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SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 3rd day of February, 1992, by and between Essex Savings Bank, F.S.B., Emporia, Virginia, OTS No. 2029, for itself and its wholly owned service corporations and subsidiaries ("ESB-VA" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast 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) (1988 and Supp. I 1989); and

WHEREAS, without admitting or denying that such grounds exist, the Institution, in the interest of regulatory compliance and cooperation, 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 forebear 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 the 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 on matters not specifically covered by this Agreement that 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:

CONSENT AGREEMENT

1. The Consent Agreement of July 17, 1986, between ESB-VA and the Federal Home Loan Bank Board, is hereby terminated by OTS as successor to the Federal Home Loan Bank Board.

MANAGEMENT

2. The Board of Directors of ESB-VA ("the Board") shall provide effective and independent oversight over all operations and activities of the Institution.
3. The Institution shall make no capital distribution, as that term is defined at 12 C.F.R. § 563.134(a)(1), to Essex Financial Group, Inc., Virginia Beach, Virginia, OTS No. H-0883, Essex Financial Partners, Limited Partnership, Virginia Beach, Virginia, OTS No. H-1473, or Essex Bancorp, Inc., Virginia Beach, Virginia, OTS No. H-1339 ("the Holding Company Group") without the prior written approval of the Regional Director.
4.
 - (a) The Institution shall comply with the provisions of 12 C.F.R. § 563.41 (Loans and other transactions with affiliates and subsidiaries) and 12 C.F.R. § 563.42 (Additional standards applicable to transactions with affiliates and subsidiaries).
 - (b) By February 28, 1992, for calendar year 1992, and by each December 31 thereafter, the Institution shall furnish the Regional Director written notice of any plans to pay any entity in the Holding Company Group management fees and/or other administrative fees during the next calendar year. Said notice shall include the information required by 12 C.F.R. § 563.41(e)(1) and a statement of whether the fees comply with the projections concerning such fees in the Business Plan required by Paragraph 5 of this Agreement.
 - (c) Without the prior written approval of the Regional Director, the Institution shall not pay any entity in the Holding Company Group management fees and/or other administrative fees other than those disclosed in the notice required by this Paragraph 4.
5.
 - (a) By February 28, 1992, the Institution shall prepare, adopt, and submit to the Regional Director for his approval a Business Plan ("Plan") for calendar year 1992.

The Plan shall set forth the Institution's overall goals and objectives and shall accurately describe its current operations as well as operations projected for the term of the Plan. In addition, the Plan shall:

- i. discuss the types and levels of lending activities contemplated and indicate how and when the Institution will reduce the concentration in its loan portfolio of purchased second mortgage loans on properties outside of its market area,
- ii. support the level and types of operating expenses proposed in the Plan,
- iii. identify the amount of any and all management fees and/or other administrative fees that the Institution plans to pay any entity in the Holding Company Group and describe the services to be received for said fees, and
- iv. comply with the provisions of this Agreement, and with applicable statutory and regulatory requirements and restrictions.

The Plan also shall include quarterly pro forma financial statements and a statement of the significant assumptions on which the pro forma financial statements are based.

- (b) No later than 30 calendar days prior to the expiration of the Plan then in effect, the Institution shall submit to the Regional Director for his approval a Plan in the form described in this Paragraph 5 for calendar year 1993 and calendar year 1994.
- (c) The Institution may amend any Plan then in effect upon material changes in the assumptions, including interest rates and economic conditions, on which that Plan was based.
- (d) The Institution shall not deviate substantially from the Plan or amended Plan approved and in effect, including the pro forma financial projections contained therein, without the prior written approval of the Regional Director for such deviations. The Regional Director shall determine whether the Institution has deviated substantially from the Plan.
- (e) Within 45 days of the end of each calendar quarter, the Institution shall submit to the Regional Director a variance report comparing actual and budgeted operations, and explaining any significant variations.

- (f) Thirty days after the Institution has submitted a Plan, or an amendment to a Plan, in compliance with this Paragraph 5, it may operate in accordance with the Plan or amendment, and applicable statutory and regulatory requirements, unless and until the Institution receives written notice from the Regional Director that the Plan is disapproved in whole or in part.
6. (a) The Institution shall comply with the provisions of 12 C.F.R. Part 564 (Appraisals).
- (b) Within 60 days of the effective date of this Agreement, the Institution, at the direction of the Board, shall revise the appraisal policies of ESB-VA to address the concerns noted in the Institution's March 25, 1991 OTS Report of Examination ("1991 Exam"), and the Board shall direct management to implement the revised policies.
7. (a) The Institution shall comply with the provisions of 12 C.F.R. § 563.160 (Classification of certain assets).
- (b) Within 60 days of the effective date of this Agreement, the Institution, at the direction of the Board, shall revise the asset classification and valuation allowance policies of ESB-VA to correct the concerns noted in the 1991 Exam, and the Board shall direct management to implement the revised policies.
8. (a) The Institution shall comply with the provisions of 12 C.F.R. § 563.170(c) (Establishment and maintenance of records).
- (b) Within 60 days of the effective date of this Agreement, the Institution, at the direction of the Board, shall revise the loan underwriting guidelines of ESB-VA to correct the concerns noted in the 1991 Exam, and the Board shall direct management to implement the revised policies.

ASSET QUALITY

9. By December 31, 1991, the Institution shall cease the direct or indirect purchase of loans and/or loan participations from, and any and all other transactions with, Mortgage Centers, Incorporated, Virginia Beach, Virginia.
10. Prior to the purchase of loans and/or loan participations from any entity, and prior to the payment of any referral fee to any entity in connection with the purchase or sale of loans and/or loan participations, the Institution shall document in writing that the amount of the purchase price, including any premium, and the existence and amount of any referral fee, are supported by data from comparable markets and are justified and reasonable under the circumstances.
11. (a) The Institution shall establish prudent general and specific valuation allowances in accordance with the provisions of 12 C.F.R. § 563.160.
(b) The Institution shall immediately establish general valuation allowances totaling at least \$140,428, and thereafter shall maintain general valuation allowances in an amount no less than \$140,428 until such time as there is a material reduction in the level of the Institution's classified assets.

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.

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).

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. The Regional Director may suspend, in his sole discretion, any or all provisions of this Agreement.

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

Essex Savings Bank, F.S.B.
Emporia, Virginia
OTS No. 2029

By: 151
Director

OFFICE OF THRIFT SUPERVISION

By: 151
John E. Ryan
Regional Director