

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 30th day of June, 1992 (the "Effective Date"), by and between Pamrapo Savings Bank, SLA (the "Association"), a state chartered stock association, having its main office located at 611 Avenue C, Bayonne, New Jersey 07002, 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 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 have resulted in violations of certain regulations to which the Association is subject; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of 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 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 they have 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.

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:

I. COMPLIANCE WITH REGULATIONS

1.1. The Association shall comply with the following Federal regulations:

(a). Section 563.43(b) of the OTS Regulations, 12 C.F.R. § 563.43(b) (regarding loans to Affiliated Persons);

(b). Section 563.170(c) of the OTS Regulations, 12 C.F.R. § 563.170(c) (regarding establishment and maintenance of records);

(c). Section 563.172 of the OTS Regulations, 12 C.F.R. § 563.172 (regarding re-evaluation of assets; adjustment of book value; adjustment charges);

(d). Subsection 563.176(e) of the OTS Regulations, 12 C.F.R. § 563.176(e) (regarding Board review of interest rate risk management).

(e). Subsections 564.4, 12 C.F.R. § 564.4 (regarding appraisal standards and 564.8(c)(3) of the OTS Regulations, 12 C.F.R. § 564.8(c)(3) (regarding management review of appraisals) and

(f). Subsection 566.4(b) of the OTS Regulations, 12 C.F.R. § 566.4(b) (regarding records verifying liquidity compliance).

(g). Subsection 11(b)(1) of the HOLA, 12 U.S.C. § 1468(B)(1).¹

1.2. The requirements set forth in Section 1.1 that the Association conduct its business in conformity with the requirements of the Federal regulations set forth therein shall not be construed as an authorization for the Association to engage in any activities permitted by said regulations. Furthermore, to the extent that it is lawful for the Association or its Affiliates to engage in such activities, they shall be subject to any stricter restrictions, limitations and requirements set forth in this Agreement.

1. Subsection 11(b)(1) of the HOLA makes Section 22(h) of the Federal Reserve Act (the "FRA"), 12 U.S.C. § 375b (regarding loans to officers, directors and principal shareholders), applicable to savings associations in the same manner and to the same extent as if the savings association were a member bank. The Board of Governors of the Federal Reserve System (the "Federal Reserve Board") promulgated Regulation O, 12 C.F.R. § 215.4, to implement Section 22(h) with respect to member banks. The OTS has advised savings associations to look to both Section 22(h) and Regulation O for guidance. See OTS Thrift Bulletin 31-8, Part IV, 2d ¶.

II. CORRECTIVE PROVISIONS

2.1. Transactions with Affiliated Persons.

(a). Prohibition. As of the Effective Date, the Association shall not engage in any transactions (including without limitation any extensions of credit) with an Affiliated Person (as defined in Section 4.1 of this Agreement), unless any such transaction is on terms and under circumstances, including credit standards, that are substantially the same or at least as favorable to the Association as those prevailing at the time for comparable transactions with or involving nonaffiliated persons. The Association must maintain adequate records that demonstrate that the terms and circumstances of any transaction with an Affiliated Person complies with the arms-length standards set forth herein. The requirements contained in this subsection 2.1(a) are in addition to and in no way are a substitute for any applicable laws or regulations, including without limitation Section 22(h) of the FRA, the Federal Reserve Board's Regulation O and Section 563.43 of the OTS Regulations.

(b). Deferred Board Fees. As of the Effective Date, the Board shall ensure that any interest paid in connection with fees payable to members of the Board shall be at a rate not to exceed the highest rate of interest paid by the Association on publicly offered certificates of deposit having a maturity of one year or less.

2.2. Appraisals.

(a). Appraisal Reports. As of the Effective Date, the Association shall comply with the requirements of Part 564 of the OTS Regulations, 12 C.F.R. Part 564.

(b). Board Action. No later than 30 Business Days after the Effective Date, the Board shall (i) review the appraisal policy of the Association for compliance with Part 564 of the OTS Regulations and make any necessary revisions, (ii) immediately discontinue making payments for appraisals that do not comply with such requirements; (iii) ratify an appraisal policy that fully complies with Part 564, (iv) establish the necessary procedures and controls to ensure that management implements the appraisal policy and (v) ensure that a qualified employee of the Association, which may be an existing employee of the Association, reviews appraisal reports in compliance with subsection 564.8(c)(3) and require documentation of such review and its conclusions.

2.3. Executive Committee. As of the Effective Date, the Board shall cease paying any fees in connection with meetings of the executive committee of the Board until it establishes a policy that sets a reasonable fee schedule and guidelines for when meetings of the executive committee are necessary.

2.4. Interest-Only Loans. The Association shall cease originating any nonamortizing loans until the Board adopts an adequate policy that (i) sets forth the underwriting criteria that must be satisfied before such loans are made and identifies and describes the necessary procedures, documentation and controls that ensure implementation of the policy and (ii) establishes procedures and controls that ensure implementation of the policy.

2.5. Board Minutes. As of the Effective Date, the Board shall ensure that (i) written minutes are made for all meetings of the Board and any committee thereof and be available for review and ratification by the Board no later than the next regularly scheduled Board meeting, (ii) the minutes of the Board shall record (A) Board approval for all actions taken by the Board or any committee thereof, (B) the annual review and approval of all employment contracts of the Association, (C) at least quarterly review of the interest rate risk management policy of the Association in accordance with subsection 563.176(e) of the OTS Regulations and (D) the annual review and approval of the business plan and budget of the Association, such that deficiencies noted on pages 15-16 of the examination report are corrected and (iii) the meetings and minutes of the Board are otherwise consistent with safe and sound banking practices and the fiduciary obligations of the Board.

2.6. Loan Documentation. As of the Effective Date, the Board shall ensure that the Association complies with subsection 563.170(c) of the OTS Regulations, including without limitation with respect to underwriting standards and loan documentation. In particular, but without in any way limiting the foregoing, the Association shall maintain adequate documentation for its consumer, multi-family and commercial real estate loans with respect to title searches and title policies, loan applications, inspection reports, loan approvals, operating statements and evaluation of the borrower's ability to repay the loan.

2.7. Asset Review/GVA Policies.

(a). Asset Review and Classification Policy. No later than 30 Business Days after the Effective Date, the Association must revise and the Board must approve, the written asset review policy in accordance with Section 563.160 of the OTS Regulations and Thrift Bulletin 3 (Internal Loan Review). The policy should describe specifically the classification categories, the scope and frequency of review and require net realizable value or fair market value calculations to support the carrying value of problem assets. The personnel responsible for asset review (i) must be qualified, (ii) must be independent of the lending function and (iii) shall report directly to the Board and shall submit reports concerning asset review at least quarterly to the Board.

(b). GVA Policy. No later than 30 Business Days after the Effective Date, the Board shall adopt a written policy relating to general valuation allowances ("GVAs") to include procedures for creating appropriate levels of GVAs for classified and unclassified assets, which should be coordinated with the classification policy of the Association and should reflect an analysis by the Association of its recent loan loss experience, the quality of its underwriting practices, the effectiveness of its collection policies and of current and anticipated economic trends. The policy should include the assignment of one qualified individual to monitor the adequacy of the GVAs and to report at least quarterly to management and the Board. In connection with its quarterly review of such report, the Board also must review the adequacy of the policies and procedures governing the GVAs.

2.8. Interest Rate Risk Management. No later than 30 Business Days after the Effective Date, the Board shall revise the interest rate risk management policy of the Association to fully comply with Section 563.176 of the OTS Regulations, 12 C.F.R. § 563.176. Such policy shall contain interest rate risk exposure limitations based on the market value of portfolio equity and net interest income. The policy shall establish procedures for the monitoring by management and the Board of the interest rate risk exposure of the Association. The Board and management must implement such procedures to ensure the adequate monitoring and analysis of the Association's exposure to interest rate risk. In addition, the policy shall require that on at least a quarterly basis management must report to the Board its assessment of the Association's interest rate risk exposure and its compliance with the policy.

III. BOARD OF DIRECTORS

3.1. Compliance with Agreement.

(a). The Board and the Officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of 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, which reports the Board may reasonably ~~reply~~ rely upon), 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 how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of 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; and (ii) the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

(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 each month in 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.

3.2. Director Responsibility.

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times.

3.3. Duty of Care.

Each member of the Board, as part of the performance of his or her duty of care, shall become familiar with the contents of the Director Information Guidelines, published by OTS in December 1989 and shall obtain and consider the kinds of information set forth therein that is applicable to the performance of his or her duties as a Director of the Association.

IV. MISCELLANEOUS

4.1. Definitions:

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms used in this Agreement have the meanings assigned to them in this Part IV and include the plural as well as the singular; (b) 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; (c) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, FIRREA, 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 (d) 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.

"Advisory Memoranda" refers to inter alia, R Memoranda and T Memoranda issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Affiliate" shall have the meaning set forth in subsection 563.41(b)(1) of the OTS Regulations, 12 C.F.R. § 563.41(b)(1).

"Affiliated Person" shall mean (i) "affiliated person" as that term is defined in Section 561.5 of the OTS Regulations, except that the term "immediate family," as defined in Section 561.24 of the OTS Regulations and as used in Section 561.5, shall include all members of the immediate family of an Affiliated Person and not be limited to members of the immediate family of an Affiliated Person "who have the same home as such person" as provided for in subsection 561.5(c) of the OTS Regulations, (ii) to the extent not already included in clause (i) of this definition, (ii) "principal shareholder" as that term is defined in subsection 215.2(j) of Regulation O and (iii) to the extent not already included in clause (i) of this definition, "related interest" as that term is defined in subsection 215.2(k) of Regulation O.

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

"Bulletins" refers to, inter alia, Regulatory Bulletins, Thrift Bulletins, and PA Bulletins, issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Business Day" means any weekday excluding Federal holidays.

"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.

"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) in the context of a pre-existing debt, to obtain a lender's interest 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.

"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).

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

4.2. Successor Statutes, Regulations, Guidance, Amendments.

References 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.

4.3. Notices.

(a). Except as otherwise provided herein, 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, 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, Jersey City, New Jersey 07302 or telecopied to (201)413-7543 and confirmed by first class mail, 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, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 611 Avenue C, Bayonne, New Jersey 07002 or telecopied to (201)437-9520, Attention: William Campbell and confirmed by first class mail, 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.

4.4. Duration, Termination or Suspension of Agreement.

(a). This Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

(b). The Regional Director or his designee, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

4.5. Effect of Headings.

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

4.6. Separability Clause.

In case any provision in this Agreement is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby.

4.7. No Violations of Law, Rule, Regulation or Policy Statement Authorized.

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

4.8. 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.

4.9. Signature of Directors.

Each Director signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

4.10. 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. The Association acknowledges 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 (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

By

151
Name: Robert C. Albanese
Title: Regional Deputy Director

THE ASSOCIATION

By:

151
Name: _____
Chief Executive Officer

DIRECTORS OF THE ASSOCIATION

151
Director

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Director

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Director

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Director

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Director

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Director

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Director

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of Pamrapo Savings Bank, SLA ("Association") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on June 30, 1992;

2. At said meeting a quorum was present and voting throughout;

3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have 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; and

WHEREAS, the Directors of the Association have read and considered the proposed Supervisory Agreement ("Agreement") which shall be attached to the minutes of this meeting; and

WHEREAS, after due consideration, the Directors of the Association have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of, the Agreement, be and they hereby, are authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Association be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Association to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except Samuel Levis) and all members of the Board of Directors (except see below) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of the Association on this 30th day of June, 1991.

JS/
Name: Margaret Russo
Title: Secretary

(SEAL)

Donald R. Kennedy chose not to sign this agreement and simultaneously tendered his resignation.