

95268

SUPERVISORY AGREEMENT BETWEEN
FEDERAL HOME LOAN BANK BOARD
AND
SJS FEDERAL SAVINGS BANK

This Supervisory Agreement (Agreement) is made and is effective March 15, 1989, 1989, by and between SJS Federal Savings Bank, St. Joseph, Michigan, FHLBB No. ~~3163~~ (hereinafter Institution) and the Federal Home Loan Bank Board (FHLBB). 5167

The FHLBB is of the opinion that the Institution has violated certain statutes or regulations to which the Institution is subject and has engaged in certain unsafe or unsound practices in conducting the business of the Institution, and that such violations and practices provide grounds for the initiation of cease-and-desist proceedings against the Institution by the FHLBB.

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; and

The FHLBB is willing to forbear from the initiation of formal cease-and-desist proceedings on the subjects covered by this Agreement for so long as the Institution is in compliance with the provisions of the Agreement that pertain to such subjects; and

Therefore, in consideration of the FHLBB's above stated forbearance from initiation of final enforcement proceedings against the Institution, it is agreed between the parties as follows:

1. Reinvestment of REMIC Funds

Within thirty days of the execution of this Agreement, the Institution shall submit to the Supervisory Agent a formal strategy for the reinvestment of the funds generated through the recent REMIC issue. The strategy shall describe the financial instruments to be purchased and address the relationship between the investments and the objectives to be established by the revised business plan and interest rate risk management policy.

2. Asset Evaluation Program

Within thirty days of the execution of this Agreement, the Institution shall adopt and implement a comprehensive asset review program. The program, to be submitted for review and approval by the Supervisory Agent, must expand the current internal loan review system to include all categories of earning assets. Specific written criteria must be established for the whole classification process. The criteria should clarify all definitions used in the classification of assets. Procedures to ensure routine review of the adequacy of reserves and necessary replenishment are to be included as part of the program.

Immediately following adoption of the asset review program, the Institution shall conduct a review of the assets for the purpose of classification and determination of an appropriate reserve. The results of the review, including the amount of reserves established, shall be reported to the Supervisory Agent not later than thirty days subsequent to adoption of the asset review program.

3. Management Need Evaluation

Within sixty days of the execution of this Agreement, the Institution shall prepare and submit to the Supervisory Agent a comprehensive management need assessment. Underlying the assessment should be an organizational chart delineating clear lines of responsibility and authority, supported by detailed job descriptions and position qualifications. Both staffing and training needs should then be fully evaluated and appropriate steps taken to strengthen management and the staff.

4. Audit Committee

Within sixty days of the execution of this Agreement, the Institution shall establish a functional audit committee, with representation of a minimum of two outside directors, to hold monthly meetings. These meetings shall be held to review the Institution's compliance with this Agreement, ensure timely submission of documentation requested by the February 9, 1989 supervisory letter, oversee the internal audit of all functions within the Institution, monitor the Institution's overall compliance with applicable regulations, and review policies and procedures at least quarterly. Also, the committee shall be responsible for evaluating the needs of the Institution with regard to its annual independent audit, recommending an independent auditor and scope to the Board. The audit committee shall formally report its findings to the Board on a monthly basis.

5. Business Plan/Interest Rate Risk Policy

Within ninety days of the execution of this Agreement, the Institution shall submit a written, Board-approved business plan which includes short-term and long-term operational goals and business purposes of the Institution. An updated interest rate risk management policy which establishes specific gap goals should be included with the business plan. A system to measure and limit interest rate risk exposure as provided for in Thrift Bulletin 13, dated January 26, 1989 should be included as part of the policy.

The plan shall also incorporate specific strategies for achieving the goals established in the business plan/interest rate risk policy. Such goals shall be quantified and accompanied by timetables for achievement. Prior to implementation of the plan, written approval of the Supervisory Agent must be attained.

In addition, the Board shall adopt a resolution stating that the business plan will be revised prior to entering into any new business activity or investment activity. Such revisions will provide assurance that proper controls are in place to ensure regulatory compliance, monitoring, and reporting. Also, revisions to the business plan shall include the rationale for entry into such new areas and its affect on existing operations.

Additional Terms and Conditions

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 the pertinent statute or regulations of the Federal Home Loan Bank Board, and any such technical words or terms used in this Agreement and undefined in said regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

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 FHLBB" as that phrase is used in Section 5(d)(2) of the Home Owners' Loan Act (12 U.S.C. Section 1464(d)(2) (1982)).

The Federal Home Loan Bank of Indianapolis is not a party to this Agreement, and the Bank assumes no direct or indirect legal duty or obligation arising from this Agreement.

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 FHLBB, acting through its Supervisory Agent located at the Federal Home Loan Bank of Indianapolis. The Supervisory Agent will grant written requests for termination of the Agreement, if, in his/her opinion, Institution has satisfactorily complied with the terms of this Agreement.

IN WITNESS THEREOF, the parties have executed this Agreement by their duly authorized officer or designated agent. A certified copy of the resolution of the board of directors of Institution authorizing the execution of this Agreement is attached hereto and made a part thereof.

Approved:

SJS FEDERAL SAVINGS BANK

FEDERAL HOME LOAN BANK BOARD

By:

151
William G. Gillespie
Chairman of the Board

By:

151
Supervisory Agent

151
William F. Early, President

151
Neil R. Berndt, Director

151
Larry Schultz, Director

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James C. Mason, Director

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Edgar F. Ross, Director

151
Edward B. Starke, Director

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of SJS Federal Savings Bank, St. Joseph, Michigan, held on March 15, 1989, in St. Joseph, Michigan, at which the Board of Directors considered and adopted the attached resolution concerning the Supervisory Agreement entered into between the Institution and the Federal Home Loan Bank Board.

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William G. Gillespie
Chairman of the Board

March 15, 1989
(Date)

151
William F. Early, President

March 15, 1989
(Date)

151
Neil R. Berndt, Director

March 15, 1989
(Date)

151
Larry Schultz, Director

March 15, 1989
(Date)

151
James C. Mason, Director

March 15, 1989
(Date)

151
Edgar F. Ross, Director

March 15, 1989
(Date)

151
Edward B. Starke, Director

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of SJS Federal Savings Bank, 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 of March 15, 1989, 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

WHEREAS, said officers and directors have been informed that the Federal Home Loan Bank Board will forbear from the initiation of formal enforcement proceedings on the subjects covered by the attached Supervisory Agreement (Agreement) if it is executed by the Institution and if its terms are thereafter carried out by the Institution, and

WHEREAS, the directors of SJS Federal Savings Bank have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on March 15, 1989, 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, be and is hereby approved by the Board of Directors of SJS Federal Savings Bank. The president of the Institution is authorized to sign and execute this Agreement on behalf of the Institution. The officers and employees of SJS Federal Savings Bank are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS THEREOF, I have hereto subscribed my name and affixed the seal of SJS Federal Savings Bank, this 15 day of March, 1989.

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Secretary