

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this ____ day of JUNE 19 1992 ("Effective Date"), by and between Security Federal Savings and Loan Association of Chicago (OTS No. 00639) ("Security") 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 Security. 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 Security has violated certain statutes and regulations, as recited in the Report of Examination ("Report"), and the Report of Compliance Examination, ("Compliance Report") both dated October 28, 1991, and has engaged in unsafe or unsound practices in conducting the business of Security, thereby providing grounds for the initiation of cease and desist proceedings against Security by the OTS; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings as the result of Security's violations of certain statutes and regulations, as long as Security is in compliance with the provisions of this Agreement; and

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

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

Statutes and Regulations

1. Security shall correct any outstanding, as of the Effective Date, violations cited in this section and the Report and Compliance Report, and shall not initiate any action which would result in any violation of, or the aiding and abetting of any violation of:

- 12 C.F.R. Section 561.13;
- 12 C.F.R. Sections 563.172(a) and (c);
- 12 C.F.R. Section 571.19(b)(2);

- 12 C.F.R. Section 528.2;
- 12 C.F.R. Section 528.2a(b);
- 12 C.F.R. Section 528.4;
- 12 C.F.R. Section 528.6(d)(2)(iii);
- 12 C.F.R. Section 545.15(a);
- 12 C.F.R. Section 545.33(e)(1);
- 12 C.F.R. Section 561.29(a);
- 12 C.F.R. Section 563.7(c)(5);
- 12 C.F.R. Sections 563.99(b)(2)(viii), (c)(1)(2), and (d);
- 12 C.F.R. Section 563.177(b);
- 12 C.F.R. Section 563e.3(a);
- 12 C.F.R. Sections 563e.4(b)(1), (2) and (d);
- 12 C.F.R. Section 563e.5(a)(4);
- 12 C.F.R. Section 563e.6;

- 12 C.F.R. Section 203.4(a);
- 12 C.F.R. Section 226.17(a);
- 12 C.F.R. Sections 226.18(d), (e), (g), and (h);
- 12 C.F.R. Section 226.19(a)(1);
- 12 C.F.R. Sections 226.22(a)(2) and (3);
- 24 C.F.R. Section 3500.7(a);
- 31 C.F.R. Sections 103.22(a)(1) and (f);
- 31 C.F.R. Section 103.27(d);
- 31 C.F.R. Section 103.28; and
- 41 C.F.R. Section 60-1.40(a).

Classified Assets

2. The Board shall take every appropriate action necessary to cause the ratio of assets classified Substandard and Doubtful in the Report or any subsequent Report of Examination or by Security's internal classification to be reduced as a percentage of the sum of Security's tangible capital and general valuation allowances to 60% or less by September 30, 1992, and to 50% or less by March 31, 1993.
3. Within 30 days from the Effective Date, the Board shall adopt and implement a written program ("Program") for each of the assets criticized in the Report as Substandard, Doubtful, or Special Mention in excess of \$150,000; a Program for the remaining group of criticized loans of less than \$150,000; and a Program for the Dartmouth Plan loans. These Programs shall be designed to eliminate the basis for criticism cited in the Report and shall include, at a minimum, the following information on each loan or group of loans identified in the Programs:
 - (a) An identification of the expected sources of repayment;
 - (b) The appraised value of supporting collateral and the position of Security's lien on such collateral where applicable;
 - (c) An analysis of current and satisfactory credit information, including cash flow analysis where loans are to be paid from operations; and
 - (d) The proposed action to eliminate the basis of criticism or to recover on the asset and the time frame for its accomplishment.

Within 45 days of the Effective Date, a copy of the adopted Programs shall be forwarded to the OTS Manager.

4. The Board, or a delegated Committee thereof, shall conduct a written review of the criticized assets included in the Programs identified in Paragraph 3 on at least a quarterly basis, to determine:
 - (a) The status of each criticized asset or criticized portions thereof;
 - (b) The status and effectiveness of the Programs in reducing Security's level of classified assets; and
 - (c) The need to revise the Programs or take alternative action to reduce Security's level of classified assets.

5. The Board review required by paragraph 4 shall begin the month after implementation of the Program required by Paragraph 3. A copy of each review shall be forwarded to the OTS Manager on a quarterly basis in a format similar to Appendix A (attached hereto).
6. As of the Effective Date, the Board shall not make a direct or indirect extension of credit, or renew an existing extension of credit, to any borrower whose loans or other extensions of credit are criticized in the Report or any subsequent Report of Examination unless:
 - (a) The additional extension or renewal does not compromise Security's formal plan to collect or strengthen a criticized asset identified in the Program adopted pursuant to Paragraph 3; and
 - (b) Prior to renewing, extending, or capitalizing any additional credit, a majority of the full Board approves the credit extension and certifies, in writing, the specific reasons why failure to so act would be substantially detrimental to the best interests of Security. A copy of the Board certification shall be maintained in the credit file of the affected borrower(s).
7. On a quarterly basis, beginning with the quarter ending June 30, 1992, the Board shall classify and establish specific valuation allowances on consumer credit classified as a loss in accordance with the provisions established under 12 C.F.R. Section 561.13.

General Valuation Allowances

8. Within 30 days from the Effective Date, the Board shall review its methodology for calculating General Valuation Allowances for appropriateness. The methodology shall include not only real estate mortgage loans and real estate owned properties but all other assets which pose potential risk to Security.
9. Within 20 days from the end of each calendar quarter, beginning with the quarter ending June 30, 1992, the Board shall review the level of General Valuation Allowances to determine adequacy and the appropriateness of the methodology in use.

Lending Policy

10. As of the Effective Date, Security shall fully comply with its written Loan Policy submitted to the OTS on May 12, 1992, including, but not limited to the following:
 - (a) All appraisals on rehabilitation loans be prepared on an "as is" basis, as well as, on an "as improved" basis;
 - (b) Funds disbursed for rehabilitation loans be based upon the progress of the project with a portion of the loan proceeds retained until satisfactory completion of all work specifications;
 - (c) Periodic on-site inspections of property be made when construction work is being performed;

- (d) Written reports be made which provide details of inspection visits; and
- (e) All new loans for income producing properties or land require the borrower to submit, on at least an annual basis, financial statements of the borrowers and any guarantors and, if applicable, financial statements for the properties.

Collection Procedures

- 11. As of the Effective Date, Security shall, at a minimum, fully comply with its written Collection Policies and Procedures submitted to the OTS on May 12, 1992, in addition to, but not limited to, the following requirements:
 - (a) a review of loan agreements of assets criticized by either the OTS and/or Security with action being taken pursuant to the loan agreements to collect the loan balances; and
 - (b) a review of income producing property for debt service coverage on at least an annual basis.

Real Estate Owned

- 12. As of the Effective Date, Security shall fully comply with its written Classification of Assets Policies and Procedures submitted to the OTS on May 12, 1992, including, but not limited to the following provisions:
 - (a) a new appraisal will be obtained on each parcel of real estate owned at the time of its acquisition as required by 12 C.F.R. Section 563.172(a); and
 - (b) If upon reevaluation of Security's real estate owned, a parcel is found to be overvalued on its books, Security will immediately charge off or establish and maintain a specific reserve in an amount equal to the overvaluation.
- 13. Within 30 days from the Effective Date, the Board shall order new appraisals for each parcel of real estate owned not appraised at the time of its acquisition.

Collateralized Mortgage Obligations

- 14. As of the Effective Date, the Board is prohibited from making further purchases of Collateralized Mortgage Obligations ("CMOs") without prior written approval from the OTS Manager. The prohibition on CMOs will remain in effect until such time that the Board can demonstrate to the OTS Manager that: sufficient expertise in said investments has been obtained by appropriate personnel; proper documentation will be obtained prior to purchase; detailed analysis will be performed prior to purchase; and close monitoring of said investments as well as their underlying collateral will be performed.

Interest Rate Risk Management Policy

15. Within 60 days from the Effective Date, the Board shall review, revise and readopt Security's interest rate risk management policy. The policy shall, at a minimum:
- (a) Establish maximum/minimum gap limitations for the one and three year maturity buckets;
 - (b) Provide for a coordinated asset/liability strategy to attain the targeted gap positions within established time frames;
 - (c) Require that the Asset Liability Committee document the deliberations of each of its meetings; and
 - (d) Require the Board to perform at least a quarterly review of Security's interest rate risk performance and to record such review in the Board minutes.

Once the policy has been readopted, Security shall adhere to it in all respects.

Internal Compliance Program

16. As of the Effective Date, Security shall maintain a position of Compliance and Community Reinvestment Act ("CRA") Officer and employ a qualified person in that position. The Compliance and CRA Officer's job duties are to include, at a minimum, the performance of a comprehensive self-assessment and internal review of all compliance areas relevant to Security's activities. The position shall have assigned to it the appropriate level of responsibility and authority to carry out the duties of a Compliance and CRA Officer.
17. Within 60 days from the Effective Date, the Board shall review and, if necessary, amend and readopt the written internal compliance program ("Compliance Program") submitted to the OTS on May 12, 1992, to review and monitor Security's compliance with nondiscrimination, consumer protection, and other public interest laws and regulations, as well as performance under the CRA. Guidelines for such a review process are outlined in Regulatory Bulletin 25 and the Regulatory Handbook regarding Compliance Activities. The Compliance Program shall include, but not necessarily be limited to, the following:
- (a) The preparation of a policies and procedures manual covering nondiscrimination, consumer protection, and other public interest laws and regulations, as well as performance under the CRA, for use by Security's personnel;
 - (b) Provisions for the adequate training of new, and the periodic retraining of existing, personnel as to their duties and responsibilities under nondiscrimination, consumer protection, and other public interest laws and regulations, as well as performance under the CRA;

- (c) Ongoing procedures, including periodic compliance audits, to monitor the effectiveness of Security's compliance with nondiscrimination, consumer protection, and other public interest laws and regulations, as well as performance under the CRA;
- (d) Procedures to ensure that exceptions noted in the compliance audits are corrected and responded to by the appropriate institution personnel;
- (e) Mechanisms for effective Board oversight; and
- (f) Procedures for updating the compliance policy and correcting deficiencies that arise.

After the Compliance Program is reviewed and, if necessary, amended and readopted by the Board, Security shall comply with it in all respects.

Nondiscrimination in Lending

18. Within 30 days from the Effective Date, the Board or a Committee thereof, shall conduct a study of Security's business relationship with Armor Mortgage and Investment Company ("Armor"). This study shall investigate:
- (a) Whether Armor's lending practices for loans originated by Security are in compliance with 12 C.F.R. Part 528. Specific focus must be directed to compliance with 12 C.F.R. Section 528.2 which prohibits discrimination in fixing the amount, interest rate, duration, application procedures, collection or enforcement procedures, or other terms, of a loan on the basis of age or location of the dwelling and to 12 C.F.R. Section 528.4 which prohibits a savings association from directly or indirectly engaging in any form of advertising which implies or suggest a policy of discrimination; and
 - (b) Whether the functions performed by Armor can instead be done in-house by Security personnel. The focus of consideration shall be whether there is an opportunity for additional fee income for Security in the form of the origination fees currently received by Armor and whether this income would be greater than the additional expense to Security of originating these loans.
19. Within 30 days of completion of the study, the Board shall adopt a written plan detailing the actions to be taken as a result of the study, along with time frames for implementation. A copy of the Board's written plan shall be submitted to the OTS Manager for review.

Once the plan is adopted, Security shall comply with it in all respects.

Mortgage Loan Disclosure and Notices

20. Within 30 days from the Effective Date, the Board shall establish written procedures to ensure that Security complies with all provisions of 12 C.F.R. Section 545.33(e)(1) and 12 C.F.R. Sections 563.99(b), (c) and (d).

Bank Secrecy Act

21. Within 60 days from the Effective Date, the Board shall review and, if necessary, amend and readopt Security's written policies regarding the system of internal controls and audit procedures designed to ensure compliance with the Financial Recordkeeping and Currency and Foreign Transactions Reporting Act (31 U.S.C. Sections 5311-5326) and the regulations promulgated thereunder at 31 C.F.R. Part 103 (collectively referred to as the "Bank Secrecy Act"). At a minimum, these policies shall include, but not necessarily be limited to, the following:

- (a) Procedures governing the processing and reporting of large currency transactions;
- (b) Procedures identifying all customers whose transactions with Security are exempt from the reporting requirements of the Bank Secrecy Act;
- (c) A comprehensive training program for all tellers and appropriate supervisory personnel to ensure their awareness of and compliance with the requirements of the Bank Secrecy Act;
- (d) Regular, periodic reviews by Security's Compliance and CRA Officer to ensure adherence to the requirements of the Bank Secrecy Act;
- (e) Appropriate verification procedures as part of Security's regular audit program; and
- (f) Prompt management response and follow-up to all audit exceptions or other recommendations of Security's auditor or Compliance and CRA Officer.

After these policies are reviewed and, if necessary, amended and readopted by the Board, Security shall comply with them in all respects.

Regulation Z - Truth in Lending Act

22. Within 60 days from the Effective Date, the Board shall review and, if necessary, revise and readopt Security's policies regarding compliance with all applicable Regulation Z (12 C.F.R. Part 226) requirements. These revised policies shall include, but not necessarily be limited to, the following:

- (a) The assignment of compliance responsibilities to specific officers or other staff;
- (b) Provisions for the adequate training of personnel as to the requirements and proscriptions of Regulation Z and the procedures and practices (use of forms, computations to be made, etc.) necessary to achieve compliance; and
- (c) Procedures to monitor the effectiveness of Security's compliance with Regulation Z.

After these policies are reviewed and, if necessary, amended and readopted by the Board, Security shall comply with them in all respects.

Regulation X - Real Estate Settlement Procedures Act

23. Within 60 days from the Effective Date, the Board shall establish written procedures to ensure that Security complies with all provisions of the Real Estate Settlement Procedures Act as described in 24 C.F.R. Section 3500.7(a).

Regulation C - Home Mortgage Disclosure Act

24. Within 30 days from the Effective Date, the Board shall take the necessary actions to ensure that Security complies with all provisions of the Home Mortgage Disclosure Act as described in 12 C.F.R. Section 203.4(a).

Equal Employment Opportunity (EEO)

25. Within 60 days from the Effective Date, the Board shall establish and approve a written affirmative action compliance program as required pursuant to 41 C.F.R. Section 60-1.40(a).

After this program is approved by the Board, Security shall comply with it in all respects.

Community Reinvestment Act

26. Within 60 days from the Effective Date, based upon Security's CRA community delineation, the Board shall produce a written analysis of the credit needs of Security's community. In preparing the written analysis, the Board shall take into consideration Section 220 of the OTS's Regulatory Handbook regarding Compliance Activities, as well as:

- (a) Any written, signed public comments received in response to Security's CRA statement(s);
- (b) Existing studies concerning local credit needs particularly in low and moderate-income neighborhoods; and
- (c) Direct communications with community members and organizations including Security's customers, the PTA, local government officials, neighborhood organizations, block clubs, minority organizations, small business groups, and consumer groups.

27. Within 75 days from the Effective Date, the Board, utilizing the analysis required by Paragraph No. 26, shall review and, if necessary, amend and readopt its policy and procedures for compliance with the CRA, in order to ensure that the credit needs of the entire delineated community are satisfied. The policy shall include procedures for investigating participation in government-insured, guaranteed and subsidized loan programs as well as local development or redevelopment programs, improving marketing and advertising strategies, correcting Security's CRA community delineation and subsequently the CRA statement, and remaining consistent with the safe and sound operation of Security. The policy shall, at a minimum, contain the following:

- (a) A description of the various types of credit that Security is prepared to extend within the community;
- (b) A description of the methods that Security will use to communicate the availability of its credit services to the community; such methods may include utilizing media targeted to the community such as neighborhood or minority newspapers and radio stations;
- (c) A marketing program designed to encourage applications for loans in Security's community, particularly in low and moderate-income neighborhoods;
- (d) An accurate CRA statement of what types of credit Security makes available to its community;
- (e) Procedures for the Board to periodically monitor the effectiveness of and Security's adherence to the policy;
- (f) Procedures for an annual Board review and/or revision of Security's community delineation and CRA policy. A copy of Security's community delineation and the CRA policy, including any revisions to the CRA policy, shall be retained at Security for review by OTS examiners; and
- (g) Procedures to monitor the geographic distribution of Security's credit extensions, credit applications, and credit denials, such that the Board may determine whether Security is meeting the credit needs of the entire community.

After the policy and procedures are reviewed and, if necessary, amended and readopted by the Board, Security shall comply with them in all respects.

Closings

28. (a) Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the OTS Manager, the Board has the ultimate responsibility for proper and sound management of Security.
- (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 Security nothing in this Agreement shall in any way inhibit, estop, 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 unless as otherwise provided for. Such time limitations may be extended by the Regional Director or his 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 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.
- (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 Security.
- (g) Any report or other document required by this Agreement to be submitted to the OTS shall be filed with the OTS Manager, in care of the Office of Thrift Supervision, 111 E. Wacker Dr. Suite 800, Chicago, IL. 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 Director or his designee.

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

THE OFFICE OF THRIFT SUPERVISION
Chicago, Illinois

By: 151
Ronald N. Karr
Central Regional Director

Security Federal Savings
and Loan Association of Chicago
Chicago, Illinois

By: 151
Ivan Kovac, Director

By: 151
Daniel K. Augustine, Director

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Ivan Paul Brna, Director

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