

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 28th day of November, 2001 (the Effective Date), by and between Spencer Savings Bank, SLA (the Bank), a state-chartered savings association, having its main office located at 22 Outwater Lane, Garfield, New Jersey 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 Northeast Regional Director or his/her designee (Regional Director).

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

WHEREAS, based on information obtained in a Field Visit conducted in August 2001 and in the course of an informal investigation into the affairs and conduct of the Bank also begun in August, 2001, the OTS is of the opinion that the Bank has engaged in acts and practices that (i) have resulted in violations of certain of the laws or regulations to which the Bank 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 Bank; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will comply with all applicable laws and regulations; and

WHEREAS, the Bank, acting through its Board of Directors (Board), and without admitting or denying any violations of laws or regulations, wishes to cooperate with the OTS and to evidence the intent to comply with all applicable laws and regulations.

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

1. New Directors:

(a) The Institution must appoint a minimum of three new directors, acceptable to the Office of Thrift Supervision ("OTS"), the State of New Jersey Department of Banking and Insurance ("Department"), and to its board of directors in accordance with the steps outlined in this paragraph.

(b) Within 30 days from the effective date of this Memorandum, the board of directors of the Institution shall obtain the services of an outside consultant, acceptable to the Department and the OTS, who is knowledgeable in the area of bank management, to recommend to the board of directors a list of prospective qualified director candidates.

(c) Within 60 days from the effective date of this Memorandum, the consultant must present to the Institution's board of directors, a panel of at least six qualified director candidates from whom to select the three new board members. The new directors must not include persons who are either related by blood or marriage to, or currently have a business or professional relationship with any existing director(s) or their attorneys or consultants.

(d) Within 90 days from the effective date of this Memorandum, the members of the panel, compiled as set out in paragraphs 1(b) and 1(c) above, receiving at least a majority of votes from existing directors will be appointed to the Institution's board of directors. If the Institution has not added the requisite three new directors to the board within the timeframe identified in the subparagraph, the Board shall submit a written recitation to the Department and the OTS identifying the reasons why a decision was not made.

(e) In no event may Spencer hold the 2002 Annual Meeting until the three new directors are selected in accordance with the procedures outlined above. Further, that Annual Meeting must be held no more than 90 days after the date required in the charter or by-laws.

2. Election of Directors at the 2002 Annual Meeting

(a) All portions of the 2002 Annual Meeting relating in any way to the election of directors, including but not limited to:

- (i) the form and content of proxies and ballots;
- (ii) supervision and prior approval of solicitations for proxies and ballots;
- (iii) voting procedures to be followed by those members attending the annual meeting in person; and
- (iv) counting, compiling and announcing the total votes cast in person and by proxy for each nominee;

must be administered by an independent person or firm, acceptable to the Department and the OTS to ensure that said election is conducted in compliance with the Institution's by-laws. The independent person or firm must not include any existing Institution directors, officers or employees, their relations by blood or marriage, or their attorneys or consultants and the Institution's corporate attorney.

(b) The Board shall ensure that all of its officers and employees who are eligible to vote for the election of directors at the 2002 Annual Meeting have the opportunity to do so and that such officers and employees shall not be subjected to any undue influence as to their votes by other officers or directors.

(c) The Chairman of the Board elected at the 2002 organizational meeting following the annual meeting, shall be one of the new directors appointed to the board as required by provision 1 of this Memorandum.

3. Amendments To By-Laws.

No later than 30 days following the date of this Memorandum but in no event later than 45 days before the 2002 annual members meeting, the Institution must amend its by-laws as set out below.

(i) The Board must amend the relevant existing by-laws to set forth the procedures and manner for participation by directors at board or committee meetings. The by-laws shall provide, at a minimum, that whatever provisions are adopted for the manner of attendance at board meetings shall be applicable to all board members.

(ii) The Board must add a by-law to govern conflicts of interest. The new by-law must be consistent with 12 C.F.R. Section 563.200 and N.J.S.A. 14A:6-8(b) and provide at a minimum:

(a) a director who has an interest in a matter or transaction before the board of directors must:

(1) disclose to the board all material non-privileged information relevant to the board's decision on the matter or transaction;

(2) leave the meeting room when the board's discussion of the matter is taking place and when voting on the matter or transaction is being conducted.

(b) Where one or more directors has an interest in a matter or transaction before the board of directors (except for matters concerning compensation for all directors) such a matter or transaction may only be approved by a majority of disinterested directors, even though the disinterested directors are less than a quorum.

(iii) The Board must amend by-law number nine, and pass a resolution if necessary, to increase the minimum number of directors to be an uneven number no fewer than nine.

4. Policy Regarding Salaries and Bonuses.

Within 60 days from the effective date of this Memorandum, the Institution shall develop, adopt and implement a compensation policy to address procedures for approving officer salary increases and bonus payments. The policy shall include at a minimum:

- (i) levels of authority for officer salary increases;
- (ii) levels of authority for officer and employee bonus payments;
- (iii) documentation required to effect a salary increase or bonus payment for each level; and
- (iv) rationale for salary levels, bonus payments and benefits for executive compensation.

The policy shall prohibit an officer from recommending any bonus or salary increases for himself/herself or participating in the process of ensuring that any such bonus or salary increase is paid.

5. Policy Regarding Reimbursement for Expenses.

Within 60 days from the effective date of this Memorandum, the Institution shall develop, adopt and implement written policies and procedures for the payment or reimbursement of necessary Institution expenses incurred by Institution employees, officers, and/or members of the Institution's board of directors. The policies and procedures shall cover all such expenses, whether paid personally by the employee, officer or director or for which the employee, officer or director has obligated the Institution through the use of an Institution credit card or otherwise. At a minimum, such policy shall:

(i) require the submission of a written travel/expense request or voucher to the appropriate individual(s) which identify the person or persons entertained, the business purpose of the expense, the date of the expense, and supporting documentation, including original receipts, before payment or reimbursement is made by the Institution;

(ii) define and establish the categories of expenses, which are reimbursable by the Institution and specify reasonable limitations for each category;

(iii) identify the appropriate individual(s) responsible for reviewing and approving the written travel/expense request or voucher for completeness and to determine if the expense is of a type reimbursable by the Institution. Approval by the board of directors shall be required before any payments or reimbursements are made for expenses incurred by executive officer and directors. Executive officer shall have the same meaning as defined in 12 C.F.R. Section 215.2(e)1; and

(iv) require the periodic review by the Institution's board of directors of all payments or reimbursements for expenses ensuring that all payments were made in conformance with Institution policy. The results of each review shall be reflected in the minutes of the meeting. The board of directors shall seek reimbursement for any expenses paid which are not in conformance with the policy or expressly identify in the minutes the reason for the deviation.

6. Compliance With Laws and Regulations.

Within 60 days after the effective date of this Memorandum, the Board shall eliminate and/or correct all violations of law and regulations and the Institutions by-laws. In addition, the Board shall take all steps necessary to ensure future compliance with all applicable Federal and State laws and regulations and the by-laws.

7. Creation of the Compliance Committee.

The Board shall appoint a committee composed of at least three directors who are not now and have never been involved in the daily operations of the Institution, and whose composition is acceptable to the Commissioner of the Department and Regional Director of the OTS (the "Compliance Committee"), to monitor the Institution's compliance with this Memorandum. Within 30 days from the effective date of this Memorandum, and at monthly intervals thereafter, such Compliance Committee shall prepare and present to the Board a written report of its findings, detailing the form, content, and manner of any action taken to secure compliance with this Memorandum and the results thereof, and any recommendations with respect to such compliance. Such progress reports shall be included in the minutes of the meeting of the Board.

8. Progress Reports.

By the 25th day after the end of every month thereafter, the Institution shall furnish written progress reports to the Commissioner of the Department and the Regional Director of the OTS detailing the form, content, and manner of any actions taken to secure compliance with this Memorandum, and the results thereof. The Institution shall respond promptly to any request for documents or information that the Department or the OTS reasonably requests to demonstrate compliance with this Memorandum.

9. Notice of Adverse Developments.

The Institution shall notify the Commissioner of the Department and the Regional Director of the OTS immediately of any material adverse development affecting its condition, performance, or outlook.

10. No Derogation of Board Responsibility.

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

11. Compliance with Agreement.

The Board and officers of the Bank shall take immediate action to cause the Bank to comply fully with the terms of this Agreement. On an ongoing basis, the Board and officers of the Bank also shall take all actions necessary or appropriate to cause the Bank to continue to carry out the provisions of this Agreement. The Board also shall be responsible for regularly monitoring the Bank's compliance with this Agreement by, *inter alia*, making diligent inquiry of relevant information, including information provided by the Internal Auditor, the Audit Committee and the Bank's senior officers. The Board's monitoring efforts must be accurately reflected in the minutes of its meetings. The Bank's Board shall take appropriate actions to ensure that a copy of this Agreement is delivered to each board of directors of each Bank subsidiary within ten (10) days of the Effective Date of this Agreement.

12. 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, Home Owners' Loan Act ("HOLA"), Federal Deposit Insurance Act ("FDI Act"), or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDI Act, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

13. 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.

14. Time Limits.

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

15. Rules of Interpretation; Integration Clause.

(a) Nothing in this Agreement shall be construed as:

(i) allowing the Bank to violate any law, rule, regulation, or 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.

(b) The paragraph and section headings herein are for convenience only and shall not affect the construction hereof.

(c) This Agreement represents, as of the Effective Date, 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.

(d) 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.

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

17. Enforceability of Agreement.

The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement of the Bank. The Bank acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDI Act, 12 U.S.C. § 1818, and is fully enforceable under that provision, including 12 U.S.C. § 1818(i). Each Bank director signing this Agreement attests, by such act, that she or he, as the case may be, voted in favor of the Board resolution (copy attached) authorizing the execution of this Agreement by the Bank.

18. Effective Date; Duration; Termination or Suspension of Agreement.

(a) This Agreement shall be effective and enforceable as of the date the OTS's Regional Director executes this Agreement ("Effective Date"), which date appears after the Regional Director's signature below.

(b) This Agreement shall 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) and the Department, acting through the Commissioner (including any authorized designee thereof).

(c) The Regional Director, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS and the Bank (in accordance with a duly adopted resolution of its Board) hereby execute this Agreement.

OFFICE OF THRIFT SUPERVISION

By: _____

/S/

Robert C. Albanese
Regional Director, Northeast Region

DIRECTORS OF THE ASSOCIATION

/S/

Joseph D. Autorio
Director

/S/

Everett Kunkel
Director

/S/

Mildred Damiano
Director

/S/

Nicholas Lorusso
Director

/S/

Jose Guerrero
Director

/S/

Robert Motta
Director