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Rosemary S
'89 Sup Asmt File

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 15TH day of NOVEMBER, 1989, by and between Peoples Federal Savings and Loan Association, Bartlesville, Oklahoma, Docket No. 05081 ("Institution" or "Association"), for itself and for any wholly owned or partly owned subsidiary 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. §§ 1818(b)(1) and (i)(2), as amended by The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 ("FIRREA"), Pub.L. No. 101-73, §§ 902 and 907 (1989).

WHEREAS, the board of directors of the Institution has reviewed the operations and financial condition of the Institution and finds that the present condition of the Institution justifies and requires extraordinary action by the directors of the Institution for the benefit of the Institution and its depositors, other creditors, and borrowers; and

WHEREAS, the Institution's board of directors acknowledges the supervisory rights, powers, and authority of the OTS, with respect to the Institution under the statutes and regulations that govern the operations of the Institution; and

WHEREAS, the OTS is of the opinion that the Institution has violated 12 C.F.R. Section 563.13 (1989), to which the Institution is subject, thereby providing grounds for the initiation of cease-and-desist proceedings against the Institution by the OTS; and

WHEREAS, 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

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease-and-desist proceedings as the result of the Institution's failure to meet its regulatory capital requirement in accordance with with 12 C.F.R. Section 563.13 (1989) as long as the Institution is in compliance with this Agreement;

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

1. For the purposes of this Agreement, except as otherwise indicated, the following definitions shall apply:

- a. a "set" is a group of loans, participations, investments, securities, or other assets related, by being sold or pledged to, purchased from, or exchanged with any persons, entities, or institutions acting together in a single transaction;
- b. "invest in" means to make, originate, purchase, acquire, guarantee, refinance, modify, extend, renew, or to commit to do any of these;

- c. "transfer" means to sell, assign, pledge, exchange, or to commit to do any of these;
- d. "real estate investment" means the net book value of real estate purchased, acquired by foreclosure or deed in lieu thereof, or owned in any manner, inclusive of any expenditures incurred in connection with holding or improving such real estate and following adjustment for any loss reserves or allowances.

2. Except for existing legally binding commitments and investments that qualify as liquid assets under 12 C.F.R. Section 523.10 (1989), without prior written approval of the District Director for the Tenth District or his designee ("District Director" or "Supervisory Agent"), the Institution shall not, and shall not allow any wholly-owned or partly-owned subsidiary or affiliate of the Institution to:

- a. engage in forward commitments, futures transactions, or financial options transactions as defined in 12 C.F.R. Sections 563.17-3, 563.17-4 and 563.17-5 (1989);
- b. invest in any loans or contracts secured by real estate or participations therein (including any acquisition, construction and development loans) or any set of such loans or participations, except loans made at current market interest rates and terms which are:

- (1) to finance the bona fide purchase of, or custom construction of pre-sold, one- to four- family residences secured by first liens on such properties that do not exceed in each case Two Hundred Fifty Thousand Dollars (\$250,000); or
- (2) to refinance loans on existing one- to four- family residences secured by first liens on such properties that do not exceed in each case Two Hundred Fifty Thousand Dollars (\$250,000), or
- (3) to be secured by second liens on existing one- to four- family residences where the loan to value ratio of the first and second liens combined does not exceed 80% and the combined debt does not exceed Two Hundred Fifty Thousand Dollars (\$250,000); or
- (4) to finance residential real estate other than one- to four- family residences where the loan to value ratio does not exceed 80% and such loan does not exceed Two Hundred Fifty Thousand Dollars (\$250,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of

the HOLA, as provided by Section 301 of FIRREA; or

(5) to refinance residential real estate other than one- to four- family residences if such loan does not exceed Two Hundred fifty Thousand Dollars (\$250,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA; or

(6) to finance nonresidential real estate where the loan to value ratio does not exceed 80% and such loan does not exceed Two Hundred Fifty Thousand Dollars (\$250,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA; or

(7) to refinance nonresidential real estate if such loan does not exceed Two Hundred Fifty Thousand Dollars (\$250,000); provided, however, such loans shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA;

- c. invest in any real estate investment or set of such investments unless such investment or set of investments is made in compliance with 12 C.F.R. Section 563.9-8 (1989), except to the extent necessary to preserve the existing real estate investment; provided, such expenditures do not exceed Twenty Thousand Dollars (\$20,000) per investment. For purposes of this subparagraph, the real estate investment shall not include ad valorem real estate taxes, special assessments, insurance premiums or similar expenditures required by the city, county, or state authorities as a result of real estate ownership;
- d. transfer any real estate investment (i.e. real estate owned) or set of such investments with a net book value in excess of Five Hundred Thousand Dollars (\$500,000), or, irrespective of the foregoing sum, the loss to be recognized upon transfer exceeds the greater of 15 percent of the net book value or Fifty Thousand Dollars (\$50,000);
- e. invest in or transfer any security or set of securities in excess of Twenty Thousand Dollars (\$20,000); except mortgage-backed securities issued by the Federal Home Loan Mortgage Corporation ("FHLMC"), Government National Mortgage Association ("GNMA"), or the Federal National Mortgage Association ("FNMA");

- f. transfer any loan secured by real estate or participation therein or any set of such loans or participations if the net book value of any such loan or participation exceeds Five Hundred Thousand Dollars (\$500,000), except loans made at current market interest rates and terms to finance bona fide purchases of, or refinance existing owner-occupied one- to four- family residences secured by a first lien on such residences; and except loans secured by one- to four- family residences conforming to FNMA, GNMA and FHLMC guidelines purchased through the secondary market;
- g. invest in or transfer commercial loans or letters of credit, whether secured or unsecured, with a book value in each case in excess of Fifty Thousand Dollars (\$50,000); provided, however, such investments shall not exceed the limitations contained in Sections 5(c)(2) and 5(u) of the HOLA, as provided by Section 301 of FIRREA;
- h. invest in any consumer, education, or home improvement loans if the principal amount of such loan exceeds Fifty Thousand Dollars (\$50,000);
- i. borrow any money other than from a Federal Home Loan Bank; except as otherwise authorized by this Agreement;
- j. except for individual merit increases in accordance with its standard personnel policy in effect at the

time this Agreement is presented by the Supervisory Agent for execution, and normal periodic employee salary and wage increases scheduled prior to the effective date of this Agreement and that comply with 12 C.F.R. Section 563.17 (1989), and OTS Memorandum R-42, make any increase in excess of 5%, on an annualized basis, in the rate of compensation to any of its directors, officers, employees, agents, or other representatives, or agree to do so. Notwithstanding any other provision of this subparagraph, the Institution may increase the compensation of non-officer employees if the annualized compensation of such employee before any increase does not exceed Fifty Thousand Dollars (\$50,000) and the aggregate increase or increases for any employee do not exceed ten percent (10%) during any calendar year;

- k. employ or appoint any person to serve as an officer, director, or senior manager which is not so employed or appointed as of the date of this Agreement; employ any person who is not so employed as of the date of this Agreement at a rate of compensation which, on an annualized basis, exceeds Fifty Thousand Dollars (\$50,000) per year; employ any person pursuant to an agreement that is not terminable at the will of the employer and that otherwise does not comply with 12 C.F.R. Section

563.39 (1989); or enter into or amend or renew any collective bargaining agreements, pension or profit sharing, bonus, severance pay, retirement, fringe benefit, or other employee benefit plans, or other employment contracts with any employee, director, or officer;

- l. enter into, renew or revise any contractual arrangement with any officer, director, controlling person, affiliate, subsidiary, affiliated person, attorney, consultant, or agent for or of the institution or any of its subsidiaries;
- m. invest in or increase its investment in any service corporation or any subsidiary thereof or finance subsidiary. For the purposes of this subparagraph, "invest in" shall include, but is not limited to, the making of investments in securities issued by such entities, and the extensions of credit to, or the guaranteeing of the debt of, such entities;
- n. enter into any purchase or repurchase agreement obligation arising from a transfer of government securities except as may otherwise be permitted by this Agreement;
- o. declare or pay cash or stock dividends on common or preferred stock;
- p. enter into any lease or contract for the purchase of real estate or of any interest therein except in the ordinary and usual course of its business; provided,

that the lease of 1-4 family dwellings shall be considered in the ordinary and usual course of business;

- q. encumber any of its property or other assets except as security for advances from the Federal Home Loan Bank of Topeka;
- r. enter into any contract or any agreement for the purchase, sale, or lease of goods, materials, equipment, supplies, services, or capital assets in an amount in excess of Ten Thousand Dollars (\$10,000), or except in the ordinary and usual course of its business;
- s. engage in any activity that could incur any material obligation or liability except in the ordinary and usual course of its business;
- t. enter into any joint venture agreements;
- u. amend or permit to be amended its charter or bylaws except as directed by the Supervisory Agent and approved by the board of directors of the Institution;
- v. make any material change in accounting method;
- w. enter into any binding agreement to merge, consolidate, or otherwise be acquired, or to reorganize except in connection with a plan of combination or reorganization recommended or approved by the Supervisory Agent;

- x. enter into any material transaction except as provided in this Agreement or other than in the ordinary and usual course of business;
- y. increase its liabilities during any calendar quarter in excess of the amount of interest credited on savings accounts during the quarter (or, in the case of share accounts, earnings credited) and the amount necessary to fund during the quarter any loans in process obligations or legally binding commitments existing as of the effective date of this Agreement;
- z. notwithstanding any other provision within this Agreement, invest in or transfer any mortgage derivative financial instrument, stripped interest certificate, collateralized mortgage obligation, Real Estate Mortgage Investment Conduit ("REMIC"), REMIC Regular Interest, REMIC Residual Interest, or any below investment grade security (i.e., high-yield or "junk" bonds); and
- aa. enter into any material transaction which does not require inclusion on the balance sheet of the Institution under then current generally accepted accounting principles.

3. Within thirty (30) days after the execution of this Agreement, the Institution shall provide to the Supervisory Agent a list of all loans-in-process obligations and legally binding commitments that exist as of the date of this Agreement, together with a list of the Institution's direct equity investments

[including those held by a wholly-owned or partly-owned subsidiary(ies)] wherein the Institution's position is subject to a superior interest (including but not limited to superior liens held by other entities or individuals) or wherein the Institution has unfunded commitments outstanding. The Institution shall further provide a schedule of the monthly estimated disbursements for outstanding commitments and loans-in-process obligations.

The list of commitments shall include:

- a. the type of commitment;
- b. the date of commitment;
- c. the total amount;
- d. the identity of the borrower;
- e. the identity of the seller, if applicable;
- f. the effective date;
- g. the date of anticipated funding.

The Institution shall submit with this list a written opinion from independent legal counsel that he/she has reviewed the terms of each unfunded commitment in excess of Two Hundred Fifty Thousand Dollars Two Hundred Fifty Thousand Dollars (\$250,000) and address whether or not such commitment constitutes a legally binding obligation of the Institution that could be enforced in a court of law by the party to whom the commitment is made.

4. The Institution shall formulate a capital plan which will explain in detail the proposed strategies for raising capital and for accomplishing the overall objectives of the Institution (the "capital plan"). The capital plan shall include an analysis of the

available strategies and a written summary as to why selected strategies are chosen.

The capital plan should contain, at a minimum, the following:

- a. financial projections on a quarterly basis which, at a minimum, extend through the quarter in which it is anticipated that compliance with all applicable capital standards will be achieved;
- b. facts which demonstrate that the Institution can meet applicable capital standards by December 31, 1994, and maintain compliance with those standards on an ongoing basis;
- c. detailed information on the completed and planned steps to raise capital, including the scheduling, as early as practicable, of any steps other than the retention of earnings;
- d. a description of attainable goals which should include, among other things, progressive capital level targets throughout the term of the plan, and the projection of said targets into pro forma financial statements;
- e. calculations for all of the institution's capital requirements and indications as to any excess or shortfall at the end of each quarter under the plan;
- f. pro forma financial statements and accounting opinions regarding any contemplated transactions in accordance with generally accepted accounting principles (GAAP).

- g. pro forma consolidated and unconsolidated financial statements for the Institution and each service corporation and subsidiary;
- h. financial statements for the immediately preceding four quarters;
- i. documentation which demonstrates compliance with any restrictions regarding activities which exceed the limitations set forth under FIRREA and any current rules, regulations, or policy statements, if applicable;
- j. internal policies, practices and procedures that the institution will utilize in order to comply with existing regulations on interest-rate-risk including, but not limited to: (1) strategies adopted to minimize such risk; (2) an analysis of the Institution's sensitivity to interest rate changes; (3) plans to utilize futures and options and/or other artificial methods of hedging; and (4) plans to monitor and maintain adequate liquid assets;
- k. plans which address all weaknesses to date including, but not limited to, those identified by regulators and/or documented in the Institution's examinations and indicate past, present and future efforts to address such weaknesses;

- l. documentation which provides adequate justification for compensation and fees for consultants and investment bankers; and,
- m. documentation which demonstrates the expertise of existing management and the board of directors regarding, among other things, the selected strategies for raising capital.

The capital plan shall be submitted no later than February 5, 1990. The plan shall not be implemented without the prior written approval of the Supervisory Agent.

5. No later than the last day of each calendar month, the board of directors shall file with the Supervisory Agent a resolution, similar to the attached resolution, signed by each director, certifying that the Institution has complied with all conditions of this Agreement.

6. 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, HOLA, or the Federal Deposit Insurance Act ("FDIA"), and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, or FDIA shall have meanings that accord with the best custom and usage in the savings and loan industry.

All statutory and regulatory citations herein shall be in the form as codified or promulgated as of the date of this Agreement, or as amended or renumbered thereafter.

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Peoples Federal Savings and Loan Association, Bartlesville, Oklahoma ("the 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 15th, 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, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") representatives believe the Institution to have violated 12 C.F.R. Section 563.13 to which the Institution is subject thereby providing grounds for the initiation of cease-and-desist proceedings against the Institution by the OTS, and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of cease-and-desist proceedings as a result of the Institution's failure to meet its regulatory capital requirement in accordance with 12 C.F.R. Section 563.13 if the attached Supervisory Agreement ("Agreement") is

executed by the Institution and if its terms are thereafter carried out by the Institution, and

WHEREAS, the directors of the Institution have read and considered the Agreement attached to the minutes of the meeting of the Board of Directors held on November 15th, 1989 and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the 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 the Institution. The president of the Institution is authorized to sign and execute the Agreement on behalf 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 Peoples Federal Savings & Loan this 16th day of November, 1989..



/s/

Secretary