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OTS No. 1503

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 3rd day of February, 1992 (the "Effective Date"), by and between Polifly Savings and Loan Association (the "Association"), a state chartered stock savings bank, having its main office located at 730 River Road, New Milford, New Jersey 07646 and the Office of Thrift Supervision ("OTS"), an office within the Department of the Treasury, a department in the Executive Branch of the United States Government, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C.

WHEREAS, the Association, wholly owned by Polifly Financial Corporation ("PFC"), is a state chartered stock savings bank, the deposits of which are insured by the Savings Association Insurance Fund ("SAIF") of the Federal Deposit Insurance Corporation ("FDIC"), and is subject to federal laws and regulations; and

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

WHEREAS, the OTS, represented by the Regional Director for the Northeast Region ("Regional Director") is of the opinion that the Association has engaged in acts and practices in operating the business of the Association that may be violations of certain of the laws or regulations to which the Association is subject, and that may provide grounds for the initiation of judicial and/or administrative proceedings against the Association; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain itself in a safe and sound condition; and

WHEREAS, the Board of Directors of the Association (the "Board") wishes to cooperate with the OTS and to demonstrate that it has the intent and ability to: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain the Association in a safe and sound condition, consistent with its fiduciary duties owed to the Association, its depositors and its shareholders;

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

SECTION 1 -- COMPLIANCE WITH LAWS AND REGULATIONS

1.1 The Association shall comply with the following Federal laws and regulations:

- (a) Sections 545.32(d)(1) and (2) of the OTS Regulations, 12 C.F.R. §§545.32(d)(1) and (2)(regarding loan-to-value ratios;
- (b) Section 545.35(a) of the OTS Regulations, 12 C.F.R. §545.35(a)(regarding loan term for nonamortized loans);
- (c) Section 563.93(c) of the OTS Regulations, 12 C.F.R. §563.93(c)(regarding limitations on loans to one borrower),
- (d) Section 563.160(d) of the OTS Regulations, 12 C.F.R. §563.160(d)(regarding establishment of prudent general allowances for loan losses);
- (e) Section 563.170(c)(1) of the OTS Regulations, 12 C.F.R. §563.170(c)(1)(regarding maintenance of records with respect to loans secured by real estate);
- (f) Section 563.170(c)(9) of the OTS Regulations, 12 C.F.R. §563.170(c)(9)(regarding establishment and maintenance of records required by statute or regulation);
- (g) Section 564.4 of the OTS Regulations, 12 C.F.R. §564.4(regarding appraisal standards); and
- (h) Section 567.2 of the OTS Regulations, 12 C.F.R. §567.2(regarding minimum regulatory capital requirements).

1.2 The compliance requirements of this Agreement shall not be construed as an authorization for the Association to engage in the activities governed by the aforesaid laws, rules and regulations. To the extent that it is lawful for the Association or its affiliates to engage in such activities, and if provisions of this Agreement set forth more strict restrictions, limitations and requirements than are set forth in applicable laws, rules and regulations, then, under such circumstances, those activities shall be subject to the stricter restrictions, limitations and requirements set forth in this Agreement.

SECTION 2 -- OPERATING REQUIREMENTS

2.1 Director Responsibility

In keeping with its fiduciary duties, the Board of Directors of the Association (the "Board") and each of its members, collectively and individually, have the ultimate responsibility for overseeing the safe and sound operation of the Association. The Board shall establish policies, procedures and controls to assure the safe and sound operation of the Association and monitor compliance with such policies and procedures, as well as with the laws and regulations governing the Association. The Board shall approve of all policies governing the operations of the Association.

2.2 Restriction on Asset Growth

The Association shall not increase its Total Assets. For purposes of this Section 2.1, asset growth shall be measured at the end of each calendar quarter by comparing Total Assets at the end of the most recent calendar quarter against the Total Assets as of the end of the previous calendar quarter. The Regional Director reserves the right to determine that the Association is growing in an unsafe and unsound manner between measurement dates and to take appropriate action to restrict such growth.

2.3 Capital Distributions Prohibited

The Association shall not make any capital distributions, except as provided in Section 563.134 of the OTS Regulations (12 C.F.R. § 563.134).

2.4 Restrictions on Expenditures Relating to Compensation, Benefits, and FF&E

A. The Association shall not provide any Compensation or other direct or indirect benefits to its directors, Officers, employees or any other institution-affiliated party beyond those determined reasonable and prudent after consideration of the Association's capital deficiency. Such Compensation shall be in compliance with Sections 563.39 and 563.161(b) of the OTS Regulations, 12 C.F.R. §§ 563.39 and 563.161(b).

B. Unless the Association (i) provides a minimum of ten days prior written notice of the proposed transaction/activity to the Regional Director and (ii) receives a written notice of non-objection of the Regional Director with respect to the proposed transaction/activity, the Association shall not directly or indirectly:

(1) Enter into, renew, extend or revise any contractual arrangement with any Officer, director, controlling person, affiliate, affiliated person, subsidiary or agent of the Association or any subsidiary or affiliate thereof, except for contracts/revisions otherwise permitted by this Section 2.4;

(2) Employ or appoint any person to serve as an Officer, director, or senior manager who is not so employed or appointed as of the Effective Date;

(3) Employ any person pursuant to an agreement that is not terminable at the will of the employer and that otherwise does not comply with Sections 563.39 and 563.161(b) of the OTS Regulations, 12 C.F.R. §§ 563.39 and 563.161(b);

(4) increase the amount of Compensation to any Officer;

(5) pay director's fees (or similar Compensation) to directors in an amount exceeding an aggregate of \$500.00 per month per director;

(6) make or commit to make any increase in the salary or other Compensation or pay any bonuses or other similar Compensation to any of its Officers whose Base Salary from and after January 21, 1992 exceeds \$40,000.00;

(7) enter into, amend or renew any collective bargaining agreement, pension or profit sharing plan, bonus plan, severance plan, retirement plan, fringe benefit plan, or other employee benefit plan, or other employment contract or arrangement with any employee, director, or Officer, or fund any escrow account or similar arrangement related to such an agreement, contract or plan, except however, that unless the Regional Director otherwise directs, the Association may continue to fund the following in the regular course of business: hospitalization, medical, major medical, accidental death and dismemberment, life insurance policies, long term disability policies, and other employee benefit plans established prior to December 31, 1991, provided that such plans are available generally and on the same basis to all full time employees of the Association;

(8) make any "golden parachute payment", as that term is defined in Section 18(k) of the Federal Deposit Insurance Act ("FDIA") (to be codified as 12 U.S.C. 1818(k)) or regulations adopted by the Federal Deposit Insurance Corporation ("FDIC") under that authority; or

(9) make any purchase of or payment for an item or service intended for the benefit of any Officer, employee or director that: (i) does not have an immediate, direct relationship to the performance of the Officer's, employee's, or director's duties and (ii) is not available to all Association staff; except that expenses of \$500.00 or less incurred for educational purposes (including travel costs) shall not require the written notice of non-objection of the Regional Director.

C. Prior to the Association making any payment relating to indemnification of a director, Officer or employee: (i) the Board shall adopt a resolution approving such payment as being in accordance with applicable State law; and (ii) the Association shall notify the Regional Director no less than 20 days prior to the date of payment of the Association's intent to make such payment, and shall include a copy of the Board Resolution approving payment. All proposed payments of advance indemnification shall, in addition, require the prior written notice of non-objection of the Regional Director.

2.5 Other Operating Restrictions

A. Except as otherwise permitted in accordance with Section 2.6, unless the Association (i) provides a minimum of 15 days prior written notice of the proposed transaction/activity to the Regional Director, which written notice shall include the information described in Subsection B of this Section 2.5, and (ii) receives a written notice of non-objection from the Regional Director with respect to the proposed transaction/activity, the Association shall not:

(1) Make, invest in, purchase, sell, refinance, extend, or otherwise modify, or commit to make, invest in, purchase, sell, refinance, extend, or otherwise modify any construction loan, commercial business loan, commercial real estate loan, letters of credit, participations therein, or any Set of such loans, letters of credit, or participations;

(2) Release any borrower or guarantor from liability on any loan or extension of credit granted by the Association unless the Recorded Investment in the loan and in other outstanding loans to the borrower or guarantor have been paid in full, except where the Recorded Investment of such loan(s) is less than \$500,000.00--in such case, the Association may release a borrower or guarantor from liability in accordance with the Association's policies governing such releases and (ii) where the Recorded Investment of such loan(s) is equal to or greater than \$500,000.00 but less than \$1,000,000.00--in such case, the Association shall furnish to the Regional Director promptly after taking such action notice thereof and copies of the materials relied upon by the Association in determining to take such action;

(3) Make or commit to Make any investment in real estate, Equity Securities, a service corporation, a finance subsidiary, or an Operating Subsidiary or any subsidiary of a service corporation, except for investments made pursuant to the Association's salvage powers and investment authority as provided for in Section 563.38 of the OTS Regulations, 12 C.F.R. §563.38, or for investments otherwise approved by the FDIC pursuant to Section 303.13 of the FDIC Regulations, 12 C.F.R. §303.13;

(4) Enter into any joint venture or limited partnership agreement;

(5) Enter into any lease or contract for the purchase of real estate or of any interest therein;

(6) Encumber any of its property or other assets, except, however, that the Association may pledge its assets to the Federal Home Loan Bank of New York or the Federal Reserve Bank of New York in connection with borrowings;

(7) Make any material change in accounting method, except as may be required by Federal law or regulation;

(8) Incur any material obligation or contingent liability, except as otherwise permitted by this Agreement;

(9) Enter into any material transaction, except as otherwise permitted by this Agreement;

(10) Enter into any agreement to merge, consolidate, or otherwise be acquired, or enter into any agreement to reorganize or for management services, except in connection with a Plan or a Management Services Contract recommended by the Regional Director pursuant to Section 2.16 of this Agreement;

(11) Amend or permit to be amended its charter or bylaws;

(12) Accept any non-cash capital contribution;

(13) Open any branch office, loan production office or agency;

(14) Renegotiate or pay interest payments on subordinated debt or other similar debt;

(15) Accept or renew any uninsured deposit without first furnishing the depositor with the notice provided for by Section 330.15 of the OTS Regulations, 12 C.F.R. § 330.15. In the case of a renewal of an existing deposit, the Association shall furnish such notice to the depositor with any renewal notice provided prior to the maturity of such deposit; and

(16) Commit to sell or sell any Repossessed Assets or Real Estate Investments for less than 95% of the Recorded Investment for such asset or investment.

B. (1) Requests for written notice of non-objection of the Regional Director to make loans or investments (other than those permitted by Section 2.6) must be accompanied by a resolution of the Board, signed by each individual member of the Board voting in favor of the resolution, finding as follows:

(a) management is capable of underwriting and administering the loans or investments in a safe and sound manner;

(b) the Board has adopted policies and procedures to ensure that the loans or investments are prudently underwritten and administered;

(c) internal controls measuring compliance with such policies and procedures are in place;

(d) during the preceding 12 months, the Association has not experienced significant losses in connection with similar loans or investments; and

(e) the loans or investments contemplated are necessary to preserve the Association's franchise value and will not cause an increase in Total Assets.

All documentation considered by the Board in adopting each such resolution shall be explicitly referenced in the minutes of the meeting at which the resolution was adopted and shall be made available to representatives of the OTS upon request by the Regional Director.

(2) All other requests to engage in transactions that require the prior written notice of non-objection of the Regional Director must:

(a) be signed by the President of the Association;

(b) specify in detail the nature of the activity or transaction that the Association seeks to have approved; and

(c) explain the Association's basis for seeking the issuance of the requested notice of non-objection.

2.6 New Loans, Investments or Activities Not Requiring Prior Written Notice of Non-Objection

A. The Association may make/engage in the following loans, investments or activities without obtaining the prior written notice of non-objection of the Regional Director, provided that (i) such activities do not cause the Association to increase its level of Total Assets to an amount that would violate Section 2.2, (ii) the Association engages in such activities in a prudent manner, (iii) all such activities are consistent with policies approved or to be approved by the Board, and (iv) such activities receive the prior approval of the Board:

(1) Advances necessary to honor legally binding commitments, existing on or before the Effective Date to fund loans ("Commitments") or loans-in-process ("LIP"), provided that the Association complies with the requirements of Subsection (B) of this Section 2.6;

(2) Investments that qualify as Liquid Assets pursuant to Section 6 of the Home Owners' Loan Act ("HOLA"), and Part 566 of the OTS Regulations;

(3) Origination of Qualifying Mortgage Loans, as defined in Section 567.1(u) of the OTS Regulations, 12 C.F.R. §567.1(u), provided that each of the following conditions is satisfied:

(a) the Association independently verifies both the borrower's ability to repay the loan and the source of the downpayment;

(b) the interest rates offered are (i) consistent with rates offered for similar loans by other mortgage lenders in the Association's market area, and (ii) such that the loans could be sold at par to FHLMC and/or FNMA within 60 days of origination;

(c) the real property securing the loans is located within the Association's Local Community, within the meaning of Section 563e.3 of the OTS Community Reinvestment Act Regulations, 12 C.F.R. § 563e.3; and

(d) the terms and underwriting of the loans are such that the loans are "conforming" in that they satisfy the loan underwriting standards of the FHLMC or FNMA;

(4) Origination of loans to existing depositors that are fully secured by their deposits; and

(5) Fully secured home equity loans that: (i) meet the Association's loan underwriting standards, (ii) are made at market rates and terms and (iii) the aggregate indebtedness does not exceed 75% of the value of the underlying collateral property; except that the Association shall not invest in any such loans originated by a dealer, retailer or other seller of goods and services;

(6) Unsecured consumer loans that: (i) meet the Association's loan underwriting standards, (ii) are made at market rates and terms and (iii) do not exceed \$5,000 in the aggregate to any one borrower;

(7) Student loans that: (i) meet the Association's loan underwriting standards, (ii) do not exceed \$15,000 in the aggregate to any one borrower and (iii) are made only to the Association's existing customers;

(8) Advances of up to \$10,000.00 per annum to pay property taxes, insurance premiums or other similar payments that are necessary to protect the Association's first lien position with respect to real property securing a loan;

(9) Sales of home mortgage loans pursuant to legally-binding commitments calling for mandatory delivery existing as of the Effective Date;

(10) Foreclosure of any real property for which the Association has a first lien securing a loan that is in default or taking a deed in lieu of foreclosure (subject to the limitations contained in Section 2.5A(2) either directly or through a subsidiary;

(11) Disbursement of reasonable levels of funds (excluding additional development of real estate owned) necessary to repair or replace equipment or otherwise protect assets owned directly or indirectly by the Association;

(12) Commitments to sell and Sales of Repossessed Assets or Real Estate Investments owned directly or indirectly by the Association where the sales price exceeds 95% of the Recorded Investment and the Association is not providing financing to the borrower; and

(13) Loans to facilitate the sale of Real Estate Owned or Real Estate Investments of the Association or its subsidiaries so long as that any such loan does not exceed 95% of the lower of the contract sales price or the appraised value of the underlying real estate property and so long as the terms of the loan are market-based.

B. With respect to the honoring by the Association of its Commitments and LIPs, pursuant to Section 2.5, the Association shall comply with the following requirements:

(1) Prior to finalizing any Commitment or making any disbursement under an LIP, the Association shall affirmatively determine that all conditions precedent to the commitment or disbursement have been satisfied;

(2) No later than 20 days after the Effective Date, the Association shall provide the Regional Director with a list of all Commitments and LIPs existing as of the Effective Date. The list shall include the following information:

(a) Amount and type of Commitment or LIP (including whether firm or standby);

(b) Date Commitment was issued;

(c) Identity of borrower and amount of other outstanding loans or Commitments and LIPs to borrower;

(d) Type, location, and value of security property;

(e) Schedule of anticipated funding;

(f) Amount of any Commitment fee received and date of receipt; and

(g) Amount and portion of interest and fees funded by loan proceeds, if any.

(3) For any Commitment or LIP that exceeds \$500,000.00, the Association shall submit a schedule summarizing one or more written opinions from independent legal counsel setting forth the following:

(a) a statement that counsel has reviewed the terms of each such Commitment and LIP;

(b) a statement indicating that each such Commitment or LIP, in the opinion of counsel, constitutes a legally binding obligation of the Association that could be enforced in a court of law by the party to whom the Commitment or LIP is made; and

(c) a statement that, in the opinion of counsel, the honoring of such Commitment and LIP will not cause the Association to violate any laws or regulations applicable to it.

2.7 Liquidity/Borrowing Capacity

A. The Association shall at all times maintain liquid assets [as defined in Section 566.1(g) of the OTS Regulation, 12 C.F.R. § 566.1(g)] in accordance with the requirements of 12 C.F.R. Part 566.

B. The Association shall, at all times, maintain sufficient unpledged assets (giving effect to the applicable margin requirements or "haircut" requirements) that will enable it to secure advances by the Federal Home Loan Bank of New York or the Federal Reserve Bank of New York in an amount not less than 10% of total unconsolidated assets,

as reported in the most recent monthly report to the OTS (Schedule SC - Line 60). For purposes of this Section 2.7(B), "unpledged assets" may include liquid assets as defined in Section 566.1(g) of the OTS Regulations, 12 C.F.R. §566.1(g); that are used to meet the Association's liquidity requirements.

C. The Association shall immediately notify the Regional Director of any violation of this Section 2.7.

2.8 Changes in Directorate and Management of PFC and the Association

A. Each of the undersigned members of the board of directors of PFC and each of the undersigned members of the board of directors of the Association hereby resolves and agrees to resign from the Board and any Officer position at PFC and at the Association immediately upon receipt of written request therefor from the Regional Director, and each director shall so resign at such time and in such order as the Regional Director shall request.

B. The Board shall terminate from the employment of the Association, any Officer, employee or agent of the Association or any person acting in that capacity, immediately upon its receipt of a written request therefor from the Regional Director.

C. The Board and each director of the Association resolves and agrees to fill immediately any vacancy in the Board or management of the Association by electing as director or Officer a person recommended or approved by the Regional Director; and the Board shall immediately take into consideration any such recommendation by the Regional Director and take action thereon.

2.9 Changes in Directorate and Management of Subsidiaries

A. Each director of the Association who is a director or officer of a subsidiary of the Association hereby resolves and agrees to resign from the board of directors and any officer position of any subsidiary of the Association at the written request of the Regional Director, and each such director shall resign at such time and in such order as the Regional Director shall request.

B. The Board shall take any and all actions lawfully available to it to promptly cause the subsidiaries of the Association to terminate the employment of any officer, employee or agent of any subsidiary or any person acting in that capacity, upon its receipt of a written request therefor from the Regional Director.

2.10 Amendment of the Bylaws

The Board shall take any steps necessary to amend the bylaws of the Association to provide for such number of directors as the Regional Director shall recommend and/or to effect immediately the election of any person to the Board who is recommended by the Regional Director.

2.11 Third Party Contracts

A. Within 30 days of the Effective Date, the Association shall prepare and submit to the Regional Director: (i) a list of all consultants, investment bankers, attorneys, accountants and other third parties hired to provide services not usually required in the normal course of business to whom the Association or any subsidiary thereof have paid or are paying fees or who have been retained to represent the Association or any subsidiary thereof during calendar years 1991 or 1992; (ii) the amount of Compensation paid or estimated to be paid to such persons or entities during calendar years 1991 or 1992; and (iii) a brief synopsis of the services rendered. Upon the request of the Regional Director, the Association shall submit a copy of any contractual agreement which may be in effect with respect to such services.

B. The Association shall not enter into, renew, or revise any contractual or fee arrangement with any consultant, investment banker, attorney, accountant or other third party without the prior written notice of non-objection of the Regional Director. All such contracts, fee arrangements, and renewals or revisions thereof, shall comply with the requirements of Thrift Bulletin-50. Further, all requests for non-objection pursuant to this Section 2.11 similarly shall comply with Thrift Bulletin-50 and shall specify the proposed terms and requirements of the arrangement, including, but not limited to, a description of the services to be performed and the fees to be paid. Such requests shall also include an analysis by the Board that proposed fees are reasonable and commensurate with industry norms.

C. All contractual or fee arrangements between the Association or any subsidiary thereof and consultants, investment bankers, attorneys, accountants or other third parties shall require the submission of monthly invoices to the Association specifying the amounts claimed and the services provided.

2.12 Association To Use Best Efforts To Impose Restrictions/Requirements On Subsidiaries

The restrictions, limitations or requirements imposed on the Association by Sections 2.2, 2.4, 2.5, and 2.6 of this Agreement shall also require that the Association vote its shares, use its influence and otherwise use its best efforts to impose the same restriction on any subsidiary, to the extent that it affects the Association's compliance. Within 30 days of the Effective Date, the Association shall provide the Regional Director with a list of all subsidiaries. The list shall identify those subsidiaries that will not abide by the requirements, restrictions or limitations imposed by this Agreement.

2.13 Pending Litigation Schedule

A. Within 45 days of the Effective Date, the Association shall provide to the Regional Director a list of all material pending litigation ("Pending Litigation Schedule") (except for 1-4 family residential property foreclosures) involving the Association or any subsidiary thereof. The Pending Litigation Schedule, at a minimum, shall include:

- (1) the names of the parties involved;
- (2) a description of the transaction(s) which form the basis of the litigation;
- (3) the name of the law firm and attorneys representing the Association or its subsidiaries;
- (4) the status of the litigation;
- (5) the court and docket number assigned; and
- (6) if requested by the Regional Director, an estimate of the potential liability to the Association or its subsidiaries.

B. No later than the 10th Business Day of each month, the Association shall provide to the Regional Director a Pending Litigation Schedule with information updated as of the last day of the immediately preceding month.

2.14 Contingent Liabilities Schedule

A. Within 45 days of the Effective Date, the Association shall provide to the Regional Director a list of all material contingent liabilities (e.g., standby letters of credit, loans or participations sold with recourse, buy-back agreements) ("Contingent Liability Schedule") of the Association and every subsidiary thereof, except that the Contingent Liability Schedule need not address contingent liabilities described in the Pending Litigation Schedule required by Section 2.13. The Contingent Liability Schedule shall include:

- (1) the name of the parties involved;
- (2) a description of the transaction(s) which form the basis for the contingent liabilities of the Association or its subsidiaries; and
- (3) the date and the nature of the expected resolution or the termination of the contingent liability.

B. No later than the 10th Business Day of each month, the Association shall provide to the Regional Director a Contingent Liability Schedule with information updated as of the last day of the immediately preceding month.

2.15 Revised Capital Plan

No later than March 10, 1992, the Association shall submit a revised Capital Plan ("CP"), prepared by management and approved by the Board, to achieve compliance with the minimum capital requirements contained in Part 567 of the OTS Regulations. The CP, at a minimum, shall address each of the factors contained in Section 5(t)(6) of the Home Owners' Loan Act ("HOLA"), and otherwise comply with OTS Thrift Bulletin 36a and should give full consideration to a reduction in the overall operating expenses of the Association.

2.16 Liquidity Contingency Plan

No later than 45 days of the Effective Date, the Association shall submit a Liquidity Contingency Plan ("LCP"), prepared by management and approved by the Board, showing, in the event the CP is denied, how the Association will achieve within 30 days of such denial, and thereafter maintain at all times, sufficient unpledged assets (giving effect to the applicable margin requirements or "haircut" requirements) that will enable it to secure advances by the Federal Home Loan Bank of New York or the Federal Reserve Bank of New York, or borrowings through reverse repurchase agreements, in an aggregate amount not less than 15% of total unconsolidated assets, as reported in the most recent monthly report to the OTS (Schedule SC - Line 60). For purposes of this Section 2.16, "unpledged assets" shall include liquid assets as defined in Section 566.1(g) of the OTS Regulations, 12 C.F.R. 566.1(g).

2.17 Pricing of Deposit Products

A. The Association shall price its deposit products in a manner designed to gradually reduce and eventually eliminate all deposits other than Core Deposits.

B. Within ten days of the Effective Date, the Association shall identify at least five of its major competitors for all deposit products. On each Wednesday during the term of this Agreement, the Association shall submit a pricing schedule for all deposit products to the Regional Director, showing the rates and terms that the Association currently offers compared to the rates and terms currently offered by its competitors. Upon request by the Regional Director, the Association shall adjust the rates offered on any class of deposits within 24 hours of such request.

2.18 Loan Policies and Procedures

Within 45 days of the Effective Date, the Board shall adopt and implement formal written loan administration policies and procedures which provide for a prudent and on-going credit administration and evaluation of the Association's loan and Real Estate Owned/Real Estate Investment portfolios. Said program shall ensure that the Association's loan records include loan documentation required by

Section 563.170(c) of the OTS Regulations, 12 C.F.R. §563.170(c), and, where applicable, shall contain signed and duly attested current financial statements; current operating statements; current certified rent rolls, pre-leases or lease commitments; documentation of market absorption rates, capitalization rates and discount factors utilized in appraisals; and documented analysis of such documents. Furthermore, the Board shall hire or designate a member of management, other than the president or such other person whose responsibilities would be inconsistent, as a Senior Lending Officer and the Board shall appoint a committee of outside directors to review compliance with this policy on a quarterly basis. Any deviations shall be reported to the full Board of Directors.

2.19 Appraisal Policy and Procedures

If it has not already done so, the Board, within 45 days of the Effective Date, shall adopt and implement appraisal policies and procedures ("policy"). However, before such implementation, this policy, which shall be in writing, shall be reviewed to ensure that, at a minimum, it conforms to Sections 563.170, 563.172, 564, and 571.1 of the OTS Regulations, 12 C.F.R. §§563.170, 563.172, 564, and 571.1, as well as other applicable industry appraisal standards. The policy shall include, but not be limited to, the following:

- (i) a process for the review of appraisers and appraisals;
- (ii) appraisals shall be performed by qualified outside appraisers on all loans prior to granting such loans;
- (iii) appraisals shall be performed on all real estate secured loans, real estate owned and real estate investments which are missing appraisals; and
- (iv) reasons for deviations from appraisal policies shall be reviewed, approved and documented by the Board of Directors.

The policy shall include the designation by the Board of one or more qualified individual(s) whose responsibility shall be to: (i) ensure that the Association is in compliance with the appraisal regulations; (ii) review all appraisal reports submitted to the Association on classified assets, other than owner-occupied one-to-four family residential loans; and (iii) document such review in the loan files.

2.20 Procedures for Monitoring Loans to One Borrower

No later than 45 days of the Effective Date, the Association shall develop and implement a system which shall accurately identify and monitor all loans to one borrower ("LTOB") in order to ensure compliance with the LTOB requirements of 12 C.F.R. §563.93. The system, at a minimum, shall include the following: (i) notification

procedures designed to assure that those borrowers whose loans at maturity are estimated to exceed the LTOB limits have sufficient time to obtain outside financing or to repay the loan; (ii) procedures designed to have borrowers repay a portion of their loans so as to meet LTOB limits; (iii) procedures to participate loans to other financial institutions if consistent with prudent business practices; and (iv) incorporation on internal reports of loan maturity dates.

Approval of this system by the Board shall be documented in the Board minutes. Further, the Board shall cause to be documented all of the Association's efforts to comply with LTOB limits, both generally and with regard to specific loans.

2.21 Construction Lending Policies and Procedures

No later than 45 days of the Effective Date, the Board shall adopt and implement a policy for construction lending. Approval of the policy by the Board shall be documented in the Board minutes. The policy shall, at a minimum, provide that: (i) construction loan proceeds are used only for the intended purpose and are advanced only in accordance with the plan of construction; and (ii) advances and disbursements are supported by adequate documentation, including inspection reports done upon completion of the paid for improvements and detailed invoices documenting materials provided and work performed. The Board shall designate a member of management whose responsibility shall be the review and approval of inspection reports and the Board shall further designate another member of management who shall be responsible for authorizing the release of funds after the relevant inspection report(s) shall have been approved.

2.22 Loan Modifications

In addition to the otherwise applicable notice and approval requirements of this Agreement, no Loan Modification shall be permitted until the Association shall have established written policies and procedures for Modifications to ensure that such Modifications are adequately controlled and are reviewed by the Board. Such policies and procedures shall include, at a minimum, (i) complete documentation of the terms of the Modification and the reasons for the Modification, including all records and documentation as required by Section 563.170 of the OTS Regulations, 12 C.F.R. §563.170; (ii) an adequate credit analysis of the borrower's ability to repay the loan; (iii) concurrence with such credit analysis and recommendation by a loan officer, senior in position to the person doing the credit analysis; and (iv) documentation of such analysis and concurrent review.

Further, notwithstanding the provisions of Section 2.5, the Association may not make any Modification whose purpose is to fund interest reserves through the granting of a second mortgage loan.

2.23 Asset Classification/ Internal Loan Review Policy

If it has not already done so, the Board, within 45 days of the Effective Date, shall adopt and implement a policy, which shall be in writing, that establishes an asset classification system, monitors asset quality (including REO) and provides for the maintenance of an adequate level of specific and general valuation allowances as specified by Section 563.160(d)(3) of the OTS Regulations, 12 C.F.R. §563.160(d)(3).

The policy shall ensure that all loans originated, renewed, modified, or restructured comply with all regulations and established internal policies and ensure that all loan documentation has been properly prepared, recorded and reviewed by counsel.

Furthermore, internal asset review must be performed by a person who is independent of the loan approval, origination or appraisal processes, and who will report directly to a committee comprised of outside members of the Board. Written procedures shall also be developed, including a methodology for determining and applying valuation allowances. The asset review process must be performed at least monthly. Such review shall be documented in the minutes of the committee.

2.24 Investment Policy

Within 45 days of the Effective Date, the Board shall adopt and implement a formal written investment policy which shall include the following:

- (i) a statement of the investment objectives of the Association;
- (ii) the Association's investment strategy;
- (iii) the types and levels of allowable investments;
- (iv) a listing of authorized investment brokers and/or advisors;
- (v) documentation of competitive price quotes for purchase and sales transactions;
- (vi) a program for monitoring investments; and
- (vii) an organizational structure and decision making process, with appropriate segregation of duties and responsibilities.

Notwithstanding the foregoing, the Association shall not invest in high-risk mortgage derivative products as that term is defined in Thrift Bulletin 12 and the Board must approve, prior to the Association's investment therein, the Association's investment in normal-risk derivative products.

2.25 Internal Audit Policy and Procedures

Within 45 days of the Effective Date, the Board shall adopt and implement a formal written internal audit policy that will enable the Board to effectively monitor the implementation of its policies. The internal audit function, which must be independent of management and report directly to the Board, will also assist the Board in monitoring the actions and decisions of committees and management operating under delegated authority.

2.26 Surety Bond Coverage

The Association shall diligently attempt to obtain Surety Bond coverage in a form and amount consistent with Section 563.190 of the OTS Regulations, 12 C.F.R. §563.190. The Association shall document all such attempts to obtain the required coverage.

2.27 FDIC Filings

The Association shall provide copies to the Regional Director for review by OTS of all filings submitted to the Federal Deposit Insurance Corporation pursuant to Section 303.13 of the FDIC Regulations, 12 C.F.R. §303.13.

SECTION 3 -- COMPLIANCE WITH THIS AGREEMENT

3.1 Board Review of Compliance with Agreement

(a) The Board shall take immediate action for the purpose of causing the Association to comply with this Agreement.

(b) The Board, on a monthly basis, shall adopt a Board Resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist; (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption; and (iii) identify each Director voting in opposition to or abstaining from its adoption.

(c) The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each Director voting in favor of its adoption; (ii) the identity of each Director voting in opposition to its adoption; and (iii) the identity of each Director abstaining from voting thereon.

(d) No later than the 25th Business Day of the month following the end of a calendar quarter, beginning with the end of the first calendar quarter following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolutions adopted at the Board meeting of the month for such calendar quarter. The Board by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more Directors do not agree with the representations set forth in a Compliance Resolution such disagreement shall be noted in the minutes of the Association.

(e) Notwithstanding that certain provisions of this Agreement require the Board to submit various matters to the Regional Director for the purpose of receiving approval, notice of acceptability or non-objection, such regulatory oversight does not derogate or supplant the fiduciary duties owed by the members of the Board. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times.

SECTION 4 -- DEFINITIONS AND MISCELLANEOUS PROVISIONS

4.01 Definitions

A. For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (1) the terms used in this Agreement have the meanings assigned to them in this Section 4.01 and include the plural as well as the singular; (2) all accounting terms not otherwise defined have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, except that if such terms are defined in the Rules and Regulations of the OTS, such regulatory definitions shall be controlling; (3) all terms not otherwise defined herein that are defined in the HOLA, the FDIA or the Rules and Regulations of the OTS or its publicly available Bulletins and Advisory Memoranda shall have the meanings assigned to them in such statutes, Rules and Regulations, Bulletins, and Advisory Memoranda; and (4) all technical words or terms not subject to a definition in this Agreement shall have the meanings that accord with the best custom and usage in the thrift and banking industries.

"Board" shall mean the Board of Directors of the Association.

"Board Resolution" means a resolution duly adopted by the Board present at a duly called and held meeting of the Board (or a Committee thereof) at which a quorum was present.

"Business Day" means any weekday excluding Federal holidays.

"Compensation" means: (i) the amount of taxable compensation reportable in accordance with the Internal Revenue Code of 1986 as amended; (ii) salary reduction amounts set aside under any qualified employee benefit plan established under Sections 401(k) or 125 of the Internal Revenue Code; and (iii) other amounts deferred under any non-qualified deferred compensation plan, to the extent that such amounts are paid, set aside, or deferred by the Association or any majority-owned subsidiary thereof.

"Equity Security or Equity Securities" shall have the meaning set forth in Section 303.13(a)(6) of the FDIA, 12 C.F.R. § 303.13(a)(6).

"FDIA" means the Federal Deposit Insurance Act, as amended.

"FHLMC" refers to the Federal Home Loan Mortgage Corporation.

"FIRREA" means the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183.

"FNMA" refers to the Federal National Mortgage Association.

"HOLA" means the Home Owners' Loan Act, as amended, 12 U.S.C. §§ 1461 et seq.

"Make" means (i) in the context of making a loan, to enter into a binding obligation (whether or not memorialized in writing) to provide loan funds; and (ii) the obtaining of a lender's interest in a pre-existing debt whether through a purchase, swap, or otherwise.

"Officer" shall have the meaning set forth in Section 561.35 of the OTS Regulations, 12 C.F.R. § 561.35.

"OTS" refers to the Office of Thrift Supervision, United States Department of the Treasury, or its successor.

"Recorded Investment" means an asset's unpaid principal loan or investment balance, less any specific reserves or chargeoffs taken against such asset, plus capitalized accrued interest, plus or minus related discounts or premiums, but does not include general valuation allowances. In the case of real-estate owned or real estate investment, "Recorded Investment" includes, in addition to the above, any capitalized costs.

"Regional Director" or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, and refers to the Regional Director of the Northeast region of OTS. All references to the Regional Director shall include the Regional Director and/or his designee(s).

"Repossessed Asset" means any property acquired by the Association through exercise of its rights with respect to collateral securing a loan.

"Savings Association" shall have the meaning set forth in Section 2(4) of the HOLA, 12 U.S.C. § 1462(4).

"Security or Securities" shall have the meaning set forth in Section 561.44 of the OTS Regulations, 12 C.F.R. § 561.44.

"Set" means a group of loans, participations, investments, securities or other assets related by being sold, pledged to, purchased from, or exchanged with any person as defined in 12 C.F.R. § 32.2(b).

"State" means the State of New Jersey.

"Subsidiary" or "subsidiaries" shall have the meaning set forth in Section 567.1(dd) of the OTS Regulations, 12 C.F.R. §567.1(dd), and subsidiaries of such entities.

"Total Assets" shall have the meaning set forth in Section 567.1(ff) of the OTS Regulations, 12 C.F.R. §567.1(ff).

B. The words "herein", "hereof", and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Part, Section, or other subdivision, unless the context otherwise requires.

4.02 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.

4.03 Modification

This Agreement may not be amended except by a written modification agreement duly executed by the parties hereto.

4.04 Notices

A. Except as otherwise noted, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

(1) the OTS by the Association shall be sufficient for every purpose hereunder if in writing and mailed, first class or airmail postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 10 Exchange Place, 18th Floor, Jersey City, New Jersey 07302 or telecopied to (201) 413-7543 and confirmed by mail, first class or airmail postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(2) the Association by the OTS shall be sufficient for every purpose hereunder if in writing and mailed, first class or airmail postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 730 River Road, New Milford, New Jersey 07646 or telecopied to (201) 967-9417 and confirmed by mail, first class or airmail postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

4.05 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 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.

4.06 Duration, Termination or Suspension of Agreement

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 may suspend, in his or her sole discretion, any or all provisions of this Agreement.

4.07 Effect of Headings

The Section headings herein are for convenience only and shall not affect the construction hereof.

4.08 Separability Clause

In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

4.09 No Violations of Law, Rule, Regulation or Policy Statement Authorized

(a) Nothing in this Agreement shall be construed as allowing the Association to violate any Federal or State law, rule, regulation, or policy statement to which it is subject.

(b) As an Association chartered under State law and subject to regulation and supervision by a State regulatory authority, the Association may be subject to various restrictions imposed by the appropriate State regulatory authority. The Association must continue to comply with any such restrictions, notwithstanding the receipt by the Association of authorizations or notices of non-objection of the Regional Director, except to the extent that such restrictions have been deemed to be pre-empted by Federal law.

4.10 Signature of Directors

Each director, by signing this Agreement, attests that s/he voted positively in favor of the Board Resolution authorizing the execution of the Agreement by the Association.

4.11 Enforceability of Agreement

The Association 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 Association. It is understood and agreed that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. § 1818.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Association, in accordance with a duly adopted resolution of its Board of Directors (copy attached hereto as Appendix I), hereby execute this Agreement as of the date first above written.

OFFICE OF THRIFT SUPERVISION

By:

151

Name: John C. Griffin
Title: Assistant Director

THE ASSOCIATION

By:

151

Name: _____
Chief Executive Officer:

THE DIRECTORS OF THE ASSOCIATION

Director

Director

Director

Director

Director

Director

Director 151

Director 151

Director 151

Director 151

THE DIRECTORS OF PFC

Director

Director 151

Director

Director

Director

Director

Director 151

Director 151

Director 151

Director 151

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Association, in accordance with a duly adopted resolution of its Board of Directors (copy attached hereto as Appendix I), hereby execute this Agreement as of the date first above written.

OFFICE OF THRIFT SUPERVISION

By:

John C. Griffin

Name: *John C. Griffin*
Title: *Assistant Director*

THE ASSOCIATION

By:

Name: _____
Chief Executive Officer:

THE DIRECTORS OF THE ASSOCIATION

751
Director _____

THE DIRECTORS OF PFC

751
Director _____

CERTIFICATE OF SECRETARY
OF
POLIFLY SAVINGS AND LOAN ASSOCIATION

I, Sandy L. Coulthart, DO HEREBY CERTIFY AS FOLLOWS:

1. I am the duly appointed Secretary of Polifly Savings and Loan Association, New Milford, New Jersey (the "Association").
2. A duly called meeting of the Board of Directors of the Association was held on January 30, 1992.
3. At that meeting, at which a quorum was present and voting throughout, the following resolutions, which have not been rescinded or modified and which are presently in full force and effect, were adopted by the affirmative vote of at least a majority of the Directors:

WHEREAS, all of the Directors present have read and considered the proposed Supervisory Agreement (the "Agreement") between the Association and the Office of Thrift Supervision, an Office of the United States Department of the Treasury, a copy of which is attached to the minutes of this meeting; and

WHEREAS, it is in the best interest of the Association to enter into the Agreement;

NOW, THEREFORE, BE IT RESOLVED, that the Agreement is hereby adopted and approved and the Directors of the Association are hereby authorized and directed to execute the Agreement on behalf of the Association.

FURTHER RESOLVED, that the officers and employees of the Association are authorized and directed to take all necessary and appropriate action to implement immediately the terms of the Agreement and to cause the Association to comply with such Agreement.

4. All members of the Board of Directors were present in person or by telephone and voted at the meeting (except Mr. Nicola Biase and Mr. J. Wallace LaPrade) and all members of the Board of Directors (except Mr. Nicola Biase and Mr. J. Wallace LaPrade) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Association on this 30 day of January, 1992.

151

Name: Sandy L. Coulthart
Title: Vice President and Secretary

CERTIFICATE OF SECRETARY
OF
POLIFLY FINANCIAL CORPORATION

I, Sandy L. Coulthart, DO HEREBY CERTIFY AS FOLLOWS:

1. I am the duly appointed Secretary of Polifly Financial Corporation, New Milford, New Jersey ("PFC").
2. A duly called meeting of the Board of Directors of PFC was held on January 30, 1992.
3. At that meeting, at which a quorum was present and voting throughout, the following resolutions, which have not been rescinded or modified and which are presently in full force and effect, were adopted by the affirmative vote of at least a majority of the Directors:

WHEREAS, all of the Directors present have read and considered the proposed Supervisory Agreement (the "Agreement") between the Association and the Office of Thrift Supervision, an Office of the United States Department of the Treasury, a copy of which is attached to the minutes of this meeting; and

WHEREAS, it is in the best interest of the Association to enter into the Agreement;

NOW, THEREFORE, BE IT RESOLVED, that the Agreement is hereby adopted and approved and the Directors of the Association are hereby authorized and directed to execute the Agreement on behalf of the Association.

FURTHER RESOLVED, that the officers and employees of PFC are authorized and directed to take all necessary and appropriate action to implement immediately the terms of the Agreement and to cause PFC to comply with such Agreement to the extent that the Agreement is applicable to, or otherwise regulates, affects, or governs, PFC.

4. All members of the Board of Directors were present in person or by telephone and voted at the meeting (except Mr. Nicola Biase and Mr. J. Wallace LaPrade) and all members of the Board of Directors (except Mr. Nicola Biase and Mr. J. Wallace LaPrade) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Association on this 30 day of January, 1992.

151

Name: Sandy L. Coulthart
Title: Vice President and Secretary