

SUPERVISORY AGREEMENT

47 This Agreement ("Agreement") is made and is effective this day of November 1992 ("Effective Date"), by and between AMERICAN SAVINGS AND LOAN ASSOCIATION OF DANVILLE (OTS Docket No. 05263), DANVILLE, ILLINOIS ("Institution") for itself and any controlled 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 Section 8(b)(1) and (i)(2) of the Federal Deposit Insurance Act, at 12 U.S.C. §§ 1818(b)(1) and (i)(2)).

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 its business, as recited in the Report of Examination as of April 6, 1992 ("Report"), and has engaged in certain unsafe and unsound practices thereby providing grounds for the initiation of cease and desist proceedings against the Institution by 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 statutes and regulations, as set forth in the Report, for so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, the Institution, by its Board of Directors ("Board"), without admitting nor denying that grounds exist for the initiation of cease and desist proceedings and in the interest of regulatory compliance and cooperation, and in order to avoid litigation, deems it in the best interest of the Institution to enter into this Agreement;

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

Statutes and Regulations

1. The Institution and its controlled subsidiary shall correct existing violations cited in this section and the Report, and shall not initiate any action which would result in a violation of, or in the aiding and abetting of, any violation of:

12 C.F.R. § 563.170(c)(1)(i), pertaining to the establishment and maintenance of records;

12 C.F.R. § 563.172(a), pertaining to lack of appraisals on real estate owned;

12 C.F.R. § 563.176, pertaining to inadequate interest rate risk policy;

Section 1464 (5) of the Home Owners' Loan Act, pertaining to non-permissible direct investments in real estate;

Board and Management Supervision

2. The non-officer directors of the Board ("Outside Directors") shall complete a study of the Institution's current management structure, staffing requirements, the Board's supervision of management, and a comprehensive policy review. These findings and recommendations shall be submitted to the Board in writing, within forty-five (45) days of the Effective Date of this Agreement, and shall include, at minimum:

- (a) detailed written job descriptions for all positions in the Institution, including the necessary qualifications to perform the duties related to each position;
- (b) an identification of present and future management and staffing requirements of each area of operations, with particular attention given to the lending area;
- (c) objectives by which management's effectiveness will be measured, to be implemented as of March 31, 1993;
- (d) the need for additions to and/or deletions from the current management;
- (e) an evaluation of current lines of authority, reporting responsibilities, and delegation of duties for all officers of the Institution, including identification of any overlapping duties or responsibilities; and
- (f) an organization chart that clearly reflects areas of responsibility and lines of authority for all officers, including the Institution's Managing Officer.

3. Within forty-five (45) days of the completion of the study, required pursuant to paragraph No. 2, the Board shall adopt and implement a written plan, with specific time frames, to eliminate deficiencies, if any, in the Institution's management, staffing, and in the supervision of management by the Board.

4. Copies of the study and the Board's written plan, required pursuant to paragraphs No. 2 and 3 respectively, shall be forwarded to the OTS Assistant Director ("A.D."), after adoption of the written plan. In the event the written plan, or any portion thereof, is not implemented, the Board shall immediately advise the OTS A.D., in writing, of the specific reasons for deviating from the written plan.

Board Reports

5. Within sixty (60) days of the Effective Date of this Agreement, the Board shall adopt and submit to the OTS A.D., a schedule of the reports to be submitted to the Board monthly and the frequency of their review. The reports in this schedule shall include sufficient detail to enable the Board to adequately monitor the operations of the Institution and make informed decisions. The OTS handbook "Director Information Guidelines" should be consulted on this subject.

Internal Controls

6. The Board shall perform an evaluation of the Institution's system of internal controls. At minimum, controls should be established to address the internal control weaknesses, such as share loans made in excess of policy limit, loans not approved by the Board, share loan procedural deficiencies, inaccuracy of Financial Thrift Reports, lack of segregation of duties, and lack of separate preparation and approval functions over journal vouchers. A written assessment of the evaluation, accompanied by a plan of how the weaknesses will be eliminated, shall be submitted to the OTS A.D. within sixty (60) days of the Effective Date of this Agreement.

Lending

7. The Institution shall not originate, modify, or renew any commercial loans, as defined in 12 C.F.R. § 545.46(a), or loans on nonresidential real estate, as that term is defined at 12 C.F.R. § 541.21. In the event the Board elects to authorize this type of lending activity, the following must be met prior to the commencement of the activity:

- (a) written approval from the OTS A.D.;
- (b) detailed guidelines and procedures shall be included in the Board approved lending policy; and
- (c) the Board shall ensure that the Institution has competent, qualified lending personnel.

8. Within sixty (60) days of the Effective Date of this Agreement, the Board shall revise and readopt the Institution's lending policies to incorporate detailed underwriting guidelines and minimum documentation standards for all areas of the Institution's lending operations, consistent with 12 C.F.R § 563.170(c). At a minimum, the policy enhancements recommended on page 8 of the Report shall be incorporated in the lending policies. A copy of the revised policies shall be submitted to the OTS A.D.

9. Within sixty (60) days of the Effective Date of this Agreement, the Board shall revise and readopt the Institution's methodology for determining the adequacy of general valuation allowances. Section 261 of the Regulatory Handbook "Thrift Activities" provides guidance on this subject. A copy of the revised methodology shall be submitted to the OTS A.D.

10. Within sixty (60) days of the Effective Date of this Agreement, the Board shall submit to the OTS A.D. a report detailing efforts to correct the loan documentation deficiencies disclosed on pages 8 and 9 of the Report (incomplete/missing applications, unrecorded/missing mortgages, undocumented loan approval, lack of title searches/reports).

Policies

11. Within sixty (60) days of the Effective Date of this Agreement, the Board shall revise and readopt the Institution's investment policy, and submit it to the OTS A.D. The policy shall, at a minimum:

- (a) contain the basic elements of a sound investment policy set forth in 12 C.F.R. § 571.19;
- (b) specifically address the Institution's policy for investing in mutual funds; and
- (c) address all the enhancements recommended on pages 12 and 13 of the Report.

12. The Board shall comply with its existing interest rate risk policy and procedures, as amended by the Board on August 12, 1992. A copy of the amended policy shall be submitted to the OTS A.D.

13. Within sixty (60) days of the Effective Date of this Agreement, the Board shall implement its existing collection policy, as amended on August 12, 1992.

14. Within sixty (60) days of the Effective Date of this Agreement, the Board shall revise and readopt its policy concerning the extension of overdrafts which revisions shall include, at a minimum:

- (a) conditions and circumstances under which overdrafts will be allowed, taking into consideration the requirements of 12 U.S.C. § 375b (6);
- (b) charges that will be levied against depositors using overdrafts; and
- (c) circumstances under which overdrafts will be permitted to principal shareholders or the related interests (as that item is defined in 12 C.F.R. Part 215) of executive officers, directors, or principal shareholders.

Monitoring

15. Within ten (10) days of the Effective Date of this Agreement, the Board shall appoint a Compliance Officer who will monitor compliance with this Agreement, on a continuing basis, and report to the Board monthly.

16. A report detailing the Institution's compliance with this Agreement shall be forwarded to the OTS A.D. on a quarterly basis no later than fifteen (15) days following the end of each quarter, beginning with the quarter ending December 31, 1992.

17. Following adoption and implementation of all plans, policies, methodologies, and procedures required by this Agreement, the Institution shall adhere to them in all material respects.

Closings

18. Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the Regional 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 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.

19. 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, estop, bar, or otherwise prevent the OTS from doing so.

20. Any time limitations imposed by this Agreement shall begin to run from the Effective Date of this Agreement, unless otherwise provided. Such time limitations may be extended by the Regional Director or his/her designee for good cause upon written application by the Board.

21. 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 rules and regulations adopted by the OTS (including, without limitation, Chapter V of Title 12 Code of Federal Regulations). 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.

22. 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.

23. 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.

24. Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the Office of Thrift Supervision, 111 E. Wacker Drive, Suite 800, Chicago, Illinois, 60601, Attn: Robert L. Lindgren. All reports and other documents shall be deemed filed when received by the OTS.

25. 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.

26. 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.

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

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

OFFICE OF THRIFT SUPERVISION
CHICAGO, ILLINOIS

By:

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Chester A. Biedron
Deputy Regional Director

November 4, 1992
Date

AMERICAN SAVINGS AND LOAN ASSOCIATION
DANVILLE, ILLINOIS

By:

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Director Rand A. Campbell

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Director Thomas Meyer

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Director William Ingram

Director Robert L. Ewbank

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Director Merrill G. Norton