

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 3 day of March 1995 (the "Effective Date"), by and between Home Federal Savings and Loan Association (the "Association"), a federally chartered stock association, having its main office located at Jonesboro, Arkansas, and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Midwest Regional Director or his/her designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, based on the Report of Examination for the examination which commenced June 8, 1994 ("ROE"), the OTS is of the opinion that the Association has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Association; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices; and

WHEREAS, the Association, acting through its Board of Directors (the "Board"), without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises, the mutual undertakings set forth herein, the parties hereto agree as follows:

COMPLIANCE WITH REGULATIONS

1. Compliance With Regulations

The Association shall take all necessary and appropriate actions to achieve compliance with 12 C.F.R. §§ 562.1, 563.160, 563.161, 563.170, and 566.4.

2. Management

(a) Within 30 days of the Effective Date, the Board shall adopt and submit to the Regional Director written procedures, including substantial use of a compliance officer, designed to prevent or minimize violations of laws and regulations and conditions contrary to safety and soundness at the Association. The Board shall promptly amend such written procedures if and as directed by the Regional Director. The Association shall comply with such written procedures, as so amended if so amended.

(b) Subject to Paragraph 6 hereof, the Association and its Board shall use their best efforts to ensure that the Association has, within 60 days of the Effective Date, a permanent managing officer with appropriate levels of expertise and leadership to address and correct the Association's major problems and deficiencies as outlined in the ROE.

(c) If the Association does not, within 60 days of the Effective Date, have in place a permanent managing officer as described in subparagraph (b) hereof, the Association and its Board shall continue to use their best efforts to obtain and appoint such a permanent managing officer as soon as possible and shall provide written reports to the Regional Director, at least on a monthly basis, describing in detail what efforts have been made to obtain and appoint such managing officer.

### 3. Lending and Classification

(a) Without the prior written approval of the Regional Director, the Association shall not, and shall not allow any wholly-owned or partially-owned subsidiary or affiliate of the Association, to make, invest in, purchase, sell, refinance, extend or otherwise modify or commit to make, invest in, purchase, sell, refinance, extend, or otherwise modify any commercial loan, any loan the proceeds of which would be used for the acquisition of real estate, any loan secured by real estate, or any participation in any of the foregoing (including any acquisition and development loan) or any real estate investment, or any set of such loans, participations, or investments except for loans fully-secured by savings account balances at the Association, permanent and construction loans for 1-to-4 family residences in the Association's immediate local market area that do not exceed \$205,000, unsecured consumer loans that do not exceed 20,000, secured consumer loans that do not exceed \$50,000, unsecured commercial loans that do not exceed \$25,000, secured commercial loans that do not exceed \$250,000, and mortgage loans (other than on 1-to-4 family residences) that do not exceed \$200,000, provided (with regard to each of the foregoing types of exceptions) that:

- (i) the yield on the loan exceeds the Association's marginal cost of funds;
- (ii) the terms of the loan are within market rates after taking into consideration both rates and fees;
- (iii) the loans are properly underwritten in accordance with all applicable regulations, including but not limited to 12 C.F.R. § 563.170; and
- (iv) the Association would be in compliance with Sections 5(c) and (u) of the Home Owners' Loan Act, as amended, 12 U.S.C. §§ 1464(c) and (u), and all regulations promulgated thereunder.

(b) If it has not already done so, by the close of business on the Effective Date, the Association shall either charge-off in their entirety all assets classified in the ROE as Loss or establish appropriate specific valuation allowances against such assets based upon their Loss classification.

(c) If it has not already done so, by the close of business on the effective Date and after taking action as required by subparagraph (b) hereof, the Association shall increase the allowance for loan and lease losses to \$15,000. The allowance for loan and lease losses shall thereafter be maintained at no less than this amount unless the Regional Director provides a written notice of no objection to such lesser amount. Additionally, the Association shall increase its general valuation allowances by \$20,000.00 to reflect the adverse classification of the Marshall Estates Joint Venture and shall retain such general valuation allowances until otherwise authorized in writing by the Regional Director.

(d) The Association shall make no extension of credit of any kind, including but not limited to all refinances and modifications, unless the Association obtains, prior to such extension of credit, a credit report and detailed financial statements adequately evidencing the borrower's ability to repay the debt, all of which shall be current as of the time of the extension of credit. Such documents shall be maintained in the loan records for that extension of credit.

(e) The Association shall make no extension of credit of any kind, including but not limited to all refinances and modifications, unless and until the loan officer responsible for the loan makes a reasonable, detailed, written analysis of such extension of credit, demonstrating that the borrower has a satisfactory credit history and that the borrower's financial condition shows an ability to repay that extension of credit and all other outstanding debts to the Association on which such borrower is indebted or otherwise responsible. Such analysis shall be maintained in the loan records for that extension of credit.

(f) The Association shall make no secured extension of credit of any kind, including but not limited to all refinances and modifications covered by collateral, unless and until the loan records for such extension of credit contains reasonable documentation of valuations of collateral and reasonable evidence of a perfected lien position. Such items shall be retained in the loan records for that extension of credit.

(g) The Association shall make no extension of credit of any kind, including but not limited to all refinances and modifications, to any borrower who has had one or more extensions of credit outstanding at the Association regardless of whether the prior extension(s) of credit has been paid, unless all accrued interest and all due payments on all the prior extension(s) of credit have been paid prior to the new extension of credit.

(h) The Association shall not refinance or modify any extension of credit or grant any new extension of credit for any borrower who has been delinquent for 30 or more calendar days on any credit at the Association during any time in the preceding 365 calendar days unless all accrued, due, and legally-owed interest is paid to the Association before such refinancing, modification, or new extension of credit occurs and shall not refinance any single-pay notes of any borrower whatsoever if the principal balance of the initial loan is increased or any portion of accrued and uncollected interest on the initial loan is capitalized.

(i) The Association shall use its best efforts to eliminate all investments in real estate acquired from Biggers Bluff Corporation and/or Wayne Atkins and/or Carroll Caldwell at the earliest time feasible. Until such time as this is accomplished, the Board shall, on at least a monthly basis, provide a written report to the Regional Director, stating in detail what efforts the Association has used to attempt accomplishment of this task.

4. Sales to PHLMC

Within 30 days of the Effective Date, the Board shall adopt and submit to the Regional Director written procedures designed to prevent the sale to the Federal Home Loan Mortgage Corporation ("PHLMC") of any loan without ensuring that the loan satisfies all PHLMC requirements, limitations, and guidelines for such sale. Such written procedures shall include, but not be limited to, a certification by an officer of the Association that he/she has reviewed the loan documents in detail, that he/she has determined such loan documents to have been, to the best of his/her knowledge, accurately and fully completed by the borrower and lending personnel of the Association, and that he/she has determined that the loan satisfied the PHLMC requirements, limitations, and guidelines for such sale. The Board shall modify such written procedures if and as directed in writing by the Regional Director. The Association and its officers, directors, employees, and agents shall comply with such written procedures, as so modified if so modified, and shall not sell loans to PHLMC except in accordance with them.

5. Additional Policies, Plans, and Procedures

(a) Within 60 days of the Effective Date, the Board shall adopt and submit to the Regional Director a new, written internal asset classification/loan review policy, based not only on delinquencies, but also on, at a minimum, comprehensive monthly loan reviews and on-going loan monitoring. The Board shall amend such written policy if and as directed by the Regional Director. The Association and its officers, directors, employees, and agents shall thereafter comply with such policy, as so amended if so amended.

(b) Within 30 days of the Effective Date, the Association, through its Board, shall submit to the Regional Director its 1995 financial budget for the Association, and, on a monthly basis thereafter, shall submit to the Regional Director monthly financial statements for the Association showing performance for the previous month as compared to the 1995 financial budget for that previous month together with comparative performance to actual performance for the corresponding period in the prior year. If the Agreement and Plan of Reorganization executed with Capital Bancorporation, Inc. (the "Reorganization Plan") is terminated, then, within 60 days of such termination, the Board shall prepare, adopt, and submit to the Regional Director a Business Plan that sets forth a plan for maintaining the Association's compliance with its regulatory capital requirement. The Business Plan shall contain financial projections for 2 years on a quarterly basis, including major balance sheet and income statement components and a budget with respect to the overall operation of the Association. The Business Plan shall further contain:

- (i) A narrative description of the strategy to be implemented to manage the Association in such manner as needed for it to be profitable and interest-rate scenario assumptions upon which the Business Plan is based;
- (ii) An evaluation of the adequacy of management with regard to achieving the goals of the Business Plan; and
- (iii) An evaluation of operations, including staffing, goals, income, expenses, and objectives.

(c) The Board shall make revisions to any Business Plan required to be submitted to the Regional Director if and as directed by the Regional Director.

(d) If the Reorganization Plan is terminated, then beginning with the calendar quarter in existence 60 days after such termination, the Association shall provide to the Regional Director quarterly progress reports comparing the actual performance to the projections set forth in the Business Plan, detailing all material variances.

(e) Within 60 days of the Effective Date, the Board shall adopt and submit to the Regional Director a mortgage banking policy, addressing strategies regarding exposure to interest-rate risk in both rising and falling interest-rate environments. The Board shall amend this mortgage banking policy if and as directed by the Regional Director. The Association and its officers, directors, employees, and agents shall comply with such policy, as so amended if so amended.

#### 6. Approval of Executive Officers and Directors

Pursuant to § 914 of FIRREA and any regulations promulgated thereunder, the Board shall properly notify the Regional Director of the proposed addition or employment of any director or senior executive officer before such addition or employment becomes effective. Notwithstanding Paragraph 1 hereof, the Association and its Board may not add or employ any director or senior executive officer if the Regional Director issues a notice of disapproval before the end of 30 days from the date on which the notice was deemed complete by the Regional Director, beginning on the date the Regional Director receives a completed notice of the proposed addition or employment.

#### 7. Growth

Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during such quarter.

#### 8. Recording and Calculations

The Association shall, on a recurring basis that is no less frequent than monthly, ensure that all general accounts are balanced, that all liabilities are recorded on the general ledger, that records are maintained to verify compliance with liquidity requirements in accordance with 12 C.F.R. § 566.4, and that liquid assets are calculated for purposes of 12 C.F.R. § 566.4 in accordance with the definition of "liquid assets" set forth at 12 C.F.R. § 566.1(g).

MISCELLANEOUS

Director Responsibility

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his review, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board of Directors shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

10. Compliance with Agreement

(a) The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

(b) The Board, on a monthly basis, shall adopt a Board resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption or non-objection, if any, issued by the Regional Director that were outstanding as of the date of its adoption.

(c) The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.

(d) No later than the 25th Calendar Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter, or portion thereof, following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolutions adopted at the Board meeting of each month in such calendar quarter. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association.

11. Definitions

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, FDIA or OTS Memoranda. Any such technical words or terms used in this Directive 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.

12. Successor Statutes, Regulations, Guidance, Amendments

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 and references to successor provisions as they become applicable.

13. Duration, Termination or Suspension of Agreement

(a) This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof). The Regional Director shall terminate this Agreement if the pending application of Capital Bancorporation to acquire the Association is approved and the Regional Director concludes and specifically communicates directly to the Association in writing that the OTS has concluded that Capital Bancorporation has acquired the Association in accordance with the OTS approval of the acquisition and that all conditions of the application and the approval, including but not limited to conditions subsequent, have been fully met to the satisfaction of the OTS. For purposes of this Paragraph 13(a), written communication from staff of the Midwest Region's Corporate Activities Department or from the Midwest Region's Regional Deputy Director for Support shall not be deemed to constitute the written communication described above, regardless of the contents of such letter.

(b) The Regional Director, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement (which suspension may be in blanket form or may be in limited form).

14. Time Limits

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

15. Effect of Headings

The Section headings herein are for convenience only and shall not affect the construction hereof.

16. Separability Clause

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

17. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

Nothing in this Agreement shall be construed as: (i) allowing the Association to violate any law, rule, regulation, or government policy statement to which it is subject or (ii) restricting the OTS from taking such action(s) that are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

18. Successors in Interest/Benefit

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 until terminated as provided herein. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

19. Signature of Directors

Each Director signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

20. Integration Clause and Effect on Commitment Letter

(a) This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

(b) Upon execution of this Agreement, the terms of the commitment letter, dated May 20, 1992, shall be of no further effect.

21. Enforceability of Agreement

The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the Federal Deposit Insurance Act, as amended, 12 U.S.C. §1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

HOME FEDERAL SAVINGS AND LOAN ASSOCIATION  
Jonesboro, Arkansas

By:

By:

151  
Name: David Bradley  
Title: Regional Deputy Director  
for the Regional Director

151  
Name: Tony L. Futrell  
Interim President

DIRECTORS OF THE ASSOCIATION

151  
Director \_\_\_\_\_

Director \_\_\_\_\_

151  
Director \_\_\_\_\_

Director \_\_\_\_\_

151  
Director \_\_\_\_\_

Director \_\_\_\_\_

CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of Home Federal Savings and Loan Association, Jonesboro, Arkansas (the "Association") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on February 21, 1995;

2. At said meeting a quorum was present and voting throughout;

3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have the intent to: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS the Directors of the Association have read and considered the proposed Supervisory Agreement ("Agreement") which shall be attached to the minutes of this meeting; and

WHEREAS after due consideration, the Directors of the Association have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of the Agreement be, and they hereby are, authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Association be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Association to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except Dr. Larry Johnson) and all members of the Board of Directors (except --) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Association on this 21st day of February, 1995.

(SEAL)

151  
Name: \_\_\_\_\_  
Title: SECRETARY