

## **SUPERVISORY AGREEMENT**

This Supervisory Agreement (Agreement) is made this 31st day of August, 2010 by and through the Board of Directors (Board) of Lafayette Savings Bank, F.S.B., Lafayette, Indiana, OTS Docket No. 08050 (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

**WHEREAS**, in furtherance of their common goal to ensure that the Association addresses the unsafe or unsound practices identified by the OTS in the January 4, 2010 Report of Examination (2010 ROE), the Association and the OTS have mutually agreed to enter into this Agreement; and

**WHEREAS**, on August 16, 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:

### **Asset Quality.**

1. By September 30, 2010, the Association shall develop an individual written specific workout plan for each adversely classified asset (Classified Asset) or group of such Classified Assets to any one borrower or loan relationship of five hundred thousand dollars (\$500,000) or greater (collectively, Asset Workout Plans).

2. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending December 31, 2010, the Association shall submit a quarterly written asset status report (Quarterly Asset Report) to the Board. The Board's review of the Quarterly Asset Report shall be documented in the Board meeting minutes. The Quarterly Asset Report shall include, at a minimum:

- (a) the current status of all Asset Workout Plans;
- (b) the ratio of all classified assets to Tier 1 (Core) capital plus allowance for loan and lease losses (ALLL); and
- (c) a comparison of all classified assets at the current quarter end with the preceding quarter.

3. Within forty-five (45) days after the end of each quarter beginning with the quarter ending December 31, 2010, a copy of the Quarterly Asset Report shall be provided to the Regional Director.

### **Reduction of Concentration of Credit.**

4. Within thirty (30) days, the Association shall revise its established limits for identifying, monitoring, and controlling risks associated with concentrations of credit (Credit Concentration Policy) in 1-4 family non-owner occupied mortgage loans and nonhomogeneous loans to an amount that is commensurate with the Association's business plan, management expertise, and

financial condition. In the event the revised limits are lower than the Association's existing concentration in 1-4 family non-owner occupied mortgage loans and/or nonhomogeneous loans, the Board shall adopt within sixty (60) days a reduction plan (Reduction Plan) to bring the Association into compliance with its Credit Concentration Policy. At a minimum, the Reduction Plan shall include:

- (a) concentration limits expressed as a percentage of Tier 1 (Core) Capital plus ALLL, and document the appropriateness of such limits based on the Association's risk profile;
- (b) timeframes for achieving the reduction in dollar levels identified in response to subparagraph (a) above;
- (c) provisions for the submission of monthly written progress reports to the Board for review and notation in the minutes of the meetings of the Board; and
- (d) procedures for monitoring the Association's compliance with the Reduction Plan.

5. Within forty-five (45) days after the end of each quarter, beginning with the quarter ending September 30, 2010, the Board shall review the Association's compliance with its Credit Concentration Policy and the appropriateness its concentration limits given current economic conditions and the Association's capital position. The Board's review of the Association's Credit Concentration Policy shall be documented in the Board meeting minutes.

**Allowance for Loan and Lease Losses.**

6. Within forty-five (45) days, the Association shall revise its policies, procedures, and methodology relating to the timely establishment and maintenance of an adequate ALLL level (ALLL Policy) to ensure that it addresses all corrective actions set forth in the 2010 ROE relating to the ALLL. The ALLL Policy shall comply with applicable laws, regulations, and regulatory

guidance and shall require the Association to:

- (a) timely obtain current valuations of collateral securing impaired loans, as that term is defined in Financial Accounting Standards Board Accounting Standards Codification 310-40, "Accounting by Creditors for Impairment of a Loan" ("ASC 310-40"); and
- (b) evaluate each impaired loan pursuant to the Association's improved ALLL methodology and ensure sufficient loan loss provisions are maintained in the ALLL.

7. Within sixty (60) days, the Association shall submit its ALLL Policy to the Regional Director for review and comment. Upon receipt of written notification from the Regional Director that the ALLL Policy is acceptable, the Association shall implement and adhere to the ALLL Policy. The Board's review of the final ALLL Policy shall be documented in the Board meeting minutes. A copy of the ALLL Policy shall be provided to the Regional Director within five (5) days of adoption by the Board.

**Internal Asset Review and Classification.**

8. Within forty-five (45) 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 internal asset review and classification and to comply with all applicable laws, regulations and regulatory guidance. At a minimum, the IAR Program revisions shall ensure the accurate and timely identification, classification, and reporting of the Association's non-accrual credits and troubled debt restructurings.

**Business Plan.**

9. By October 31, 2010, the Association shall submit to the Regional Director an updated business plan for the period beginning January 1, 2011 through December 31, 2012 (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 conform to 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) defined strategies for capital preservation and enhancement commensurate with the risk profile of the Association;
- (c) strategies to stress-test and adjust earnings forecasts based on continuing operating results, economic conditions, and credit quality of the loan portfolio;
- (d) quarterly pro forma financial projections (balance sheet, income statement, and statement of cash flows) 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.

10. 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.

11. Any material modifications<sup>1</sup> 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.

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<sup>1</sup> 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%).

12. 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 9 through 10 above incorporating the Association's budget plan and profit projections for the next two (2) fiscal years taking into account any revisions to the Association's loan, investment and operating policies.

**Business Plan Variance Reports.**

13. 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.

14. A copy of each Variance Report shall be provided to the Regional Director within five (5) days after review by the Board.

**Dividends and Other Capital Distributions.**

15. Effective immediately, the Association shall not declare or pay dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Association's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed

declaration, dividend payment or distribution of capital.

**Growth.**

16. 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 10 of this Agreement.

**Golden Parachute Payments.**

17. Effective immediately, the Association shall not make any golden parachute payment<sup>2</sup> unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359.

**Directorate and Management Changes.**

18. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers<sup>3</sup> set forth in 12 C.F.R. Part 563, Subpart H.

**Employment Contracts and Compensation Arrangements.**

19. 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

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<sup>2</sup> The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

<sup>3</sup> The term "Senior Executive Officer" is defined at 12 C.F.R. § 563.555.

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.**

20. 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 Association<sup>4</sup> 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.

**Effective Date.**

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

**Duration.**

22. 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 representatives.

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<sup>4</sup> 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.



**Time Calculations.**

23. 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.**

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

25. 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: the OTS**

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

(b) **To: the Association**

Chairman of the Board  
Lafayette Savings Bank, F.S.B.  
101 Main Street  
Lafayette, Indiana 47901  
Facsimile: (765) 742-7763

**No Violations Authorized.**

26. 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.**

27. 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.**

28. 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 27 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.**

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

30. 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.

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

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

33. 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.**

34. 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.**

35. 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.

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

**LAFAYETTE SAVINGS BANK, F.S.B.**  
Lafayette, Indiana

**OFFICE OF THRIFT SUPERVISION**

\_\_\_\_\_/s/\_\_\_\_\_

Mariellen M. Neudeck, Chairman

By: \_\_\_\_\_/s/\_\_\_\_\_

Daniel T. McKee  
Regional Director, Central Region

\_\_\_\_\_/s/\_\_\_\_\_

James A. Andrews, Director

\_\_\_\_\_/s/\_\_\_\_\_

Kenneth P. Burns, Director

\_\_\_\_\_/s/\_\_\_\_\_

Mary Jo David, Director

\_\_\_\_\_  
/s/  
Philip W. Kemmer, Director

\_\_\_\_\_  
/s/  
Thomas R. McCully, Director

\_\_\_\_\_  
/s/  
Jeffrey Poxon, Director

\_\_\_\_\_  
/s/  
Charles W. Shook, Director

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/s/  
Randolph F. Williams, Director