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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 19th day of June, 1991, by and between Security Federal Savings Bank, Elizabethton, Tennessee ("Security") 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, its directors, officers, employees, agents and service corporations. It is understood and agreed that this Agreement is a "written agreement" entered into with the Office of Thrift Supervision within the meaning of 12 U.S.C.A. § 1818(b)(1) and (i)(2) (West 1989).

NOW THEREFORE, IT IS AGREED between the parties hereto as follows:

1. Within 60 days from the date of this Agreement, the Board of Directors of Security shall formally adopt and submit to the Deputy Regional Director a Business Plan covering a period of at least three

years. Such Business Plan shall address the following issues:

- a. The growth strategy of Security;
- b. Methods to reduce Security's reliance on noninterest income;
- c. Methods of reducing interest and noninterest expenses, including office occupancy expenses;
- d. The effect of divesting or reducing Security's investment in mutual funds which invest in corporate debt obligations which are below investment grade;

e. Methods to increase Security's capital level, specifically addressing:

- i. the effect of asset classifications and sufficient levels of valuation allowances;
- ii. Security's current weak earnings ability and methods to improve earnings, including estimated timeframes for such improvement in earnings; and
- iii. Security's current high negative gap position and the impact of the proposed interest rate risk component of the capital requirement.

2. Within 60 days from the date of this Agreement, the Board of Directors of Security shall formally adopt policies, and management shall implement procedures for the management of interest rate risk in compliance with Section 563.176 of Title 12 of the Code of Federal Regulations. Such policies and procedures shall be submitted for prior approval to the Deputy Regional Director or his Designee. Such policies shall define the maximum potential reduction in earnings and net worth that the Board is prepared to accept as a result of possible changes in market interest rates. Such policies shall establish limits on the sensitivity of Security's net interest income and market value of portfolio equity to interest rate changes, and shall comply in all respects with Thrift Bulletin 13 (Federal Home Loan Bank Board, January 26, 1989).

3. Within 60 days from the date of this Agreement, the Board of Directors of Security shall adopt policies and management shall implement procedures for enhanced internal asset review and classification which the Board shall review annually and update as necessary. Such policies and

procedures shall provide for the following:

- i. review of assets on a monthly basis;
- ii. review of all assets having a value over \$250,000 or involving a complex legal or financial issue, regardless of delinquency status, on at least a monthly basis;
- iii. distinguish between types of assets held by Security, with consideration given to the different characteristics of each type of assets. The policy shall, at a minimum, distinguish between the following types of assets: one-to-four family mortgages, consumer loans, commercial real estate loans, commercial loans, investments, real estate owned and repossessed assets;
- iv. establishment of valuation allowances based upon the characteristics of the various types of assets held by Security.

4. Security shall establish specific valuation allowances of at least \$56,710 immediately. General valuation allowances of at least \$95,000 shall be established immediately, and at least \$55,000 in additional general valuation allowances shall be established by December 31, 1991.

5. Within 60 days from the date of this Agreement, the Board of Directors of Security shall adopt a plan for management succession.

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, Home Owners' Loan Act ("HOLA"), Federal Deposit Insurance Act ("FDIA") or OTS Memoranda, as amended, and all such technical words or terms used in this Agreement, and undefined by the statutes, rules and regulations contained in such Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda, shall have meanings that accord 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 by the OTS, acting through its Deputy Regional Director. Any decision to amend or modify the Agreement is left to the discretion of the OTS Deputy Regional Director.

IN WITNESS WHEREOF, the OTS and Security, by a majority of its Board of Directors, have executed this Agreement. A certified copy of the resolution of the Board of Directors of Security Federal authorizing the execution of this Agreement is attached hereto and made a part hereof.

OFFICE OF THRIFT SUPERVISION /

By: / S /
Deputy Regional Director/
Cincinnati District Office

SECURITY FEDERAL SAVINGS BANK
ELIZABETHTON, TENNESSEE
by a majority of its directors

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CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Security Federal Savings Bank, Elizabethton, Tennessee, 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 June 19, 1991, 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

THEREFORE, BE IT RESOLVED, that the Agreement, a copy of which is attached hereto, be and is hereby approved by the Board of Directors of Security Federal Savings Bank. The officers and employees of Security Federal are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of Security Federal this 20th day of, June, 1991.

151
Asst. Secretary