

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 17 day of December, 1991, by and between Regal Savings Bank, FSB, Owings Mills, Maryland, OTS No. 8194, for itself and its wholly owned service corporations and subsidiaries (hereinafter called "Regal Savings" or the "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Atlanta Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. 1818(b), as amended; and

WHEREAS, the Institution, in the interest of regulatory cooperation and compliance, and without admitting or denying that such grounds exist, is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forbear from the initiation of such administrative proceedings against the Institution to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement that pertain to such actions; and

WHEREAS, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking further supervisory or enforcement measures to require actions not specifically covered by this Agreement which the OTS considers appropriate under the circumstances.

NOW, THEREFORE, in consideration of the above-stated forbearance, it is agreed between the parties hereto as follows:

(1) The Board of Directors shall direct management to develop or review and revise, as appropriate, within 60 days after the effective date of this Agreement, the Institution's written policies and procedures, and to establish corresponding internal control systems, as necessary, to provide the following:

(a) Loan Underwriting. (i) The Board of Directors shall ensure that the Institution amends and adheres to its loan underwriting policies and procedures that comply with the requirements of 12 C.F.R. 563.170 and address the deficiencies noted in the March 12, 1991, Report of Examination. At a minimum, the underwriting policies and procedures shall require the Institution to perform and document a review of all financial information gathered in the loan application process. This documentation shall include, but not be limited to, the following items:

- (A) An analysis of each credit report;
- (B) For any prospective borrower that is self employed, an analysis of the borrower's two most recent income tax returns;
- (C) An analysis of current financial statements, including balance sheets and operating statements. This analysis shall include the review of the borrower's current assets and current liabilities, the borrower's net working capital, the amount of debt in relation to net worth, and the availability of funds for equity in any proposed security property;
- (D) An analysis of the borrower's ability to service short and long term debt, including any prospective loan.

(ii) For residential loans which do not conform with the underwriting standards established by the Federal National Mortgage Association (FNMA) or the Federal Home Loan Mortgage Corporation (FHLMC) ("non-conforming loans"), the Institution shall provide the Regional Director with a quarterly report detailing the current status of such loans.

(b) Conflicts of Interest, Loans to Insiders, and Transactions With Affiliates. The Board of Directors shall ensure that the Institution complies with the requirements of Section 11 of the Home Owners' Loan Act of 1933, 12 U.S.C. 1468 and 12 C.F.R. 563.43, concerning transactions with affiliates, affiliated persons and loans to executive officers, directors, and principal shareholders. The Board of Directors shall adopt and implement a Conflicts of Interest Policy which shall incorporate the relevant provisions of Section 140 of the OTS Thrift Activities Regulatory Handbook, "Oversight by the Board of Directors," specifically with respect to director responsibilities and business ethics and with respect to loans to insiders. The Board of Directors shall give consideration and effect to the OTS "Director Information Guidelines, (December 1989)". The Board of Directors, officers and employees of the Institution shall comply with the terms of the Conflicts of Interest Policy.

(c) Valuation Reserves. (i) The Board of Directors shall ensure that the Institution shall establish and maintain general and specific loss reserves in accordance with 12 C.F.R. 563.160(c) and the guidance provided in Section 261 of the OTS Thrift Activities Handbook. Policies and procedures shall detail the methodology for establishing allowances and shall require that the Board of Directors consider, at a minimum:

- (A) assets criticized in the most recent examination reports;
- (B) the results of internal loan review and classifications;
- (C) the loan loss experience of the Institution;
- (D) an estimate of the potential loss exposure on each significant credit;
- (E) concentrations of credit in the Institution; and
- (F) present and prospective economic conditions.

(ii) The Institution shall maintain such valuation allowances in accordance with the Institution's system of self-classification of assets and any OTS Report of Examination conducted on or after the effective date of this Agreement. At a minimum, the Institution shall increase its general reserves to the level recommended in the March 12, 1991, Report of Examination within 45 days after the effective date of this Agreement.

(iii) The Board of Directors shall review the sufficiency of the general and specific valuation allowances at least once each calendar quarter. In connection with such review, the Board of Directors shall ensure that additional provisions for loan losses of \$220,000 be accrued, at an average rate of \$20,000 per month for the period beginning December 1, 1991, through and including November 30, 1992, and thereafter, the Institution shall maintain general valuation allowances of no less than 2.5 percent of all non-conforming loans. Any deficiency in the allowances shall be cured within the period that the respective quarterly Thrift Financial Report is filed with OTS. The Board of Directors shall document the factors considered and conclusions reached by the Board in determining the adequacy of allowances.

(d) Appraisals. The Board of Directors shall ensure that the Institution's appraisal policies and procedures comply with the provisions of 12 C.F.R. Part 564. Such policies and procedures shall specifically address, and the Institution shall remedy, the deficiencies cited in the March 12, 1991, Report of Examination, and shall, at a minimum, require the Board of Directors to periodically review and approve the list of appraisers used by the Institution.

(e) Consumer Lending. (i) The Institution's consumer lending policies and procedures shall be prudent and consistent with the provisions of Section 217 of the OTS Thrift Activities Regulatory Handbook. Such policies shall specifically address, and shall remedy, the deficiencies cited in the March 12, 1991, Report of Examination with respect to loans purchased from National Nautilus and Nutrition, Inc. and NFAC, Inc. (health club membership consumer loans.)

(ii) The Board of Directors shall oversee a review of the Institution's portfolio of health club membership consumer loans and shall establish reserves against such loans as appropriate. Such review shall include an analysis of the guarantor's ability to honor recourse provisions of any such loan sales to the Institution, and the Institution shall establish reserves against such recourse provisions as appropriate. On and after the effective date of this Agreement, any such loans purchased by the Institution shall be underwritten in accordance with the Institution's consumer lending policies and procedures as amended pursuant to this Agreement.

(f) The Board of Directors shall ensure that the Institution develops and adheres to investment policies and procedures which comply with the provisions of 12 C.F.R. 571.19. Such policies and procedures shall specifically address, and the Institution shall remedy, the deficiencies cited in the March 12, 1991, Report of Examination.

(g) The Board of Directors shall ensure that the Institution develops and adheres to construction loan policies and procedures, which shall specifically address, and the Institution shall remedy, the deficiencies cited in the March 12, 1991, Report of Examination.

2. The Board of Directors shall direct management to develop, within 60 days after the effective date of this Agreement, and the Institution shall adhere to, a plan to reduce the Institution's level of classified assets and assets designated Special Mention (criticized assets), as detailed in the March 12, 1991, Report of Examination. The plan shall include specific targets and time-frames for the reduction of the level of criticized assets. The Board of Directors shall review the Institution's progress in meeting the targets of the plan at least quarterly. The Institution shall submit quarterly reports to the Regional Director of the status of all criticized assets.

3. The Institution shall use its best efforts to restructure the terms of any loans to affiliated persons, defined in 12 C.F.R. 561.5, or any loans to officers, directors or controlling shareholders, which do not comply with the requirements of 12 C.F.R. 563.43 or Regulation O. The Institution shall use its best efforts to restructure the terms of such loans to bring such loans into compliance with the applicable regulations.

4. Within 30 days after the effective date of this Agreement, the Board of Directors shall appoint a Compliance Committee of at least three (3) directors, the majority of which shall not be executive officers of the Institution. The Compliance Committee shall be responsible for monitoring and coordinating the Institution's adherence to the provisions of this Agreement. Within 30 days after the appointment of the Compliance Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board of Directors setting forth in detail: (a) actions taken to comply with each provision of this Agreement; and (b) the results of those actions. The Board shall forward to the Regional Director a copy of the Compliance Committee's report, with any additional comments by the Board of Directors.

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, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Agreement references to regulations, bulletins, memoranda and publications shall include any successor regulations, bulletins, memoranda and publications which are provided pursuant to, issued or remain in effect under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub.L. No. 101-73, 103 Stat. 183.

This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement entered into with the agency" as that phrase is used in Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1), as amended.

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, modified or suspended by the OTS, acting through the Regional Director or his designee. The Regional Director or his designee may suspend, in his or her sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS acting through the Regional Director or his designee, and the Institution, by its duly elected directors, have executed this Agreement.

REGAL SAVINGS BANK, FS  
OWINGS MILLS, MARYLAND

SI - 12-17-91  
Director

By: SI Date: 12/17/91  
Director

By: SI Date: 12/17/91  
Director

By: SI Date: "  
Director

By: SI Date: 12/17/91  
Director

By: SI Date: 11-17-91  
Director

By: SI Date: 11/17/91  
Director

By: SI Date: 12/18/91  
Director

OFFICE OF THRIFT SUPERVISION

By: SI Date: 1/2/92  
John E. Ryan  
Regional Director

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of Regal Savings Bank, FSB, Owings Mills, Maryland, at 9:00 am, December 17, 1991, held at 10123 Reisterstown Road Owings Mills, Maryland, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between Regal Savings Bank and the Office of Thrift Supervision.

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CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Regal Savings Bank, FSB, Owings Mills, Maryland ("Institution"), 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 December 17, 1991, and 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

WHEREAS, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(b), as amended; and

WHEREAS, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on December 17, 1991, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

NOW, THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution 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 Shirlee Daniel, Secretary this 17 day of December, 1991.

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[Signature]  
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Secretary