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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 2nd day of June, 1989, by and between Southeastern Savings Bank, Inc., Charlotte, North Carolina, (hereinafter "Southeastern" or "the Association") and the Federal Home Loan Bank Board ("FHLBB").

WHEREAS, the FHLBB is of the opinion that Southeastern has violated certain of the laws and regulations to which the Association is subject and/or has engaged in certain unsafe and unsound practices in conducting the business of the Association, and that such violations and/or practices provide grounds for the initiation of cease-and-desist proceedings against Southeastern by the FHLBB; and

WHEREAS, in the interest of regulatory compliance and cooperation, Southeastern is willing to enter into this Agreement to avoid the initiation of such cease-and-desist proceedings; and

WHEREAS, the FHLBB is willing to forbear from the initiation of cease-and-desist proceedings on the subjects covered by this Agreement for so long as Southeastern is in compliance with the provisions of the Agreement; and

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the FHLBB from taking further supervisory action with regard to any subjects not covered by this Agreement which the FHLBB considers appropriate under the circumstances;

NOW, THEREFORE, in consideration of the FHLBB's above-stated forbearance from initiation of cease-and-desist proceedings against Southeastern, it is agreed between the parties hereto as follows:

Condition No. 1

In light of the adverse composite MACRO rating of "4" received by the Association as a result of the examination conducted as of January 30, 1989, and the Association's classification as a troubled institution under the provisions of Regulatory Bulletin 3a ("RB 3a"), issued by the FHLBB's Office of Regulatory Activities, the Association shall not increase its liabilities during any quarter in an amount that is in excess of the greater of the amount of interest credited on savings accounts during the quarter or the amount necessary to fund during the quarter any loans-in-process obligations or legally binding commitments existing as of the date of this Agreement.

Accordingly, within thirty (30) days after the execution of this Agreement, the Association's board of directors ("Directorate") shall provide the Supervisory Agent with a list of all loans-in-process obligations and legally binding commitments that exist as of the date of this Agreement, and provide a schedule of the monthly estimated disbursements for outstanding commitments and loans-in-process obligations, and payments of interest to be credited on savings accounts. Such list shall include, at a minimum, the following information:

- (a) the type of commitment (including a designation as to either firm or standby), the date and the total amount;
- (b) the identity of the borrower;
- (c) the effective date of the commitment;
- (d) the amount of other outstanding loans to the borrower;
- (e) security property, if any, and its location and value;
- (f) date of anticipated funding; and
- (g) the amount of any commitment fee received and the date received.

The Directorate shall submit with the aforementioned list a written statement that addresses whether such commitment constitutes a legally binding obligation of the Association that can be enforced in a court of Law by the party to whom the commitment is made. All information submitted pursuant to this Condition No. 1 of the Agreement shall have been approved and adopted by the Directorate by certified board resolution.

Condition No. 2

Within ninety (90) days of the date of this Agreement, the Association shall develop and submit to the Supervisory Agent a detailed Capital Restoration Plan to achieve compliance with the Association's minimum regulatory capital requirement, which shall include the following information at a minimum:

- (a) specific sources of new capital;
- (b) expected timeframes for achieving capital compliance; and
- (c) specifications as to how capital will be maintained.

Condition No. 3

Within ninety (90) days of the date of this Agreement, the Association shall develop and submit a revised Business Plan, acceptable to the Supervisory Agent, detailing projected business strategies and operations for the Association and its subsidiaries for the period of time commencing with the date of the Agreement through December 31, 1992. Such revised Business Plan shall specifically incorporate

- (a) the liability growth restrictions to which the Association is subject pursuant to the provisions of RB 3a;
- (b) the Association's Capital Restoration Plan; and
- (c) an evaluation of the Association's existing branch system to facilitate disposition of any marginally profitable or unprofitable branch offices, as appropriate.

The revised Business Plan shall conform to the "General Instructions For Preparation of a Business Plan" of the Federal Home Loan Bank of Atlanta and shall include pro forma quarterly financial statements (with relevant assumptions) for each fiscal year, or part thereof, covered by the plan. Such statements shall be presented on both a generally accepted accounting principles basis and a regulatory accounting principles basis.

Upon receipt of written notice of the Supervisory Agent's acceptance of such Business Plan, the Association shall not significantly deviate from such revised Business Plan without obtaining the prior written approval of the Supervisory Agent. The Association shall submit variance reports to the Supervisory Agent within fifteen (15) days of each calendar quarter end. Such variance reports shall have been approved by the Directorate and shall compare actual balance sheet items and operating results with business plan projections. All material deviations shall be explained to the satisfaction of the Agent.

Condition No. 4

A. Prior to the Association's committing to make any loan secured by real estate, the Association shall have in its possession a completed loan application, signed by the borrower, in accordance with the requirements of Insurance Regulation 563.17-1(c)(1)(i).

B. Prior to the Association's committing to make any major loan (defined for purposes of this Agreement as lending in excess of \$300,000), including, but not limited to, single family dwelling construction loans, residential lot loans, lines of credit, letters of credit, and land acquisition, development and construction loans, the Association shall have in its possession the following documentation:

- 1) an appraisal report of the security property which meets the requirements of Section 563.17-1(c)(1)(iv) of the Insurance Regulations;
- 2) current financial statements of the prospective borrower certified by such persons as true and correct;
- 3) a memorandum signed by the responsible officer/employee, indicating that the borrower's and guarantor's financial statements and credit reports have been verified, reviewed and analyzed;
- 4) a memorandum signed by the responsible officer/employee, with supporting financial analyses, certifying that the borrower's and guarantor's financial ability and credit history, together with the cash flow generated by the security property, are sufficient to repay the loan and make contractual interest and principal payments when due;
- 5) a memorandum signed by the responsible officer/employee indicating that the borrower has invested cash or another form of equity in the security property;
- 6) a memorandum signed by the responsible officer/employee indicating that the loan was made within the applicable loans-to-one-borrower limitation as required by Section 563.9-3(c) of the Insurance Regulations.

The Loan Audit Committee shall regularly review each such loan file for completeness with respect to the above-listed

requirements and compliance with all relevant regulatory requirements. A written report of such activity shall be presented to the Directorate on at least a quarterly basis. The Directorate shall forward a copy of such report to the Supervisory Agent within fifteen (15) days after the end of each calendar quarter.

Notwithstanding the documentation requirements set forth hereinabove, Southeastern shall comply with the loan documentation requirements specified in Insurance Regulation 563.17-1(c)(1), as presently constituted or hereafter amended by the FHLBB, for each loan secured by real estate which is considered or granted by the Association during the term of this Agreement.

Condition No. 5

Prior to July 30, 1989, and within fifteen (15) days after the end of each calendar quarter thereafter, the Directorate shall compile and submit to the Supervisory Agent a report addressing the Association's classified assets and loans delinquent more than sixty days. Such report shall include:

- (a) a schedule listing each classified asset and/or delinquency, its book value (gross and net of any reserves), a description of any security, the borrower's name, and the current status of each asset;
- (b) an evaluation of the adequacy of the specific valuation allowance established in connection with such asset; and
- (c) a description of actions taken and/or planned for the resolution of the problem asset. All information submitted pursuant to this Condition No. 5 of the Agreement shall have been approved and adopted by the Directorate by certified board resolution.

Condition No. 6

The Association shall promptly record on its books all identifiable losses, including losses which it shall be directed to establish by the Supervisory Agent.

Condition No. 7

Within sixty (60) days of the date of this Agreement, the Association shall evaluate and enhance, where appropriate, or shall develop, in a form satisfactory to the Supervisory Agent, specific written policies and procedures establishing internal controls relative to:

- (a) the establishment of specific valuation allowances;
- (b) records with respect to classified assets;
- (c) internally-generated delinquency reports; and
- (d) accounting records, including journal vouchers, corresponding accounting entries, and foreclosure documents, with respect to real estate owned;
- (e) records relating to loans and loan servicing.

Such policies and procedures shall mandate that the Association take all corporate actions necessary to address the specific deficiencies in each of the above-noted areas which were subject to comment in the January 30, 1989 Report of Examination. Upon receipt of the Supervisory Agent's written approval, such policies and procedures shall be adopted by the Directorate by certified board resolution.

Condition No. 8

Within ninety (90) days of the date of this Agreement, the Association shall evaluate and enhance, where appropriate, or shall develop, specific written policies and procedures for the reduction of, and establishment of internal controls relative to, the Association's operating expenses, and shall submit such policies and procedures to the Supervisory Agent for purposes of review and approval. Such policies and procedures shall mandate that the Association take all corporate actions necessary to effect reductions in the Association's operating expenses where appropriate, specifically addressing deficiencies related to operating expenses noted in the January 30, 1989 Report of Examination. Upon receipt of the Supervisory Agent's written approval, such policies and procedures shall be adopted by the Directorate by certified board resolution, and incorporated into the Association's revised Business Plan.

Condition No. 9

From the date of execution of this agreement, the Association shall not, without the prior written approval of the Supervisory Agent:

- (a) except for individual merit increases in accordance with its standard personnel policy adopted prior to the effective date of this Agreement and normal periodic employee salary and wage increases scheduled prior to the effective date of this Agreement and that comply with Section 563.17 of the Insurance Regulations, 12 C.F.R. Section 563.17 (1985) and FHLBB Memorandum R 42, make any increase, or commit to any future increase in, the rate of compensation paid to any of its directors, officers, employees, agents or other representatives;
- (b) employ, appoint or terminate any officer or director who is not so employed, appointed or terminated as of the date of this agreement;
- (c) execute, renew or otherwise revise any contractual arrangement with any officer, director, controlling person, affiliate, subsidiary, legal counsel or agent for or of the Association or any of its subsidiaries;
- (d) declare or effect payment of any bonuses.

Condition No. 10

The Association shall not declare or pay cash or stock dividends on common or preferred stock without the prior written approval of the Supervisory Agent.

Condition No. 11

Upon the Association's acquisition of real estate through foreclosure or deed in lieu of foreclosure, the Association shall promptly obtain appraisal reports of such properties, as required by Section 563.17-2(a) of the Insurance Regulations.

Condition No. 12

The Association shall file complete and accurate financial reports required by the Federal Savings and Loan Insurance Corporation, including monthly and quarterly Thrift Financial Reports, on or before the required date.

Condition No. 13

The Association shall provide the Supervisory Agent with such written reports/documentation as reasonably deemed necessary by the Supervisory Agent. Each report/document shall be filed and received by the Agent on or before the specified date.

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.

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of Southeastern. It is understood and agreed that this Agreement is a "written agreement entered into with the Board" as that phrase is used in Section 5(d)(2) of the Home Owners' Loan Act of 1933, as amended, (12 U.S.C. Section 1464(d)(2)(1982)).

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 supersedes the Supervisory Agreement entered into by Southeastern Savings and Loan Association, Charlotte, North Carolina, June 24, 1985.

This Agreement shall remain in effect until terminated, modified or suspended in writing by the FHLBB, acting through its Agent at the FHLBB. The Agent will consider written requests for termination, modification or suspension of this Agreement, or portions thereof, if, in his/her opinion, Southeastern has satisfactorily complied with the terms of the Agreement for a reasonable period of time. The Agent in his/her sole discretion may modify or suspend the Agreement, or any portions thereof. Any termination, modification or suspension approved by the Agent must be in writing.

CERTIFIED COPY OF RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Southeastern Savings Bank, Inc., Charlotte, North Carolina, hereby certify that the following is a true copy of resolution duly adopted by its board of directors at a meeting duly called and held on June 2, 1989 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 directors of Southeastern Savings Bank, Inc., Charlotte, North Carolina, (hereinafter "Southeastern"), have read and considered the Supervisory Agreement ("Agreement") which is attached to the minutes of the meeting of the board of directors held June 2, 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 this Agreement is hereby approved and executed by the board of directors. The officers and employees of Southeastern are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement which will become effective June 2, 1989.

IN WITNESS WHEREOF, I have hereto subscribed my name and affix the seal of Southeastern, this 2nd day of June, 1989.

Secretary

/s/

