
- b. prudent loan downpayment requirements;
- c. limits, which will be for the purpose of avoiding imprudent concentrations of credit risk, on the dollar amount of (i) the entire portfolio of loans of a type covered by the ADC Loan Underwriting Policy and Procedures, and (ii) particular types of loans within the portfolio.

[The requirements in this Agreement for the ADC Loan Underwriting Policy and Procedures are in response to specific concerns of the OTS regarding Cavalry and do not constitute a complete loan underwriting policy and set of procedures.]

5. Prior to Cavalry approving or committing to make any loan or set of loans, and irrespective of whether the loan or set of loans is covered by the ADC Loan Underwriting Policy and Procedures, Cavalry shall have in its possession documentary evidence that each and every requirement of its loan underwriting standards applicable to a particular loan has been complied with in all material respects. As appropriate for the type of loan proposed to be made, such documentary evidence will include but not be limited to:

- a. A written application signed by the borrowers and guarantors stating the purpose of the loan;
- b. Financial statements of borrowers and guarantors certified by such borrowers and guarantors as true and correct. (For loans secured by or funding income-producing property which is not readily marketable,

such as real estate, the borrower shall also be required to submit an income statement on the property and any appropriate supporting information, and such income statement and supporting information shall be certified by the borrower as true and correct.) (For all loans in excess of \$1,000,000.00, financial statements shall be prepared in accordance with guidelines published by the American Institute of Certified Public Accountants; however, contingent liabilities shall be disclosed regardless of the amount of the loan.);

- c. Current credit reports for all borrowers and/or guarantors together with a written report signed by the responsible Cavalry employee evaluating any outstanding negative items contained in any such report;
- d. Confirmation of the employment and income of the borrowers and guarantors;
- e. A document, signed by the officer or employee responsible, evidencing that material items in the borrower/guarantor financial statements have been verified and analyzed to insure that the borrower/guarantor has sufficient assets and cash flow to retire the loan under the terms of the note and/or guarantee;
- f. An appraisal report which meets the requirements of Section 563.170(c)(1)(iv) of the OTS's Regulations for loans secured by real estate, provided that a commitment may be executed without receipt of such appraisal if disbursement is specifically conditioned upon prior receipt of an appraisal which meets the requirements of this paragraph;
- g. In the case of a loan secured by property other than real estate, an appropriate statement of value of the security property prepared by a qualified person; a verification of the lien status of the security property current through the date of loan closing, and, where appropriate, documents evidencing verification of the existence of the proposed security property and that it is owned and/or the title is in the name of the proposed borrower or will be as of the date of loan closing.

6. For loans in excess of \$250,000.00 which are secured by or funding income-producing property, Cavalry's loan documents will contractually require the borrowers and guarantors to annually submit current financial statements on themselves and a current income statement and any appropriate supporting information on the property. (The financial statements shall meet the requirements set forth in Paragraph Number 5.b. hereinabove.)

7. Cavalry will comply with Section 563.160 of the OTS's Regulations, which requires every savings association to classify its own assets on a regular basis in accordance with criteria specified therein and to establish prudent valuation allowances for classified assets.



I, the undersigned, being the duly qualified Secretary of Cavalry Banking Federal Savings and Loan Association, Murfreesboro, Tennessee, hereby certify that the following is a true copy of a resolution duly adopted by its board of directors at a meeting duly called and held on August 9, 1990, that at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

RESOLUTION

BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto, be and is hereby approved by the Board of Directors of Cavalry Banking Federal Savings and Loan Association. The President of the institution is authorized to sign and execute this Agreement on behalf of the institution. The officers and employees of Cavalry Banking Federal Savings and Loan Association are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of Cavalry Banking Federal Savings and Loan Association this 9th day of August, 1990.

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Secretary