

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 13th day of August, 1992, by and between North Plains Savings and Loan Association, Dumas, Texas (OTS No. 6374) ("Institution") for itself and 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 Sections 902 and 907 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73 ("FIRREA"), §§ 902 and 907, 103 Stat. 183 (1989), 12 U.S.C. §§ 1818(b)(1) and (i)(2) (1988 & Supp. I 1989).

WHEREAS, the OTS is of the opinion that the Institution 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. §§ 563.43, 563.160, and 563.161, 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 the Institution by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against the Institution for its failure to comply with 12 C.F.R. §§ 563.43, 563.160, and 563.161, as of January 13, 1992, and its unsafe or unsound practices as set forth in the Institution's examination report dated January 13, 1992, so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, without admitting or denying the allegations contained herein, and 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:

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

TRANSACTIONS WITH INSIDERS AND AFFILIATES

1. (a) The Institution and its subsidiaries shall not, either directly or indirectly, engage in any transaction with an insider or affiliate of the Institution, except in strict compliance with the provisions of 12 C.F.R. §§ 215.1-215.4, 215.7, 563.40, 563.41, 563.43, 571.7, and 571.9; and 12 U.S.C. §§ 371c, 371c-1, 375b, and 1468; and shall comply with 12 C.F.R. § 571.1 with respect to appraisers.
- (b) Without the prior approval of the Regional Deputy Director, the Institution and its subsidiaries shall not, either directly or indirectly, pay any dividend, bonus, severance pay, commission or

fee (excluding: (1) in accordance with existing policy, the payment upon termination of accrued vacation pay plus any accrued sick leave in excess of 30 days but not to exceed a maximum of 9 days, (2) fees of \$400.00 for each director in attendance at the monthly board of directors' meeting and \$100.00 for each director in attendance at the monthly executive committee meeting) to any affiliated person; increase the salary or other compensation of any affiliated person; enter into or renew any agreement for such benefits or for retirement, pension, profit sharing, fringe benefits or other employee benefits for affiliated persons; or enter into or revise any contractual arrangement with any affiliated person, as defined at 12 C.F.R. § 561.5.

- (c) Without the prior written approval of the Regional Deputy Director, the Institution shall not pay any fees to or enter any transactions with affiliates, including specifically Panhandle Mortgage Corporation.
- (d) For the purposes of this Agreement, the term "Insider" shall include executive officers, directors, and principal shareholders, or related interests thereof as defined at 12 C.F.R. § 215.2. The term "affiliate" shall be as defined in 12 U.S.C. § 371c(b).

POLICIES AND PROCEDURES

- 2. (a) The Board of Directors shall maintain a committee (the "Policies Committee") to conduct regular reviews of the Institution's written policies and procedures to ensure that policies governing the Institution's operations, including but not limited to those policies required by applicable regulations, and procedures to implement those policies, are in place and provide adequate guidance and safeguards. Such reviews should include all policies and procedures, with specific attention on the following:
 - (i) The Policy on Conflicts of Interest adopted on January 5, 1990, as amended on March 31, 1992, and any subsequent amendments thereto;
 - (ii) Loan Underwriting Standards, which set forth the practices to be employed by the Institution for all commitments and loans made and participations purchased;
 - (iii) The Classification of Assets Policy dated June, 1992, and any subsequent amendments thereto;
 - (iv) The Policy on Appraisals adopted on April 27, 1988, as amended on March 31, 1992, and any subsequent amendments thereto; and
 - (v) The Policy on Interest Rate Risk, as amended on

April 23, 1992, and any subsequent amendments thereto.

- (b) The Committee shall develop written policies as necessary and shall modify any existing policies to meet the requirements of all applicable regulations, including but not limited to those cited in this paragraph. The Institution shall modify or amend written policies as requested by the Regional Deputy Director.
- (c) The Committee shall review the Institution's operations at least quarterly to assess the Institution's compliance with the established written policies and procedures and to determine what modifications, if any, to those policies and procedures are necessary. A report of each review, including any such modifications, shall be submitted to the Board of Directors for adoption. Modifications to the policies and procedures shall not become effective until thirty (30) days after the Regional Deputy Director has been given notice of the modifications adopted by the Board of Directors.

GROWTH

- 3. Notwithstanding any other provision of this Agreement, as of the effective date of this Agreement, the Institution shall not increase its adjusted total assets or liabilities in an amount greater than the amounts existing as of April 30, 1991.
- 4. The Institution shall engage in only those activities permitted below, and those permitted by Paragraph 5 of this Agreement, unless otherwise approved by the Regional Deputy Director:
 - (a) Maintain minimal regulatory liquidity as provided in Section 6 of the Home Owners' Loan Act ("HOLA"), as amended by Section 301 of the FIRREA, § 301, 101 Stat. 183 (1989), 12 U.S.C. § 1465 (Supp. I 1989), and 12 C.F.R. §§ 566.1 and 566.2;
 - (b) Fund normal operating expenses, interest on other deposits and other legally binding debt instruments;
 - (c) Honor legally binding commitments;
 - (d) Protect the value of the Institution's assets (e.g., loans to facilitate the sale of foreclosed property, payment of taxes and other expenses on real estate owned, or purchase of superior liens), provided that such transactions comply with all applicable statutes and regulations (including, but not limited to, the lending limits set forth in Section 5(u) of HOLA and the prohibition on equity risk investments set forth in Section 222 of FIRREA), and provided further that the Institution obtains the prior written approval of the Regional Deputy Director if monthly expenditures exceed \$10,000 per asset for any combination of the following: normal taxes and insurance, normal upkeep and maintenance, marketing "make-ready" or "rehab" expenses, or purchase of superior liens;

- (e) Maintain the current value of the Institution's assets or investments, provided that the Institution obtains the prior written approval of the Regional Deputy Director and the transaction is in accordance with all applicable statutes and regulations; and
- (f) Retain or increase core deposits at rates of interest not leading the market.

Before entering into any transaction pursuant to subparagraphs (a)-(f) hereof, the Board of Directors shall determine and certify in writing that each such transaction is in the best interest of the Institution, and shall maintain documentation supporting each such determination. Within twenty (20) business days following the regular meeting of the Board of Directors the Institution shall provide to the Regional Deputy Director a summary report of each such transaction entered into during the prior month pursuant to this Paragraph 4 that resulted in an increase in the Institution's assets or liabilities.

- 5. The Institution may engage in the following activities so long as there is no overall asset growth, and any loans or investments made do not significantly increase the risk profile of the Institution:
 - (a) Making loans secured by owner occupied, single-family dwellings, in the Institution's local market area not to exceed \$200,000, provided that the loans meet the following conditions:
 - (i) the yield on the loans must exceed the Institution's marginal cost of funds;
 - (ii) the Institution must minimize and appropriately manage its interest rate risk by, at a minimum, holding only adjustable-rate mortgage loans in its portfolio or selling forward fixed rate loans;
 - (iii) the terms may not lead the market after taking into consideration both rates and fees; and
 - (iv) all loans should be properly underwritten in accordance with all applicable regulations including, but not limited to, 12 C.F.R. § 563.170(c), and comply with all applicable statutes and regulations;
 - (b) Making secured consumer installment loans not to exceed \$20,000;
 - (c) Making education loans not to exceed the state or federal guarantee; and
 - (d) Making share loans in an amount not to exceed ninety (90) percent of the withdrawal value of the account offered as collateral. Included in this verbal approval was the ability to continue investing liquid funds in federally insured deposits or U.S. Government or U.S. Government Agency securities.

- (e) Renewing, extending, modifying, or refinancing existing loans, provided:
- (i) no new funds are advanced;
 - (ii) no collateral is released from the loan; and
 - (iii) no obligor or guarantor is released from any obligation to pay principal or interest receivable.

The Institution shall supply the OTS with monthly summaries of all lending activity and investment activity. These summaries should indicate, for each loan category, the number of loans made, the dollar amount of the loans granted, and the collateral, term and yield for each loan. These summaries should be forwarded to the OTS by the 15th of the month following the transaction reporting period.

PROVISIONS REGARDING OFFICERS, DIRECTORS, AND EMPLOYEES

6. (a) Pursuant to Section 32 of the Federal Deposit Insurance Act ("FDIA"), codified at 12 U.S.C. § 1831i, and OTS Thrift Bulletin 45, the Board of Directors shall notify the Regional Deputy Director of the proposed addition or employment of any director or senior executive officer or transfer of any senior executive officer before such addition, employment, or transfer becomes effective. The Board of Directors may not add or employ any director or senior executive officer or transfer laterally any senior executive officer if the Regional Deputy Director issues a notice of disapproval no later than 30 days after the notice was deemed complete.
- (b) Pursuant to the principles of safety and soundness communicated in OTS Regulatory Bulletin 27, the Institution shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director, executive, officer, or other institution-affiliated party of the Institution or any subsidiary or affiliate thereof, unless it first (i) provides a minimum of thirty-days advance, written notice of the proposed transaction to the Regional Director of the Midwest Region, OTS, or his successor or designee ("Regional Director") and (ii) receives a written notice of non-objection from the Regional Director with regard to the transaction.
- (c) The Institution shall not make any "golden parachute payment", as that term is defined in Section 18(k) of the FDIA, 12 U.S.C. § 1828(k) ("Section 18(k)"), and as it may be further defined in regulations adopted by the Federal Deposit Insurance Corporation ("FDIC") under that authority, or any indemnification payment unless it does so in compliance with Section 18(k) and all regulations (if any) promulgated thereunder.

CONSULTANT CONTRACTS

7. The Institution shall not enter into any contract for the provision of services to the Institution outside of the normal course of the Institution's business without the prior, formal approval of the Board of Directors and the prior, written notice of non-objection by the Regional Director, pursuant to the guidelines of OTS Thrift Bulletin 50.

SUSPENSION OF PROFIT SHARING PLAN CONTRIBUTIONS

8. (a) The Institution shall not make contributions to its employees' profit sharing plan until it receives written approval from the OTS to resume making contributions.
- (b) Within 30 days of the effective date of this Agreement, the Institution shall obtain a legal opinion addressing its compliance with applicable laws, rules, regulations, and statutes relating to profit sharing plans and its liability associated with non-compliance of such laws, rules, regulations, and statutes. The legal opinion shall be immediately submitted to the OTS once it is rendered.

UNSAFE AND UNSOUND LENDING

9. The Board of Directors shall ensure that the outstanding loans to the law firm of Moore, Lewis and Russwurm, P.C., and one of its partners, Thomas C. Moore, shall remain current until removed from the Institution's books at no loss to the Institution.

REDUCTION OF CLASSIFIED ASSETS

10. (a) The Board of Directors shall immediately implement its Plan for Reduction of Classified Assets, dated June, 1992 ("Plan"). The Institution shall modify or amend the Plan as requested by the Regional Deputy Director.
- (b) The Board of Directors, or a duly authorized Committee thereof, shall conduct a review, on at least a quarterly basis, to determine:
 - (i) the status of each classified asset or classified portion thereof which exceeds \$150,000;
 - (ii) management's compliance with the Plan;
 - (iii) the need to revise the Plan or take alternative action; and
 - (iv) the dollar amount of classified and criticized assets at the end of the quarter.

The results of this review shall be submitted in a written report to the Regional Deputy Director within forty-five days of the end of each quarter.

ASSET CLASSIFICATION

11. (a) Management shall classify its assets in accordance with the Institution's asset classification policy and 12 C.F.R. §§ 563.160, 571.26, 563.172, 563.134, 571.12, and the general guidelines set forth in Thrift Bulletin No. 3, dated October 17, 1990.
- (b) Management shall account for real estate owned in accordance with 12 C.F.R. § 563.172.

GENERAL PROVISIONS

12. The Board of Directors shall, at each regular meeting, formally resolve that, to the best of its knowledge and belief, and based on a prudent review during the previous calendar month, the Institution and its subsidiaries complied with each condition of this Agreement except as otherwise stated. The resolution shall set forth any exceptions to any conditions of this Agreement approved by the Regional Deputy Director. Within 10 days of each regular Board of Directors' meeting, the Institution shall submit to the Regional Deputy Director a copy of the minutes of each Board of Directors' meeting and the minutes of Board of Directors' committee(s) meetings, the aforementioned resolution, and the management report(s) of the Institution.
13. (a) As used in this Agreement, the Regional Deputy Director or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, § 723(d), 103 Stat. 183 (1989).
- (b) As used in this Agreement, the term "subsidiary" or "subsidiaries" shall be as defined in 12 C.F.R. § 567.1(dd).
- (d) As used in this Agreement, the term "savings association" shall have the meaning as set forth in Section 2(4) of the HOLA, as amended by Section 301 of the FIRREA, § 301, 103 Stat. 183 (1989).
- (e) As used in this Agreement, the term "affiliate" shall be as defined in 12 U.S.C. § 371c(b).
- (f) Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the effective date of this Agreement pursuant to Section 401(h) of the FIRREA, § 401(h), 103 Stat. 183 (1989), and references to successor provisions as they become applicable.
- (g) To the extent that any provision of the Federal Deposit Insurance Corporation Improvement Act of 1991, Pub. L. No. 102-2422, 105 Stat. 2236 (Dec. 19, 1991) ("FDICIA") or any regulation(s) promulgated thereunder imposes more restrictive requirements than any provision contained in this Agreement (either expressly or through OTS interpretative Bulletins or policy statements), such provision(s) of the FDICIA or such regulation(s) shall be

controlling.

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, and Federal Deposit Insurance Act, as amended ("FDIA"). Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

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, modified or suspended by the OTS, acting through the Regional Deputy Director.

IN WITNESS WHEREOF, the OTS, acting through the Regional Deputy Director, and the Institution, by its duly elected directors, have executed this Agreement on the date first above written.

**NORTH PLAINS SAVINGS AND
LOAN ASSOCIATION
DUMAS, TEXAS**

By:

151

Director

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Director

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Director

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Director

Director

OFFICE OF THRIFT SUPERVISION

By: 151

INTERIM REGIONAL DIRECTOR

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

I, the undersigned, being the duly qualified Secretary of North Plains Savings and Loan Association, Dumas, Texas (OTS No. 6374) ("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 August 13, 1992; 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 directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the Institution violated regulations to which the Institution is subject and has engaged in unsafe and unsound practices and that such violations and practices provide grounds for the initiation of cease and desist proceedings against the Institution by the OTS; and

WHEREAS the said directors have been informed that the OTS will forbear from the initiation of such proceedings as a result of the Institution's failure to comply with 12 C.F.R. §§ 563.43, 563.160, and 563.161, as of January 13, 1992, to which the Institution is subject, and the Institution's unsafe or unsound practices as set forth in an examination report dated January 13, 1992, 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 proposed Agreement attached to the minutes of the meeting of the board of directors held on August 13, 1992; and

WHEREAS after due consideration, the directors of the Institution have determined to enter into the proposed Agreement in the interest of regulatory compliance and cooperation: 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 and to comply with such Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of North Plains Savings and Loan Association, Dumas, Texas, this 13th day of August, 1992.

NORTH PLAINS SAVINGS & LOAN ASSOCIATION

157

Secretary

IN WITNESS WHEREOF, the OTS, acting through the Regional Deputy Director, and the Institution, by its duly elected directors, have executed this Agreement on the date first above written.

**NORTH PLAINS SAVINGS AND
LOAN ASSOCIATION
DUMAS, TEXAS**

By:

LSJ
Director

LSJ
Director

LSJ
Director

LSJ
Director

LSJ
Director

OFFICE OF THRIFT SUPERVISION

By:

INTERIM REGIONAL DIRECTOR

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WHEREAS the said directors have been informed that the OTS will forbear from the initiation of such proceedings as a result of the Institution's failure to comply with 12 C.F.R. §§ 563.43, 563.160, and 563.161, as of January 13, 1992, to which the Institution is subject, and the Institution's unsafe or unsound practices as set forth in an examination report dated January 13, 1992, 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 proposed Agreement attached to the minutes of the meeting of the board of directors held on August 13, 1992; and

WHEREAS after due consideration, the directors of the Institution have determined to enter into the proposed Agreement in the interest of regulatory compliance and cooperation: Now, therefore, be it

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IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of North Plains Savings and Loan Association, Dumas, Texas, this 13th day of August 13, 1992.

NORTH PLAINS SAVINGS & LOAN ASSOCIATION

BY: 15/
Secretary