

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 30th day of March, 1995 (the "Effective Date"), by and between First New London Savings and Loan Association, Inc., New London, Connecticut (the "Institution"), through its Board of Directors ("Board"), and the Office of Thrift Supervision ("OTS"), by and through the Regional Deputy Director for the Northeast Region ("Regional Deputy Director") and the Department of Banking of the State of Connecticut ("Department"), by and through the Commissioner of Banking ("Commissioner"). The OTS is a bureau within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., The Department of Banking, State of Connecticut maintains its offices at 260 Constitution Plaza, Hartford, Connecticut, 06103. 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 and the Department within the meaning of Section 8 of the Federal Deposit Insurance Act, 12 U.S.C. § 1818.

WHEREAS, the OTS is the primary federal regulator of the Institution and the Department is the primary state regulator of the Institution; and

WHEREAS, based on the findings of the OTS and Department concurrent examinations of the Institution which commenced on December 19, 1994, the OTS and the Department are of the opinion

that the Institution may have engaged in unsafe and/or unsound acts and practices in operating the business of the Institution;

WHEREAS, the OTS and the Department are of the opinion that grounds exist to initiate administrative proceedings against the Institution;

WHEREAS, the OTS and the Department are of the view that it is appropriate to take measures intended to ensure that the Institution will engage in safe and sound banking practices; and

WHEREAS, the Institution wishes to cooperate with the OTS and the Department, to avoid such administrative proceedings, and to evidence its intent to engage in safe and sound banking practices;

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

The Institution (including its directors, officers, employees, agents, successors, assigns, and other persons participating in the conduct of the affairs of the Institution) shall take the following corrective action:

A. Management

1) Within 90 days from the Effective Date, the Board shall initiate a Management/Staff Evaluation ("Evaluation") to identify those areas where the Institution may be understaffed, or where the skills, abilities and/or experience of management and staff may be insufficient to properly conduct the Institution's business in a safe and sound manner. The Evaluation shall include an Action Plan ("Plan") designed to remedy all Management/Staff deficiencies identified in the Evaluation. Such Plan shall set

forth specific goals and timetables, provide a detailed description as to how such deficiencies will be cured, and address the issues of proper cross training of staff and management, and communication with and between the staff, management and the Board. Such training policies and procedures shall ensure that the Institution is capable of operating in a safe and sound manner in the absence of any particular individual. Copies of the Evaluation and Plan shall be forwarded to the OTS Assistant Director for the Boston Area Office ("Assistant Director") and the Commissioner within 30 days of Board approval for their review and comment.

B. Loan Accounting and Delinquency Reporting

1) The Institution shall immediately begin applying all loan payments received in accordance with the provisions of the applicable mortgage instruments.

2) Within 30 days of the Effective Date, the Institution shall correct the calculation of loan delinquencies to ensure that such delinquencies are reported to management, the Board and the OTS on the Thrift Financial Reports in accordance with OTS's regulatory reporting instructions. Month end loan delinquency reports prepared for management, the Board or the OTS shall not be adjusted for payments received between month end and the date of reporting.

3) Copies of all internal delinquency reports and the source documents (e.g., COCC delinquency reports) used to prepare such reports shall be provided to the Assistant Director and the Commissioner within 30 days of the end of each calendar quarter.

C. Asset Quality and Review

1) The Institution shall immediately charge-off or specifically reserve against all assets classified loss in both the OTS and the Department Reports of Examination. In addition, the allowance for loans and lease losses ("ALLL") shall be immediately increased to \$248 thousand.

2) Within 90 days of the Effective Date, the Institution shall update its policy on ALLL to conform with the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 21, 1993. The updated policy shall clearly set forth the guidelines to be used to assess ALLL adequacy. Within 30 days after such Board approval of the revised policy, the Institution shall submit copies of the revised policy to both the Assistant Director and the Commissioner for their review and comment.

3) Within 30 days of the end of each calendar quarter, the Institution shall prepare an analysis of the adequacy of the ALLL. Such analysis shall be approved by the Board and clearly demonstrate how the minimum adequate amount of ALLL was determined. The minimum amount shall be compared to the actual ALLL with any excess or deficiency amount identified. If the ALLL is found to be deficient, the Board shall cause a provision equal to the amount of the deficiency to be made immediately.

4) The Institution shall immediately establish a system to verify with the appropriate municipalities the status of real estate tax payments for all loans secured by real estate which a) have delinquent escrow accounts; and b) are in excess of 89 days delinquent but do not require escrow payments from the

borrowers. All such loans and their verified tax status shall be reported to the Board on at least a quarterly basis, and shall be classified if appropriate.

5) Within 90 days of the Effective Date, the Institution shall institute internal asset review procedures, which shall include written documentation of such reviews. All such written reviews shall be maintained in a chronological file. Each review shall contain the rationale for internal classifications, or lack thereof, and the action that management and/or the Board has decided to pursue to correct any credit problems or concerns. Within 30 days of the end of each calendar quarter, the Institution have available copies of the completed asset reviews for review by the Assistant Director and the Commissioner if requested.

6) Within 30 days of the Effective Date, the Institution shall revise its loan documents for commercial and multi-family real estate loans, to require that ongoing financial information be submitted to the Institution at least annually. Such information shall include tax returns and personal and/or business financial statements, as appropriate, from borrowers, co-borrowers, and guarantors. Operating statements and rent rolls, and if appropriate, copies of leases, shall also be required on rental properties. This requirement shall be contained in the loan commitment.

7) Within 60 days of the Effective Date, the Board shall adopt debt service and underwriting guidelines to ensure accurate and thorough cash flow and credit analysis for commercial and

multi-family real estate loans. Such guidelines shall ensure that the staff responsible for this function possess the necessary expertise to analyze such loans.

8) Within 60 days of the Effective Date, the Institution shall obtain a reasoned legal opinion, acceptable to the Assistant Director and the Commissioner (the "Legal Opinion"), from an attorney unaffiliated with the Institution, that: a) addresses whether the Institution's current "open-end" mortgage documents legally permit advances of repaid principal on standard single family first mortgage loans, and effectively protect the Institution's position; and b) clarifies the lien and legal status of any such advances already granted under such documents. Until such Legal Opinion is obtained by the Institution and reviewed by the Assistant Director and the Commissioner, the Institution shall not disburse any new funds under such documents, and shall not do so thereafter unless such Legal Opinion provides adequate assurance of the permissibility of such advances and protection of the Institution's legal position.

9) Within 90 days of the Effective Date, the Institution shall develop underwriting and approval guidelines for any future advances of repaid principal under existing open end mortgage documents which do allow for such additional advances, as determined by the Legal Opinion.

10) Within 90 days of the Effective Date, the Institution shall develop appropriate loan collection procedures to ensure that payments accepted from delinquent borrowers do not jeopardize the process of foreclosure or collection.

D. Board and Committee Minutes

1) Within 30 days of the Effective Date, the Institution shall develop procedures to ensure that Board minutes are completed and submitted to the directors for their review on a timely basis. The completed minutes shall include the recording person's signature. Copies of all agendas, attachments, and handouts provided to directors or staff during board or committee meetings shall be retained in a central location sorted by meeting date.

E. Interest Rate Risk and Investment Policies

1) Within 120 days of the Effective Date, the Institution shall update its Interest Rate Risk ("IRR") policy to include the date of approval and identify the correct regulatory agencies and terminology. The policy shall conform to OTS Thrift Bulletin 13 and shall provide that the Board's practice of measuring IRR using the gap methodology shall be replaced or supplemented by the use of net portfolio value calculations.

2) Within 120 days of the Effective Date, the Institution shall revise its Investment Policy to address appropriate strategies and investments, balanced with the Institution's liquidity needs, giving due consideration to the level of expertise available within the Institution to manage the overall invested position. The revised policy shall incorporate the terminology utilized in Statement No. 115 of the Financial Accounting Standards Board.

F. Miscellaneous

1) Within 120 days of the Effective Date, the Institution shall improve the physical security and controls in its lobby. Controls over cash, tellers' work, and access to the teller area shall be strengthened.

2) By June 30, 1995, the Institution shall revise its business plan for the remainder of calendar year 1995. By December 31, 1995, the Institution shall prepare a revised plan, detailing the Board's short and long term (three year) goals, and the strategies and timeframes for achieving those goals. Assumptions employed in the plan shall be clearly identified and well supported. Within 30 days after Board approval of the revised business plans, the Institution shall submit copies thereof to the Assistant Director and the Commissioner for review and comment. The Institution shall review its actual progress against the goals in the revised plans on a semiannual basis, beginning December 31, 1995, and shall submit copies of such reviews to the Assistant Director and the Commissioner for review within 30 days of completion.

3) Within 30 days of the Effective Date, the Institution shall establish procedures to identify income and expense items for each individual property acquired through or as a result of foreclosure, in-substance foreclosure, or deed in lieu of foreclosure ("real estate owned" or "REO"). Individual files shall be maintained for REO properties, with documentation to support and identify each source of income and expense.

4) The Institution shall prepare all Thrift Financial Reports in accordance with OTS regulatory reporting instructions.

G. Progress Reports

1) Within 30 days of the end of each calendar quarter, the Institution shall furnish written progress reports to the Assistant Director and the Commissioner detailing the actions which have been taken, and those which the Board is planning to take, to secure compliance with this Agreement and the results thereof. Said reports may be discontinued only when the corrections required under this Agreement have been accomplished, and the Regional Deputy Director and the Commissioner, or their respective designees have, in writing, released the Institution from making further reports. The Institution shall furnish such other reports as may be requested by the Regional Deputy Director and/or the Commissioner or their designees. All reports and other written submissions pursuant to this Agreement shall be reviewed by the Board and made part of the Board minutes. All such reports and submissions shall be furnished to the OTS Boston Area Office, 745 Atlantic Avenue, 4th Floor, Boston, Massachusetts, 02111 and the Department of Banking, State of Connecticut, 260 Constitution Plaza, Hartford, Connecticut, 06103.

H. Effective Date and Effect of Agreement

1) This Agreement shall become effective upon the Effective Date and shall remain effective and enforceable until such time as any provisions thereof shall have been modified, terminated, suspended, and/or set aside by the Regional Deputy Director and/or the Commissioner, as applicable.

I. Successors in Interest/Benefit

1) 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 Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

J. Signature of Directors

1) Each Director signing the 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.

IN WITNESS WHEREOF, the OTS and the Department, acting by and through the Regional Deputy Director and the Commissioner, and the Institution, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

BY:

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Robert C. Albanese
Regional Deputy Director

DEPARTMENT OF BANKING

BY:

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John P. Burke
Commissioner of Banking

DIRECTORS OF THE INSTITUTION

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Nathan Belcher

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Ellsworth E. Chase

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Edwin C. Higgins, Jr.

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Thomas J. Keogh

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Joel Suisman

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Francis J. Buckley

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Roger Evans

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Jean R. Humphrey

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Francis Pugliese