

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 24th day of August, 2010 by and through the Board of Directors (Board) of First Federal Savings and Loan Association of Kewanee, Kewanee, Illinois, OTS Docket No. 03756 (Association) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Central Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. § 1818, has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Association is subject to examination, regulation and supervision by the OTS; and

WHEREAS, based on its examination of the Association, the OTS finds that the Association has engaged in unsafe or unsound practices and/or violations of law or regulation; and

WHEREAS, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices and/or violations of law or regulation identified by the OTS in the February 22, 2010 Report of Examination (2010 ROE), the Association and the OTS have mutually agreed to enter into this Agreement.

WHEREAS, on August 18, 2010, the Association's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Association to enter into this Agreement and directs compliance by the Association and its directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Risk Management of Third Party Loan Servicer.

1. Within sixty (60) days, the Association shall develop policies and procedures to address all corrective actions in the 2010 ROE relating to minimizing the risk of loss from a third party loan servicer (Loan Servicer Oversight Program). The Loan Servicer Oversight Program shall comply with all applicable laws, regulations and regulatory guidance and require the Association to develop a written contingency plan for transferring the servicing of its loans in the event a third party loan servicer ceases operations. In addition, the Loan Servicer Oversight Program shall require the Association to have provisions in its contracts with third party loan servicers that, at a minimum:
 - (a) require all third party loan servicers of the Association to maintain written records regarding the status of borrower real estate taxes, borrower hazard insurance coverage, and communications with borrowers;
 - (b) require all third party loan servicers to maintain a custodial or other fiduciary capacity deposit account as determined by 12 C.F.R. § 330.7(d) (Mortgage Servicing Accounts) at an FDIC-insured depository institution for loan principal and interest payments (P&I) and tax and insurance escrow payments (Escrow Account);
 - (c) require all third party loan servicers to request each FDIC-insured depository institution holding P&I and Escrow Accounts in connection with the Association's loans to mail a duplicate account statement monthly to the Association;
 - (d) require all third party loan servicers to produce monthly servicing remittance reports for the Association with sufficient information in order for the Association to detect discrepancies and errors;

- (e) require all third party loan servicers to provide documentation no less than annually to the Association confirming that such servicers have adequate servicer's errors and omissions insurance (E&O insurance) and surety bond coverage;
 - (f) require all third party loan servicers to direct its insurance providers to send the Association direct notification of the cancellation or nonrenewal of a third party loan servicers' E&O insurance and/or surety bond coverage; and
 - (g) permit the Association to terminate the servicing arrangement without cause and outline the transfer of the mortgage servicing files, records, insurance policies, computer records, and other related documents to the designee of the Association.
2. Within seventy-five (75) days, the Association shall submit its Loan Servicer Oversight Program to the Regional Director for review and comment. Upon receipt of written notification from the Regional Director that the Loan Servicer Oversight Program is acceptable, the Association shall implement and adhere to the Loan Servicer Oversight Program. The Board's review of the Loan Servicer Oversight Program shall be documented in the Board meeting minutes. A copy of the Loan Servicer Oversight Program shall be provided to the Regional Director within seven (7) days of adoption by the Board.

Loan Workout Plan.

3. By September 30, 2010, the Association shall develop a written workout plan for each mortgage loan purchased from out-of-territory that is or becomes adversely classified or designated as Special Mention (Loan Workout Plan).
4. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2010, the Association shall submit a quarterly written loan status report

(Quarterly Loan Report) to the Board. The Board's review of the Quarterly Loan Report shall be documented in the Board meeting minutes. The Quarterly Loan Report shall include, at a minimum:

- (a) the current status of all Loan Workout Plans;
- (b) the ratio of classified out-of-territory loans to Tier 1 (Core) capital plus allowance for loan and lease losses (ALLL); and
- (c) a comparison of classified out-of-territory loans and out-of-territory loans designated as Special Mention at the current quarter end with the preceding quarter.

5. Within sixty (60) days after the end of each quarter, beginning with the quarter ending September 30, 2010, a copy of the Quarterly Loan Report shall be provided to the Regional Director.

Restrictions on Lending to Classified Borrowers.

6. Effective immediately, the Association shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Association that has been charged off or classified, in whole or in part, as a "Loss" and is uncollected without prior written Regional Director non-objection. The Association's expenses incurred in connection with its real estate owned (REO), including in-substance foreclosures, are not covered by this Paragraph.

7. Effective immediately, the Association shall not make any additional extensions of credit, directly or indirectly, to any borrower whose loans are adversely classified as "Substandard" unless prior to extending additional credit pursuant to this Paragraph, whether in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by the Board, or a designated committee thereof, who shall certify in writing:

- (a) why the extension of such credit is in the best interests of the Association;
- (b) that an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended; and
- (c) that the signed certification shall be made a part of the minutes of the meeting of the Board or designated committee with a copy retained in the borrower's credit file.

Other Than Temporary Impairment Policy.

8. Within thirty (30) days, the Association shall revise its policies and procedures regarding its other than temporary impairment methodology (OTTI Policy) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to impairment. The Association's OTTI Policy shall comply with applicable laws, regulations and regulatory guidance and conform to generally accepted accounting principles (GAAP).

Internal Asset Review and Classification.

9. Within sixty (60) days, the Association shall revise its written internal asset review and classification program (IAR Program) to address all corrective actions set forth in the 2010 ROE relating to the Association's classification of investment securities. The Association's IAR Program shall comply with all applicable laws, regulations and regulatory guidance.

Allowance for Loan and Lease Losses.

10. Within thirty (30) days after the end of each quarter, beginning with the quarter ending September 30, 2010, the Association shall analyze the adequacy of the ALLL consistent with its ALLL Policy (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report, including, but not limited to, all qualitative factors considered in determining the adequacy of the Association's ALLL, shall be fully documented in the Board meeting minutes. Any deficiency in the ALLL shall be remedied by the Association in the quarter in which it is discovered and

before the Association files its Thrift Financial Report (TFR) with the OTS. A copy of the Quarterly ALLL Report and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within seven (7) days after the Board meeting.

Business Plan.

11. By September 30, 2010, the Association shall submit to the Regional Director an updated comprehensive business plan for the period beginning September 30, 2010 through December 31, 2013 (Business Plan) that is acceptable to the Regional Director and addresses all corrective actions set forth in the 2010 ROE. At a minimum, the Business Plan shall comply with all applicable laws, regulations, and regulatory guidance and include:

- (a) establishment of a minimum Tier 1 (Core) Capital Ratio and Total Risk-Based Capital Ratio commensurate with the Association's risk profile;
- (b) detailed capital preservation and enhancement strategies with date specific goals;
- (c) plans to improve the Association's core earnings;
- (d) quarterly pro forma financial projections (balance sheet and income statement), including Tier 1 (Core) and Total Risk-Based Capital Ratios, for the period covered by the Business Plan; and
- (e) identification of all relevant assumptions made in formulating the Business Plan and a requirement that documentation supporting such assumptions be retained by the Association.

12. Upon receipt of written notification from the Regional Director that the Business Plan is acceptable, the Association shall implement and adhere to the Business Plan. A copy of the Business Plan shall be provided to the Regional Director within five (5) days after Board approval.

13. Any material modifications¹ to the Business Plan shall receive the prior, written non-objection of the Regional Director. The Association shall submit proposed material modifications to the Regional Director at least forty-five (45) days prior to implementation.

14. By December 31, 2011, and each December 31st thereafter, while this Agreement is effective, the Business Plan shall be updated and submitted to the Regional Director pursuant to Paragraphs 11 through 13 above incorporating the Association's budget plan and profit projections for the next three (3) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

15. Within forty-five (45) days after the close of each quarter, after implementation of the Business Plan, the Board shall review written quarterly variance reports on the Association's compliance with the Business Plan (Variance Reports). The Variance Reports shall:

- (a) identify variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan;
- (b) contain an analysis and explanation of identified variances; and
- (c) discuss the specific measures taken or to be taken by the Association to address identified variances.

16. A copy of each Variance Report shall be provided to the Regional Director within seven (7) days after review by the Board.

¹ A modification shall be considered material under this Paragraph if the Association: (a) plans to engage in any activity that is inconsistent with the Business Plan; (b) plans to exceed the level of any activity contemplated in the Business Plan by more than ten percent (10%); or (c) fails to meet target amounts established in the Business Plan by more than ten percent (10%).

Consumer Compliance Program.

17. Within sixty (60) days, the Association shall revise its written consumer compliance program (Compliance Program) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to consumer compliance. The Association's Compliance Program shall comply with all applicable consumer and other compliance laws, regulations and regulatory guidance² and be appropriate for the Association's size, complexity, product lines and business operations.

Golden Parachute Payments.

18. Effective immediately, the Association shall not make any golden parachute payment³ unless, with respect to such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

Growth.

19. Effective immediately, 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 the prior quarter without the prior written non-objection of the Regional Director. The growth restriction imposed by this Paragraph shall remain in effect until the Regional Director reviews and approves the Association's Business Plan as required under Paragraph 12 of this Agreement.

Directorate and Management Changes.

20. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers⁴ set forth in 12 C.F.R.

² The term "consumer and other compliance laws, regulations and regulatory guidance" includes all laws and regulations referenced in Section 1100 (Compliance Oversight Examination Program) of the OTS Examination Handbook.

³ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁴ The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

Part 563, Subpart H.

Employment Contracts and Compensation Arrangements.

21. Effective immediately, the Association shall not enter into any new contractual arrangement or renew, extend, or revise any contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the Regional Director with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the Regional Director shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such Senior Executive Officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the Regional Director fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Third Party Contracts.

22. Effective immediately, the Association shall not enter into any arrangement or contract with a third party service provider that is significant to the overall operation or financial condition of the Association⁵ or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the Regional Director with a minimum of thirty (30) days prior written notice of such arrangement or contract and a written determination that the arrangement or contract complies with the standards and guidelines set forth in OTS Thrift Bulletin 82a; and (b) received written notice of non-objection from the Regional Director.

⁵ A contract will be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two percent (2%) of the Association's total capital, where there is a foreign service provider, or where it involves information technology that is critical to the Association's daily operations without regard to the contract amount.

Effective Date.

23. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

24. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representative.

Time Calculations.

25. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

Submissions and Notices.

26. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

27. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) **To:** Regional Director
Office of Thrift Supervision
One South Wacker Drive, Suite 2000
Chicago, Illinois 60606
Facsimile: (312) 917-5001

- (b) **To:** Chairman of the Board
First FS&LA of Kewanee
101 West Central Boulevard
Kewanee, Illinois 61443
Facsimile: (309) 852-3940

No Violations Authorized.

28. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

29. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Association if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

30. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 29 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

31. The laws of the United States of America shall govern the construction and validity of this Agreement.

32. If any provision of 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 or her sole discretion determines otherwise.

33. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

34. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

35. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

36. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

37. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

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WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

**FIRST FEDERAL SAVINGS AND
LOAN ASSOCIATION OF KEWANEE
Kewanee, Illinois**

OFFICE OF THRIFT SUPERVISION

_____/s/_____
William R. Thompson, Chairman

By:_____/s/_____
Daniel T. McKee
Regional Director, Central Region

_____/s/_____
David F. Boswell, Director

_____/s/_____
James H. Grier, Director

_____/s/_____
David J. Harker, Director

_____/s/_____
Thomas G. Miler, Director