

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 29 day of November, 1990, by and between Allatoona Federal Savings Bank, Acworth, Georgia, OTS No. 8475, for itself and its wholly owned service corporations and subsidiaries (hereinafter called "Allatoona" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against Allatoona Federal Savings Bank, pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b); and

WHEREAS, the Institution, in the interest of regulatory compliance and cooperation is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forebear from the initiation of such administrative proceedings against the Institution to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of the Agreement that pertain to such actions; and

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking further supervisory or enforcement measures on matters not specifically covered by this Agreement that the OTS considers appropriate under the circumstances.

NOW THEREFORE, in consideration of the above-stated forbearance, it is agreed between the parties hereto as follows:

Asset Classification

1. Within 30 days after the effective date of the Agreement, the Institution shall establish general valuation allowances totaling no less than \$75,000.
2. Within 45 days after the effective date of the Agreement, the Institution shall develop, adopt and implement acceptable policies and procedures concerning the

establishment and maintenance of general and specific valuation allowances which address the concerns set forth in the August 13, 1990 examination report, Section 261 of the OTS Regulatory Thrift Activities Handbook, and the following factors:

- (a) the results of the Institution's internal loan review and classifications;
 - (b) the Institution's loss experience;
 - (c) an estimate of the potential loss exposure on each significant credit;
 - (d) concentrations of credit in the Institution; and
 - (e) present and prospective economic conditions.
3. The Board of Directors shall review the sufficiency of the general and specific valuation allowances established by the Institution at least once each calendar quarter. Any deficiency in the allowances shall be remedied in the quarter it is discovered, prior to the filing of the Thrift Financial Report. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board of Directors in determining the adequacy of the allowances.
 4. The Institution shall classify assets in accordance with 12 C.F.R. 563.160, utilizing policies and procedures which comply with such regulation, and which incorporate factors and considerations set forth in Section 260 of the OTS Thrift Regulatory Handbook and address concerns set forth in the August 13, 1990 examination report. The Board of Directors shall review such asset classifications monthly, and ensure that the policies and procedures are being properly applied. Classified assets shall be reported properly in all reports to the OTS.
 5. The Institution shall account for real estate owned (REO), insubstance foreclosures, and troubled debt restructurings in accordance with generally accepted accounting principles (GAAP), including but not limited to the timely performance of fair value and net realizable value calculations, and the booking of any resulting indicated losses.

6. Within 45 days after the effective date of the Agreement, the Institution shall develop, adopt, and implement a written plan to correct, strengthen or otherwise reduce the risk of loss for each loan in excess of \$150,000 which is more than 60 days delinquent, was classified in the August 13, 1990 examination report or has been subsequently classified, and for each parcel of real estate owned in excess of \$150,000. The plan shall be updated quarterly and shall state, at a minimum, explicit goals for the orderly reduction in the aggregate level of problem assets outstanding within specified time frames. This plan will be reviewed in conjunction with the Institution's next OTS examination.

Lending

7. With the exception of legally binding commitments, the Institution shall not increase its outstanding balance of construction loans beyond the level as of the effective date of this Agreement (including undisbursed loans in process funds) until:
 - (a) it has reduced its level of classified construction loans, and real estate owned which was previously construction loans, to no more than 10 percent of the Institution's construction loan portfolio; and
 - (b) it has developed acceptable policies and procedures which include considerations set forth in Section 213 of the OTS Regulatory Thrift Activities Handbook and which address the deficiencies in the August 13, 1990 examination report. The Institution should particularly address the establishment of an effectively controlled inspection and disbursement system.
8. Within 45 days after the effective date of the Agreement, the Institution shall develop, adopt and implement policies and procedures with respect to consumer lending which address and comply with applicable regulations, include considerations set forth in Section 217 of the OTS Regulatory Thrift Activities Handbook, and respond to the deficiencies noted in the August 13, 1990 examination report.

9. On a monthly basis, the Board of Directors shall review the Institution's collection efforts with respect to the consumer loan portfolio. The minutes of the board minutes shall reflect this review.

Operations

10. Within 90 days after the effective date of the Agreement, the Institution shall develop, adopt, and implement a 12 month budget, which comprehensively addresses the significant reduction of operating expenses, and a profitability analysis of the mortgage banking operations. Such plan shall be subject to review at the next OTS examination.

Board of Directors and Management

11. Within 45 days after the effective date of the Agreement, the Institution shall develop, adopt, and implement a policy concerning the avoidance of conflict of interest and the fiduciary responsibilities of the Board of Directors and management. Such policy shall reflect the Board of Directors' and management's understanding of and required compliance with 12 C.F.R. Sections 563.40, 563.41, 563.43, 563.161, and 571.7. In addition, the policy should address factors and considerations included in Sections 130, 135 and 140 of the OTS Regulatory Thrift Activities Handbook.
12. The Board of Directors shall certify the Institution's compliance with the Agreement at each meeting following a quarter end. In addition, the Board of Directors' minutes shall reflect the approval of all plans, policies and procedures, and reports required by this Agreement.

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, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Agreement, references to

By: 151
A. L. Diemer

By: 151
L. M. Perry, Sr.

By: 151
J. A. Durham

By: _____
T. S. Potter

By: 151
J. R. Eaton

By: 151
K. M. Seifert

OFFICE OF THRIFT SUPERVISION

By: 151
~~John E. Ryan~~
Regional Director

**CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly qualified Secretary of Allatoona Federal Savings Bank, Acworth, Georgia, OTS No. 8475, ("Institution"), 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 November 29, 1990, and 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

WHEREAS, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against Allatoona Federal Savings Bank pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C 1818(b); and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on November 29, 1990, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

NOW, THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution 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 Allatoona Federal Savings Bank this day of November 29, 1990.

IS/
Secretary

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of Allatoona Federal Savings Bank, Acworth, Georgia, OTS No. 8475, at ~~2:00~~ 2:00 (am/pm), November 29, 1990, held at Allatoona Federal Savings Bank, Acworth, Georgia, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between Allatoona Federal Savings Bank and the Office of Thrift Supervision.

IS/

R. D. Johnson

IS/

W. L. Adams

IS/

E. L. Braden

~~A. L. Diemer~~

IS/

J. A. Durham

IS/

J. R. Eaton

IS/

J. D. Gee

E. H. Harrison

IS/

B. D. McCurley

IS/

L. M. Perry, Sr.

T. S. Potter

IS/

K. M. Seifert

11-29-90
(Date)