

DC

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 25th day of May 2006 (the Effective Date), by and among **Century Bank, FSB**, OTS Docket No. 01441 (the Institution), having its principal office located at 100 South Federal Place, Santa Fe, New Mexico, 87501, and the OTS, an office within the U.S. Department of the Treasury, having its principal office located at 1700 G Street, N.W., Washington, D.C., 20552, acting through its West Regional Director, or his designee (Regional Director).

WHEREAS, the Institution is: (1) a "savings association" within the meaning of Section 3 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C.A. § 1813(b), and Section 2 of the Home Owners' Loan Act, 12 U.S.C.A. § 1462(4); and (2) an "insured depository institution," as that term is defined in Section 3(c) of the FDIA, as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 (FIRREA), 12 U.S.C.A. § 1813(c);

WHEREAS, based upon the risk-focused examination of the Institution's that commenced October 24, 2005 (2005 Examination), the OTS is of the opinion that the Institution has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Institution is subject; or (ii) are considered to be unsafe and unsound;

WHEREAS, the OTS believes that grounds exist to initiate an administrative proceeding against the Institution;

WHEREAS, the OTS believes that it is appropriate to take measures to ensure that the Institution will: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices; and

WHEREAS, the Institution, acting through its Board of Directors (Board), without admitting or denying that such grounds exist except those as to jurisdiction, which are admitted, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations; and (ii) engage in safe and sound practices.

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

I. CORRECTIVE PROVISIONS

A. Business Plan

1. Within forty-five (45) days after the Effective Date, the Board shall approve and submit to the OTS Assistant Director (AD) for review and non-objection a new comprehensive three-year business plan that covers the fiscal years 2006, 2007, and 2008 (Business Plan). The Business Plan shall consider the Institution's existing operations, business strategies, current market conditions, local demographics, available resources, and existing capital levels. The Institution's Business Plan shall, at a minimum:

- (a) Clearly detail the specific goals and objectives of the Institution;
 - (b) Accurately and completely describe the Institution's current operations and lines of business with consideration of the risks presented by each operation and line of business;
 - (c) Discuss the resource needs (personnel, capital, fixed assets, etc.) required to implement the business plan;
 - (d) Consider the costs of the Staffing Plan, Training Program, and independent credit review process required by this Agreement and include a discussion of the Board's plans for retaining qualified and experienced personnel or providing additional training for existing personnel to meet the Institution's current and future needs under the Business Plan;
 - (e) Clearly, accurately and completely describe and discuss the intended operations and lines of business that will be pursued by the Institution, including any off-balance sheet activities or other new activities and identifying the target markets that will be served by such existing or intended operations or lines of businesses; and
 - (f) Include quarterly financial projections with the assumptions upon which the projections were based.
- 2. Any material-modification to the Business Plan shall be submitted to the AD for review and non-objection forty-five (45) days prior to implementation.
 - 3. Management shall prepare quarterly variance reports on the Institution's compliance with the Business Plan within thirty (30) days after the close of each calendar quarter. Such variance reports shall detail actual operating results versus projected results and shall include an explanation of any variations. The Board shall review the variance reports on a quarterly basis to monitor the Institution's compliance with the terms of the Business Plan. The Board's review shall be fully documented in the Board meeting minutes.

B. Policies and Procedures

1. Loan Policy

- (a) Within sixty (60) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection revised loan policies and procedures (Loan Policy) for each type of loan made or purchased by the Institution. The Loan Policy shall comply with: 12 C.F.R. §§ 560.170 and 560.101 (including the Interagency Guidelines for Real Estate Lending Policies at Appendix A thereof), the guidance provided in Section 210 of the OTS Thrift Activities Handbook (TAH), and Sections II.C (Loan Documentation) and II.D (Credit Underwriting) of Appendix A to the Safety and Soundness Standards at 12 C.F.R. Part 570.

- (b) The Loan Policy shall include additional standards for development and construction loans. The Institution shall have sound policies and procedures governing loan disbursements for development and construction loans to ensure that disbursements do not exceed actual development and construction costs as defined by the Institution's policies and procedures. Prudent controls should include an inspection process, documentation of construction progress, segregation of duties between loan personnel and disbursement personnel, tracking presales and preleasing of properties and exception reporting.
- (c) Exceptions to the Loan Policy may only be made if approved in writing by the Institution's President, Chief Credit Officer or Senior Lender and shall be reported to the Board. The Loan Policy shall require management to prepare and submit to the Board for review a quarterly report identifying all loans originated by the Institution as an exception to the Institution's Loan Policy. The Board shall ensure that the loans granted as exceptions to the Loan Policies do not exceed the loan to value limitations and exceptions thereto set forth in 12 C.F.R. § 560.101. The Board's review of loans originated as exceptions to the Loan Policy shall be fully documented in the Board minutes.
- (d) The Board shall ensure that the Institution has processes, personnel, and control systems to ensure implementation of and adherence to the Loan Policy.
- (e) The Loan Policy shall, at a minimum:
 - (i) Be commensurate with the types of loans the Institution will make in the ordinary course of business and considered in its operating strategies and the terms and conditions under which the loans will be made;
 - (ii) Consider the nature of the markets in which the loans will be made;
 - (iii) As is customary for the type of loan at issue, require: a thorough analysis and documentation of the borrower's overall financial condition and resources (including repayment sources), the financial responsibility of any guarantor, the nature and value of any underlying collateral and the borrower's character and willingness to repay as agreed;
 - (iv) Establish a system of independent, ongoing credit monitoring and review, with appropriate communication to the Board;
 - (v) Set forth a limitation on the type and size of loans that may be made by loan officers without prior approval by the Board or a committee established by the Board for this purpose;
 - (vi) Contain guidelines setting forth the criteria under which renewals of extensions of credit may be approved;

- (vii) Contain charge-off guidelines, by type of loan or other asset, including REO, addressing the circumstances under which a charge-off would be appropriate and ensuring the recognition of losses within the quarter of discovery;
 - (viii) Consider the risks associated with concentrations of credit;
 - (ix) Provide for segregation of personnel duties in connection with disbursement of construction loans; and
 - (x) Be appropriate and reasonable in light of the Institution's lines of business, complexity, size, and the nature and scope of its activities.
- (f) The Loan Policy must conform to prudent credit underwriting practices that provide for consideration (including documentation of such consideration) of all relevant credit and risk factors, including but not limited to the following (where applicable):
- (i) The capacity of the borrower or income from the underlying security property to adequately service the debt;
 - (ii) The value of the property to be mortgaged;
 - (iii) The level of equity invested in the property to secure the loan;
 - (iv) Loan-to-value ratio (with respect to secured loans);
 - (v) Any secondary sources of repayment; and
 - (vi) Any additional collateral or credit enhancements (such as guarantees, mortgage insurance, or takeout commitments).
- (g) The Loan Policy should establish loan portfolio targets and concentration limits by product type or other risk factors. These limits should be established considering the necessary capital levels required to support the Institution's portfolio composition.

2. Real Estate Appraisal Policy

- (a) Within sixty (60) days of the Effective Date, the Board shall review and revise the Institution's real estate (RE) appraisal policies and procedures (Appraisal Policy) for each type of loan made or purchased by the Institution. The RE Appraisal Policy shall, at a minimum, comply with:
 - (i) OTS's appraisal regulation (12 C.F.R. Part 564);
 - (ii) Thrift Bulletin 55a (Interagency Appraisal and Evaluation Guidelines);

- (iii) CEO Memo #184¹ (Independent Appraisal and Evaluation Functions);
 - (iv) CEO Memo #213 (Frequently Asked Questions on the Agencies' Appraisal Regulations and Related Guidance);
 - (v) CEO Memo #222 (Credit Risk Management Guidance for Home Equity Lending); and
 - (vi) CEO Memo #225 (Frequently Asked Questions Residential Tract Development Lending).
- (b) At a minimum, the RE Appraisal Policy shall include:
- (i) Procedures to ensure appraiser qualification requirements for different types of property;
 - (ii) Procedures to ensure the timely appraisal of real property that represents the primary collateral behind any extension of credit;
 - (iii) Procedures to ensure new appraisals are obtained when:
 - (1) There has been material deterioration in market conditions or physical aspects of the property which would threaten the Institution's collateral protection; or
 - (2) There has been deterioration in the borrower's financial condition or credit standing; and
 - (c) Exceptions to the Appraisal Policy may only be made if approved in writing by the Institution's President, Chief Credit Officer or Senior Lender and shall be reported to the Board. The Real Estate Appraisal Policy shall require management to prepare and submit to the Board for review a quarterly report identifying all loans originated by the Institution as an exception to the Institution's Appraisal Policy.
 - (d) The Board shall ensure that the Institution has processes, personnel, and control systems to ensure implementation of and adherence to the Appraisal Policy.

3. Truth-in-Lending Act Policy

- (a) Within sixty (60) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection revised policies and procedures governing compliance with the TILA and Regulation Z, 12 C.F.R. Part 226 (TILA Policy).

¹ OTS CEO Memoranda may be found on the OTS website: www.ots.treas.gov.

- (b) The TILA Policy shall establish procedures sufficient to ensure that the Association complies with the TILA and 12 C.F.R. Part 226. The TILA Policy shall designate an individual who shall be responsible for ensuring the Institution's day-to-day compliance with the TILA Policy. The TILA Policy shall, at a minimum, contain such policies and procedures as are necessary to ensure the accurate and timely provision of all required notices and disclosures to consumers.
- (c) The audit program shall be revised to designate responsibility for performing quarterly audit procedures to check compliance with policies and procedures formulated. The audit results shall be reported to the Audit Committee and to the Board quarterly. Management responses to the findings, if necessary, will report actions necessary to ensure compliance with policies and procedures.

4. Internal Audit

- (a) Within sixty (60) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection revised policies and procedures governing the Institution's internal audit (Internal Audit Policy). At a minimum, the Internal Audit Policy must conform to the standards set forth in Section II.B of Appendix A to the Safety and Soundness Standards at 12 C.F.R. Part 570, and the Interagency Policy Statement on the Internal Audit Function and Its Outsourcing, dated March 17, 2003 (OTS TB 81), and satisfy the following requirements:
 - (i) The internal audit must report directly to the Board or an Audit Committee thereof consisting solely of "outside" directors, *i.e.*, directors who are not also officers or employees of the Institution. Although internal audits may be outsourced, no internal audit may be outsourced to the accounting service provider that performs the independent audit of the Institution's financial statements. The Internal Audit Program must be coordinated by an employee of the Institution);
 - (ii) The policies and procedures must assign responsibility for the day-to-day management of the internal audit function to an employee of the Institution;
 - (iii) Annually, the Board (or Audit Committee thereof) shall establish in writing, and oversee the completion of, an internal audit program conforming to industry best practices. The internal audit program shall be designed to determine:
 - (1) Whether the Institution is in compliance with applicable statutes, regulations, and internal policies;
 - (2) Whether the internal controls system is working properly;
 - (3) Whether all significant deficiencies noted in internal or external audit reports have been or are being corrected by management;

- (4) The soundness and adequacy of information systems and accounting, operating, and administrative controls;
 - (5) The effectiveness of internal policies and procedures;
 - (6) Whether the Institution is properly reporting to OTS on its Thrift Financial Reports; and
 - (7) Whether there exists adequate insurance or bonds to protect assets customarily insured or bonded.
- (b) On no less than a quarterly basis, the Internal Audit Manager shall prepare and submit to the Board (or the Audit Committee thereof) a written report of internal audit findings, and the Board (or the Audit Committee) must review and evaluate each such report; and
- (c) The Board (or Audit Committee thereof) shall:
- (i) Direct Institution management to take appropriate corrective action to address deficiencies identified by the internal audits; and
 - (ii) Monitor Institution management's progress in taking such required corrective action.

5. Internal Asset Review

- (a) Within sixty (60) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection revised policies and procedures governing Internal Asset Review (IAR Policy).
- (b) At a minimum, the IAR Policy must conform to the standards set forth in Section II.G of Appendix A to the Safety and Soundness Standards at 12 C.F.R. Part 570, 12 C.F.R. § 560.160, TAH Section 260, TAH Section 201 (Portfolio Risk Management: Internal Loan Review, Management Information Systems, and Internal Controls), Appendix A to TAH Section 2610 (Interagency Policy Statement on the Allowance for Loan and Lease Losses (ALLL) dated December 21, 1993), and OTS CEO Memo # 140 (Effective Internal Asset Review Systems) dated May 17, 2001 and the Interagency Policy Statement attached thereto. The IAR Policy shall provide for an effective, independent, and ongoing internal asset review system to review, at least quarterly, the Institution's loan and lease portfolios to assure the timely identification of problem credits. The IAR Policy shall designate an Institution employee whose responsibility it will be to perform the IAR function and supervise the work of outside vendors retained to perform IAR functions.

6. Allowance for Loan and Lease Losses

- (a) Within forty five (45) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection revised policies and procedures governing Allowance for Loan and Lease Losses (ALLL) in accordance with OTS regulatory guidance, including 12 C.F.R. § 560.160(b), Section 261 of the TAH, and OTS CEO Memo # 142 (Policy Statement on Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions) dated July 17, 2001 and the Interagency Policy Statement attached thereto (ALLL Policy).
- (b) The Board shall require Management to adhere to the ALLL Policy adopted by the Board. The Board also shall confirm that the Bank's ALLL is maintained at appropriate levels in the future. In assessing, establishing and maintaining an adequate ALLL, the Board shall, at a minimum, consider the following information prepared by Management:
 - (i) The results of all internal loan reviews and classifications;
 - (ii) The loan loss experiences and history of the Bank,
 - (iii) An estimate of the potential loss exposure on each significant credit;
 - (iv) Concentrations of credit; and
 - (v) Present and prospective economic conditions.
- (c) The Board shall review the sufficiency of the ALLL at least once each calendar quarter. Any deficiency in the ALLL shall be cured in the quarter in which it is discovered, before the Institution files its TFR with the OTS. The Board shall document the factors considered and conclusions reached by the Board in determining the adequacy of the ALLL in the appropriate Board meeting minutes.

7. Loans to One Borrower

Within forty five (45) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection revised policies and procedures to ensure the Institution's compliance with the loans to one borrower limitations set forth in 12 C.F.R. § 560.93, and the combination rules set forth in 12 C.F.R. § 32.5 (LTOB Policy).

C. No Erosion of Capital Permitted

Except with the prior written non-objection of the AD, the Institution shall not permit its leverage capital ratio to drop below 9.0 %, and it shall not permit its total risk-based capital ratio to drop below 13.0%. The Institution shall take appropriate steps to maintain its capital adequacy as projected in the Institution's business plan.

D. Management Plan

1. Within forty-five (45) days of the Effective Date, the Board shall approve and submit to the AD for review and non-objection a written analysis and assessment of the Institution's management needs (Management Plan) which shall, at a minimum:
 - (a) Identify both the type and number of officer positions needed to manage and supervise properly the affairs of the Institution;
 - (b) Identify and establish the Institution committees needed to provide guidance and oversight to active management; and
 - (c) Establish a plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, or other qualifications, which the Board determines are necessary to fill officer or staff positions consistent with the Board's analysis, evaluation and assessment as provided above. Particular attention should be provided to the lending function.
2. The Management Plan must include an appropriate date for implementation (Implementation Date).

E. Implementation and Adherence to Plans and Policies

1. All plans and policies submitted pursuant to this Agreement must include an appropriate date for implementation (Implementation Date).
2. Within fifteen (15) days of receipt of the AD's notice of objection, if any, to any aspect of the foregoing Plan or Policies, the Institution shall submit a revised Policy to the AD addressing any such objections or comments of the AD;
3. Once the Plan or Policy is submitted pursuant to this Agreement and all objections from the AD, if any, have been satisfactorily resolved, the Institution may not amend, suspend, or revoke the Plan or Policy without the prior written non-objection from the AD; and
4. After receipt of AD's non-objection to the Plan or Policy, the Institution shall implement the Plan or Policy consistent with its Implementation Date, and ensure that all directors, officers, employees and agents adhere to it.

II. DIRECTOR RESPONSIBILITY

Notwithstanding the requirements herein that the Institution submit various matters to the AD for purpose of review, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution at all times, including compliance with any and all directives of the OTS.

III. COMPLIANCE WITH AGREEMENT

- A. The Board and senior management of the Institution shall cause the Institution to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Agreement.
- B. The Board, on a quarterly basis, shall adopt a resolution (the Compliance Resolution) formally resolving that, following a diligent review of relevant information (including reports of management and consultants, if any), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Institution has complied with each provision of this Agreement, except as otherwise stated. The Compliance Resolution shall specify in detail how, if at all, full compliance was found not to exist. The Compliance Resolution is in addition to, and not in lieu of, any other requirements of this Agreement for reporting compliance with certain provisions hereof.
- C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution:
 - 1. The identity of each director voting in favor of its adoption; and
 - 2. The identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each director's reasoning for such opposition or abstention.
- D. Within sixty (60) days of the end of each calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Institution shall provide to the AD a certified true copy of the Compliance Resolution. The Board, by virtue of the Institution's submission of a certified copy of each such Compliance Resolution to the AD, shall be deemed to have certified to the accuracy of the statements set forth in the Compliance Resolution, except as provided below. In the event that one or more directors does not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Institution.

IV. DEFINITIONS

All technical words or terms used in this Agreement, for which meanings are not defined or otherwise provided, shall insofar as applicable, have the meaning set forth in Chapter V of Title 12 of the Code of Federal Regulations (CFR). Any such technical words or terms used herein and undefined in said CFR shall have the meanings that accord with the best custom and usage in the thrift industry.

V. SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

Reference in this Agreement to provisions of statutes and regulations 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.

VI. NOTICES

- A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver, or other document provided for or permitted by the Agreement to be made upon, given or furnished to, delivered to or filed with the OTS or the Institution shall be in writing and delivered via first class mail, overnight courier, facsimile, or hand-delivered, and addressed as follows:

OTS: OTS-West Region
Attn: Timothy Lane, AD
1551 N. Tustin Ave #1050
Santa Ana, CA 92705-8635

Institution: Century Bank
Attn: Chief Executive Officer
P.O. Box 1507
Santa Fe, NM 87504-1507

- B. Any notice shall be deemed duly given when received by the addressee thereof. Any party to this Agreement may from time to time change its address for receiving Notices to the other party in the manner set forth above.

VII. DURATION, TERMINATION OR SUSPENSION OF AGREEMENT

- A. 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).
- B. The Regional Director, or his designee, in his or her sole discretion, may, by written notice, suspend or waive (temporarily or permanently) any or all provisions of this Agreement.

VIII. TIME LIMITS

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

IX. EFFECT OF HEADINGS

The section headings herein are for convenience only and shall not affect the construction of this Agreement.

X. SEPARABILITY CLAUSE

In any case in which 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 shall not in any way be affected or impaired thereby, unless the Regional Director, or his designee, in his or her sole discretion determines otherwise.

XIII. SIGNATURE OF DIRECTORS

Each director signing this Agreement attests, by such act, that he or she voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Institution.

XIV. ENFORCEABILITY OF AGREEMENT

The Institution represents and warrants that this Agreement has been duly authorized, executed and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. The Institution acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, or his designee, and the Institution, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby executes this Agreement.

OFFICE OF THRIFT SUPERVISION

By: /s/ Michael E. Finn
Michael E. Finn
Regional Director

Date: Effective Date Shown on Page 1

CENTURY BANK, F.S.B.

By: /s/
Name:
Chief Executive Officer

Date: Effective Date Shown on Page 1

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