

SUPERVISORY AGREEMENT

Docket #	2892		
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This Agreement ("Agreement") is made and is effective this 6th day of April 1993 ("Effective Date"), by and between Newport Federal Savings and Loan Association, Newport, Tennessee ("Newport Federal") or ("Institution"), (OTS No. 2892), for itself 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. Sections 1818(b)(1) and (i)(2).

WHEREAS, the OTS is of the opinion that Newport Federal has not complied with certain of the regulations to which the institution is subject in conducting the business of the Institution, specifically 12 C.F.R. Sections 226.17(c)(1), 226.22(a)(1), 226.22(a)(3), 226.18(d), 226.18(g) and 226.23(e), and has engaged in unsafe or unsound practices in conducting the business of the Institution, thereby providing grounds for the initiation of cease and desist proceedings against Newport Federal by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against Newport Federal for its failure to comply with regulations and unsafe and/or unsound practices, as set forth in the institution's Report of Compliance Examination dated January 4, 1993, for so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, Newport Federal, by its Board of Directors ("Board"), is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings;

NOW, THEREFORE, in consideration of the above-stated forbearance by OTS from the initiation of cease and desist proceedings against Newport Federal, it is agreed between the parties hereto as follows:

1. The Board shall immediately establish policies and procedures to ensure that the interest rate adjustment procedures for adjustable rate mortgage loans conform with the contractual provisions set forth in the notes and riders, and shall ensure that these policies and procedures are properly implemented by management. These policies and procedures shall provide for adherence to contractual provisions regarding interest rate floors, use of the correct index, the proper adjustment of payment amounts, and all other contractual provisions of the notes and riders. Furthermore, the Board is to immediately take action to ensure that the forms used for adjustable rate mortgage loan notes, riders, modification agreements and any other related documents are clearly drafted and contain provisions consistent with the intent and understanding of the parties and with with the actual practices and procedures of the Institution.

2. Within 10 days of the date of this Agreement, a letter shall be submitted for the approval of the Regional Deputy Director by which the Board shall engage the institution's independent auditor, at Institution expense, and as soon as is reasonably possible, to perform a review of the adjustable rate mortgage loan portfolio. The purpose of this review shall be to identify all adjustable rate mortgage loans for which there have been errors resulting from the improper implementation by institution personnel of the interest rate adjustment provisions of the notes and riders, and to estimate the amount of the error for each loan which is so identified. Upon approval of this engagement letter by the Regional Deputy Director and its receipt by the independent auditor, the Regional Deputy Director is to be notified as to the projected commencement date of the independent auditor's review, and the results of such review are to be submitted to the Regional Deputy Director immediately upon receipt by the Board.

3. The Board shall instruct the independent auditor to provide guidance in establishing any necessary reserve accounts or contingent liability relating to the loan adjustment errors. The Regional Deputy Director is to be immediately notified of actions taken by the Board in this regard.

4. Within 10 days of the date of this Agreement, the Board shall retain independent legal counsel (i.e., a law firm of which no member is a director or officer of Newport Federal) acceptable to the Regional Deputy Director. The engagement letter to be provided to the independent legal counsel must be acceptable to the Regional Deputy Director. The independent legal counsel shall be engaged to:

- a) evaluate the Institution's potential liability with respect to the incorrect interest rate adjustments of adjustable rate mortgage loans resulting from use of an index other than the one specified in the note and the timing of payment adjustments; and
- b) evaluate whether or not the Institution has been imposing an interest rate floor inconsistent with the terms of its adjustable rate mortgage loan documents.

5. Within 30 days of engagement, the independent legal counsel shall provide a written legal opinion to the Board discussing:

- a) the results of its evaluations as specified in paragraph 4 above;
- b) whether or not restitution should be made to the adversely affected borrowers; and
- c) the issue of potential liability related to the modification of adjustable rate mortgage loans at the request of borrowers in order to reduce the rates of interest.

A copy of the independent legal counsel's written legal opinion shall be provided to the Regional Deputy Director forthwith upon its receipt by the Board.

6. The Board shall ensure that action is immediately taken by management to correct violations of Regulation Z cited in the Report of Compliance Examination dated January 4, 1993, including 12 C.F.R. Sections 226.17(c)(1), 226.22(a)(1), 226.22(a)(3), 226.18(d), 226.18(g) and 226.23(e).

7. The Board shall ensure that a review is performed of all adjustable rate mortgage loans to identify each such loan for which the disclosed annual percentage rate has been understated in excess of the allowable tolerance level set forth in 12 C.F.R. Section 226.22(a)(3), and to identify the appropriate amount of restitution in each instance, in accordance with the procedure set forth in Section 108(e)(1) of the Truth-in-Lending Act. The results of such review are to be immediately submitted to the Regional Deputy Director. Upon notification by the Regional Deputy Director, Newport Federal shall make restitution to affected borrowers pursuant to Section 18(e) of the Truth-in-Lending Act.

8. The Board shall establish a comprehensive self-assessment process for the Institution to ensure compliance with consumer and non-discrimination laws and regulations, including the Community Reinvestment Act. Furthermore, procedures are to be implemented which ensure that the Board is involved in the development, implementation and monitoring of the institution's policies and procedures with respect to the compliance function and Community Reinvestment Act.

9. Within 30 days of the date of this Agreement the Board shall designate a compliance officer acceptable to the Regional Deputy Director. The duties of this compliance officer shall include the implementation of policies and procedures to ensure compliance with consumer and non-discrimination laws and regulations.

IT IS FURTHER AGREED AS FOLLOWS:

(a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the Regional Deputy Director or his/her designee, the Board has the ultimate responsibility for proper and sound management of the institution. In exercising and fulfilling its fiduciary duties, the Board may consider the reports of management, counsel, and other agents and consultants of the Board. Nothing contained herein shall require the Board or any member or agent thereof to take any action or omit to take any action inconsistent with his or her fiduciary duties.

(b) It is expressly and clearly understood that if, at any time, the OTS deems it appropriate in fulfilling the lawful responsibilities placed upon it by the several laws of the United States of America to undertake any lawful action affecting the institution, nothing in this Agreement shall in any way inhibit, stop, bar, or otherwise prevent the OTS from doing so.

(c) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement. Such time limitations may be extended by the Regional Deputy Director or his/her designee for good cause upon written application by the Board.

(d) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provision of this Agreement, shall, insofar as applicable, have meanings as defined in the rules and regulations adopted by the OTS (including, without limitation, Chapter V of Title 12 Code of Federal Regulation). Any such technical words or terms used in this Agreement and undefined in said rules and regulations shall have meanings that accord with the best custom and usage in the thrift industry.

(e) 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.

(f) It is understood that the execution of this Agreement shall not be construed as an approval of any application or notices that are contemplated by the Institution.

(g) Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 3500 DePauw Boulevard, Suite 2050, Indianapolis, Indiana 46268, Attn: Assistant Director. All reports and other documents shall be deemed filed when received by the OTS.

(h) In the event any provision of this Agreement shall be declared invalid, illegal, or unenforceable the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

(i) The section headings used in this Agreement are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Agreement.

(j) This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Deputy Director or his designee.

IN WITNESS WHEREOF, the OTS, acting through its Regional Deputy Director, and Newport Federal, by its board of directors, have executed this Agreement on the date first above written.

THE OFFICE OF THRIFT
SUPERVISION
Indianapolis, Indiana

Newport Federal Savings and
Loan Association
Newport, Tennessee

By: 151
Jill A. Drake
Regional Deputy Director

By: 151
Director

By: _____
Director