

SUPERVISORY AGREEMENT

OTS Docket No.: 06509

This Supervisory Agreement ("Agreement") is made, as of October 21, 2004 (the "Effective Date"), by and among **PONCE DE LEON FEDERAL BANK** (the "Bank", OTS Docket No. 06509), a federally chartered mutual savings association having its main office located at 2244 Westchester Avenue, Bronx, New York 10462, and the **OFFICE OF THRIFT SUPERVISION** ("OTS"), an office within the United States Department of the Treasury, which is acting through its Northeast Regional Director or his designee ("Regional Director") and has its Northeast Regional Office located at Harborside Financial Center Plaza Five, Suite 1600, Jersey City, New Jersey 07311.

WHEREAS, the OTS is the primary federal regulator of the Bank pursuant to the Home Owners' Loan Act ("HOLA"), 12 U.S.C. §§ 1461 *et seq.*, and is the Bank's appropriate Federal banking agency for purposes of the Federal Deposit Insurance Act ("FDI Act"), 12 U.S.C. §§ 1811 *et seq.*;¹ and

WHEREAS, based on the findings set out in the Report of Examination for the regulatory examination of the Bank that was started on May 10, 2004 (the "Report of Examination"), the OTS is of the opinion that the Bank has violated regulations and engaged in acts and practices that are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Bank; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Bank will comply with applicable laws and regulations and engage in safe and sound practices; and

WHEREAS, the Bank, acting through its Board of Directors (the "Board"), without admitting or denying any unsafe and unsound practices or regulatory violations, wishes to cooperate with the OTS and to evidence its commitment to operate prudently and to comply with all applicable laws and regulations.

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

¹ All references herein to the United States Code (U.S.C.) and the Code of Federal Regulations (C.F.R.) are as amended, unless otherwise indicated.

PART I

1.01. **Compliance with Laws and Regulations.** The Bank shall comply fully with the following laws and regulations:

- (a) 12 C.F.R. § 560.93 (concerning lending limitations/loans-to-one-borrower limits);
- (b) 12 C.F.R. § 560.101 (concerning loan underwriting, monitoring and administration);
- (c) 12 C.F.R. § 560.160 (concerning evaluation and classification of assets; valuation allowances); and
- (d) 12 C.F.R. § 560.170 (concerning records for lending transactions, including records demonstrating appropriate administration and monitoring of loans).

1.02. **Bank Staff and Management Enhancement.**

(a) By January 31, 2005 (or such later date as may be allowed by the Regional Director), the Bank shall take all appropriate actions to hire three qualified individuals as follows: (i) a person who will be responsible for the day-to-day implementation of the asset-quality-and-classification and internal-asset-review programs required by Paragraphs 1.06 and 1.07 of this Agreement, (ii) a person who will be responsible for the day-to-day implementation of the Bank's loan/credit administration program, and (iii) a person who shall be responsible for providing day-to-day assistance to the Bank's officers in connection with the implementation of the Internal Controls and Risk Management System required by Paragraph 1.09 of this Agreement. To be eligible to be hired as for the aforementioned positions, the candidates, among other things, must: (i) have a demonstrated successful record of serving in appropriate and related positions in the banking/thrift industry; and (ii) possess appropriate background, experience and skill sets relative to the positions to be filled.

(b) The Bank shall establish a Search Committee, and the Search Committee shall adopt and implement a written plan (with specified action items and deadlines) for the prompt hiring of qualified individuals to fill the positions identified in subparagraph 1.02(a) (above). The Search Committee shall maintain minutes of its meetings and conduct its business no less than two times per month until the Bank has hired qualified individuals to fill each of the positions. Until the Bank has hired qualified individuals to fill each of the positions, the Search Committee shall report to the Board, at each Board meeting, updating the Board on the Committee's actions and progress.

(c) By the last business day of each month until the Bank has hired qualified individuals to fill each of the three positions, the Bank's Board (or the Search Committee) shall submit to the

OTS a written status report detailing the Bank's efforts and progress in hiring qualified individuals to fill the positions.

(d) The Bank's actions related to the hiring of any persons deemed to be a "senior executive officer" (within the meaning of 12 C.F.R. § 563.555) shall be consistent with the restrictions and requirements imposed by Paragraphs 2.02, 2.03, and 2.04 of this Agreement.

1.03. Business Plan and Budget.

(a) The Bank shall develop, adopt and implement an appropriate written 3-year Business Plan and Budget for the Years 2005, 2006 and 2007 ("Business Plan") that: (i) will serve as a blueprint to guide future operations of the Bank in a safe and sound manner and (ii) is acceptable to the OTS. The objective and guiding principle of the Business Plan shall be to provide for the Bank to be supported by capital levels commensurate with the risks of the Bank's operations and the composition of its balance sheet. In developing the Business Plan the Bank's management and Board also should be guided by Section II.H of Appendix A to the Safety and Soundness Guidelines at 12 C.F.R. Part 570, which states that "institutions should establish and maintain a system that is commensurate with the institution's size and nature and scope of its operations to evaluate and monitor earnings and ensure that earnings are sufficient to maintain adequate capital and reserves."

(b) To be acceptable to the OTS, the Business Plan, at a minimum, must incorporate the following elements and considerations:

- (i) Pro Forma Financial Statements setting out quarterly projected (A) Balance Sheets, (B) Income Statements and (C) Regulatory Capital Schedule for each quarter of the 3-year period. These projections shall be prepared in a manner consistent with the Thrift Financial Report so that projected items may be conveniently compared with actual performance. In particular, the projections shall be prepared in the format and according to the financial projection instructions set out in Section 625 of the OTS Applications Handbook, and such projections must include the following:
 - o Form 1 - Balance Sheet;
 - o Form 2 - Income Statement;
 - o Form 4 - Table of Regulatory Capital Levels;
 - o Form 5 - Table of Loan Origination Levels;
 - o Form 6 - Interest Rate Assumptions for New Production; and
 - o Table Concerning Loans Other than 1-to-4 Family Residential Loans (with projected data for each quarter of the covered 3 years) that provides the following data (for each quarter) in the form set out below:

Table Concerning Loans Other than 1-to-4 Family Residential Loans		
TFR Item #	Description	Projected Balance (\$ in Thousands)
SUB 0100	Construction Loans, Total	\$
SC 256	Multifamily (5 or more) Dwelling Units	\$
SC 260	Nonresidential Property Loans	\$
SC 265	Land Loans	\$
SC 32	Commercial Loans - Total	\$
SC 326	Consumer Loans - Total	\$
	Sum of Above Balances	\$
CCR 220	Dollar Amount of Tier 1 Core Capital	
	RATIO OF ABOVE SUM TO TIER 1 CAPITAL (%)	%

- (ii) Target regulatory capital ratios in the above-required pro forma financial statements shall provide for the Bank's regulatory capital ratios to exceed the ratios required for a "well capitalized" designation, pursuant to 12 C.F.R § 565.4, and shall be commensurate with the risk level of the Bank's activities and balance sheet. In formulating the target capital ratios, the Bank shall consider the views about capital adequacy set out in the Report of Examination. In addition, the Business Plan's discussion of the target capital ratios shall, at a minimum, address and consider: (1) the Bank's current and future capital requirements; (2) risks related to the composition of the Bank's balance sheet (including consideration of the level of loans other than 1-to-4 family residential mortgage loans, loans in excess of supervisory loan-to-value limits, asset concentrations, and liquidity levels); (3) the risks related to the Bank's various types of lending activities; (4) the volume of adversely classified assets; and (5) the Bank's anticipated level of retained earnings.
- (iii) A detailed description of all activities (including but not limited to loan programs), and risks attendant to such activities, that the Bank intends to engage in during the term of the Business Plan.
- (iv) The requirement that, on a quarterly basis, the Board review and evaluate the Bank's actual performance as compared to the projections in the Business Plan. Significant variances shall be analyzed and explained along with a specific description of the measures that have been implemented or proposed to correct or abate such variances, including when necessary, adjustments to the Business Plan or of its underlying assumptions. All such reviews shall be documented in the minutes of the Board.
- (v) The requirement that, within 45 days of each quarter-end, the Bank will submit to the OTS a written quarterly variance report (using quarter-end Thrift Financial Report ("TFR") data) that is based on the performance review required by item (iv) above. Among other things, the quarterly variance report shall include an analysis of the change in the Bank's level of loans and the ratio identified in the above-described Table Concerning Loans Other than 1-to-4 Family Residential Loans, which compares actual to projected levels.

- (vi) Board review, no less than annually, of the Business Plan and the Bank's performance thereunder to determine whether revisions are warranted to reflect, among other things, changes in interest rates or market conditions and, if so, the Business Plan shall be revised accordingly. Any actions taken by the Board, including the review, shall be documented in the Board's minutes.
 - (vii) An express written provision providing that any revisions to the Business Plan shall require prior written notice to, and an opportunity for comment by, the OTS.
- (c) The Bank's Board must participate in the formulation of the Business Plan and must approve it by formal action at a duly called and held meeting.
- (d) By December 15, 2004 (or such later date as may be permitted in writing by the OTS), whichever occurs first, the Bank shall submit to the OTS its proposed 3-year Business Plan.
- (e) Within 30 days after receiving the Bank's proposed Business Plan, the OTS will provide written notice to the Bank of whether the Business Plan has been found acceptable or seek additional information (and/or revisions) regarding the plan. The Bank shall commence implementation of the Business Plan immediately upon its receipt from the OTS of written notice of the acceptability of the Business Plan ("Approved Business Plan", which term includes any such plan that is subsequently amended with written approval of the OTS).
- (f) The Bank will be deemed to be in violation, and in breach, of this Agreement if, without prior written clearance from the OTS: (i) if the Bank's regulatory capital ratios (as reported in a TFR or as otherwise determined by the OTS) are materially below the projected levels set out in an Approved Business Plan, (ii) if the composition of the Bank's assets (as reported in a TFR or as otherwise determined by the OTS) is materially different (by amounts, in dollars, of categories of assets or otherwise) from that projected in an Approved Business Plan, (iii) if the Bank's asset size materially exceeds the amounts contemplated by an Approved Business Plan, or (iv) if the Bank engages in any material respect in operations not contemplated by an Approved Business Plan.
- (g) The Bank may, after prior written notice to and approval by the OTS, amend an Approved Business Plan to reflect a change in circumstance. Until such time as a proposed amendment has been approved, the Bank shall not engage in activities not contemplated by the then outstanding and effective Approved Business Plan.

1.04. No Erosion of Capital Levels Permitted.

Except with the prior written non-objection of the OTS's Regional Director, the Bank shall not permit its leverage capital ratio to drop below 7.00 percent, and it shall not permit its total risk-based capital ratio to drop below 11.00 percent. The Bank shall take appropriate actions to enhance its capital ratios through implementation of a Business Plan found non-objectionable by OTS, which plan is required by Paragraph 1.03 of this Agreement.

1.05. Loan Portfolio Management, Loan Underwriting, Documentation, & Administration.

(a) Portfolio Management. The Bank shall manage its loan portfolio in a safe and sound manner. The Bank, by December 31, 2004, shall adopt and shall commence implementation of amendments to its loan portfolio management policies and procedures ("Portfolio Management Policies") so that the amended Portfolio Management Policies, at a minimum, conform to the standards relating to loan portfolio management that are set out in 12 C.F.R. § 560.101 (including the Appendix thereto) and the OTS's Thrift Activities Handbook (*e.g.*, Sections 210 – 212) as well as the comments provided to the Bank in Reports of Examination. As appropriate for the types of loans offered by the Bank (secured/unsecured, etc.), the amended Portfolio Management Policies, among other things, must:

- (i) Identify the geographic areas in which the Bank will lend;
- (ii) Establish a loan portfolio diversification policy that, *inter alia*, sets quantitative limits on higher risk loans;
- (iii) Identify appropriate terms and conditions by type (and sub-type) of loan;
- (iv) Establish loan origination and approval procedures, both generally and by size and type of loan;
- (v) Establish review and approval procedures for exception loans;
- (vi) Establish the maximum loan amount by type of property;
- (vii) Establish maximum loan maturities by type of property;
- (viii) Identify amortization and/or duration terms of available loans;
- (ix) Establish the pricing structure for different types of loans;
- (x) Designate loan-to-value limits by type of property (with respect to secured loans);
- (xi) Reflect appropriate consideration of concentration of credit risk; and
- (xii) Require that management monitor the loan portfolio and provide timely and accurate reports to the board of directors.

(b) Underwriting. The Bank shall underwrite the loans it originates and/or purchases in a safe and sound manner. The Bank, by December 31, 2004, shall adopt, and the Bank shall implement, amendments to its written credit underwriting policies and procedures ("Underwriting Policies") so that the amended Underwriting Policies, at a minimum, conform to the standards relating to credit underwriting that are set out in 12 C.F.R. § 560.101 (including the Appendix thereto) and Section 210 of the OTS's Thrift Activities Handbook as well as the comments provided to the Bank in Reports of Examination. The amended Underwriting Policies shall address each and every type of loan that the Bank originates (or purchases), and such policies must provide for prudent credit underwriting practices that provide for consideration (including documentation of such consideration) of all credit and risk relevant factors, including but not limited to the following (where applicable):

- (i) The capacity of the borrower and/or income from the underlying security property to adequately service the debt;
- (ii) The value of the property to be mortgaged;
- (iii) The overall creditworthiness of the borrower, by providing for consideration, prior to credit commitment, of the borrower's overall financial condition and resources, the financial responsibility of any guarantor, the nature and value of any underlying collateral, and the borrower's character and willingness to repay as agreed;
- (iv) The level of equity invested in the property to secure the loan;
- (v) Loan-to-value ratio (with respect to secured loans);
- (vi) Any secondary sources of repayment; and
- (vii) Any additional collateral or credit enhancements (such as guarantees, mortgage insurance or takeout commitments).

(c) Loan Documentation. The Bank, by December 31, 2004, shall adopt, and the Bank shall implement, amendments to its loan documentation policies and procedures ("Loan Documentation Policies") so that the amended Loan Documentation Policies, at a minimum, conform to the standards that are set out in 12 C.F.R. § 560.101 (including the Appendix thereto) and the OTS's Thrift Activities Handbook as well as the comments provided to the Bank in Reports of Examination. The amended Loan Documentation Policies, among other things, must:

- (i) Provide for documentation in each of the Bank's loan files (relative to each approved and/or funded loan) demonstrating that, prior to loan origination/purchase, the Bank (through its authorized officers) made a prudent and informed credit underwriting decision that conforms to the Bank's Underwriting Policies (as in effect at the time of the credit approval decision); and

- (ii) Provide for adequate documentation demonstrating that the Bank is properly and prudently administering and monitoring its loans.
- (d) Loan Administration. The Bank shall engage in loan/credit administration in a safe and sound manner. By January 31, 2005, the Bank's Board shall adopt and the Bank shall implement written prudent policies and procedures for credit administration that conform to the requirements of: 12 C.F.R. §§ 560.170 and 560.101 (including the Interagency Guidelines for Real Estate Lending Policies at Appendix A thereof); and section II.C. of the Part 570 Safety and Soundness Standards. Among other things, the loan administration policies and procedures must establish a loan administration system that is designed to provide for all required records, filings, and documents to be retained, reviewed, renewed and updated as appropriate. Among other things, the Loan/Credit Administration Policy shall require that:
 - (i) The Bank's loan officers shall have primary responsibility for account management relative to each of the Bank's Major Borrowers. For purposes of this Agreement, "Major Borrowers" are defined as those borrowers whose outstanding aggregate indebtedness to the Bank exceeds \$500,000, after excluding any indebtedness that is secured by a purchase money first mortgage loan on the borrower's primary residence;
 - (ii) The Bank's loan officers shall be required to use diligent and documented efforts to obtain updated and current financial information with respect to each Major Borrower and information on the condition of property securing any such loan;
 - (iii) No less than annually, each of the Bank's loan officers must use diligent and documented efforts, with respect to their assigned Major Borrowers, to (x) conduct annual credit reviews based on current/updated borrower financial information and updated written analyses about loan collateral (inclusive of property cash flow analysis) and (y) submit to the Chief Lending Officer written reports that concern such analyses and assign a credit grade relative to each of the outstanding credit relationships such Major Borrowers maintain with the Bank; and
 - (iv) An appropriate Bank officer or employee is assigned responsibility for ensuring that all appropriate lending-related documents are obtained and placed in the Bank's loan files in accordance with a tickler file system for monitoring missing and/or required documents.

1.06. Policies on Asset Quality and Classification.

By December 31, 2004, the Board shall adopt, and the Bank shall implement, a formal written program to identify and classify problem assets that satisfies the requirements of: (i) 12 C.F.R. § 560.160; (ii) section II.G. of the Part 570 Safety and Soundness Standards; and the (iii) the *Interagency Policy Statement on the Allowance for Loan and Lease Losses Methodologies and Documentation for Banks and Savings Institutions*, dated July 2, 2001 (66 Fed. Reg. 35629,

published on July 6, 2001).² Among other things, the program must have the following characteristics:

- (i) It must be supervised by a designated Bank management official who: (i) has no independent loan origination or approval authority, (ii) is independent of the appraisal preparation process and (iii) reports directly to the Board or the Audit Committee concerning the program;
- (ii) It must ensure the proper identification of assets as “loss”, “doubtful”, “substandard” or “special mention” (collectively referred to as “Criticized Assets”) and the reporting of each such asset to the Board at least quarterly, to coincide with the preparation of the Thrift Financial Report (TFR). Loans classifications shall be based on an assessment of all pertinent factors affecting the likelihood that the loan will be repaid according to its terms, and will not rely excessively on loan performance to date;
- (iii) It must provide for the maintenance of an adequate allowance for loan and lease losses (ALLL) to reflect credit risk in the Bank’s loan and lease portfolio;
- (iv) It must ensure the prompt charge-off of loans, or portions of loans, that available information confirms to be uncollectible; and
- (v) It must require the timely and accurate reporting of the Criticized Assets, ALLL and charge-offs on the TFR.

1.07. Internal Asset Review Program.

(a) On a quarterly basis, the Bank must perform an internal asset/loan review to determine compliance with Board-approved lending policies, underwriting standards, and loan servicing procedures. The Bank’s Internal Audit Manager shall supervise the internal asset/loan reviews. The internal asset/loan reviews may be conducted by a qualified service provider or by qualified Bank staff who must be independent of the Bank’s lending function. The quarterly asset/loan reviews should be based on a sample review of new loans made during the previous quarter as well as another specific sample of loans from the Bank’s existing loan portfolio.

(b) On a quarterly basis, the Bank’s Internal Audit Manager must provide the Board with, and the Board must review and evaluate, a written report documenting the findings and recommendations relating to the internal loan/asset review. The written reports about the internal asset/loan reviews should conform with the standards set out in the OTS’s “Director’s

² The OTS distributed copies of the Interagency Policy Statement to savings institutions under cover of OTS CEO Memorandum 142, and a copy is available on the OTS’s Internet site at <http://www.ots.treas.gov/docs/25142.pdf>

Guide to Management Reports,”³ and at a minimum, such reports must provide information about:

- (i) Each loan that represents an exception to applicable Bank loan policies and procedures (including each loan that was not properly approved) and the nature of the exception; and
- (ii) Each loan file lacking complete documentation (as required by the Bank’s lending policies, underwriting standards, loan-servicing procedures, or other applicable guidance) and the nature of the exception.

1.08. Management of Classified Assets-to-Capital Ratio.

(a) The Bank’s Classified-Assets-to-Capital Ratio (as defined below) shall not exceed 25.0%, and the Bank shall take all appropriate actions to cause its Classified-Assets-to-Capital Ratio to comply with the foregoing limitation. For purposes of this Agreement, the term “Classified-Assets-to-Capital Ratio” refers to the percentage that is determined when the total dollar amount of the Bank’s Adversely Classified Assets (the numerator) is divided by a denominator amount equal to the sum of (i) the Bank’s Tier 1 capital and (ii) the Bank’s total allowance for loan and lease losses.⁴ The term “Adversely Classified Assets” means Bank assets that are, and subsequent to the Effective Date hereof will have been, classified as “substandard”, “doubtful”, or “loss” either by the Bank (pursuant to 12 C.F.R. § 560.160(a)(1) and the written program required by Paragraph 1.06 of this Agreement) or by the OTS (pursuant to 12 C.F.R. § 560.160(a)(2) and other applicable laws and regulations).

(b) In the event the Bank’s Classified-Assets-to-Capital Ratio exceeds the 25% limit specified in subparagraph (a) above, the OTS, without limitation on any of its rights and powers, among other things, may: (i) require the Bank to amend its Business Plan (required by Paragraph 1.03) in a manner that is acceptable to the OTS, and (ii) to implement and adhere to any such amended Business Plan found acceptable/unobjectionable by the OTS.

1.09. Internal Controls and Risk Management System.

By January 31, 2005, the Bank’s Board shall adopt and the Bank shall implement written policies and procedures on internal controls and information systems that: (1) conform to section II.A. of Appendix A to the Safety and Soundness Standards at 12 C.F.R. Part 570; (2) are designed to cause the Bank to comply with 12 C.F.R. § 563.161; and (3) are established

³ The “Director’s Guide” is available on the OTS’s Internet site at <http://www.ots.treas.gov/docs/48091.pdf>.

⁴ Allowances for Loan and Lease Losses are reported at lines SC283 and SC357 of TFR Schedule SC. The total amount of all ALLLs should be the sum of the amounts reported on those TFR lines.

following consideration of the guidance at paragraph 10 of Appendix A to 12 C.F.R. Part 363. At a minimum such policies and procedures must take into account the scope and risk of the Bank's activities and provide for:

- (i) An organizational structure that establishes clear lines of authority and responsibility for monitoring adherence to established policies;
- (ii) Effective risk management;
- (iii) Timely and accurate financial, operational and regulatory reports;
- (iv) Adequate procedures to safeguard and manage assets; and
- (v) Compliance with applicable laws and regulations.

1.10. Board Committee Monitoring of Bank Compliance with Agreement, etc.

Within 30 days of the Effective Date of this Agreement, the Bank's Board shall establish a Regulatory Compliance Committee of the Board consisting of, at a minimum, three directors who are not also officers of the Bank. The Regulatory Compliance Committee must meet at least monthly, maintain written minutes of its meetings, and report on its findings and recommendations at each meeting of the Bank's Board. The Regulatory Compliance Committee shall be responsible for monitoring and assessing the Bank's progress in the following areas:

- (i) Compliance with each provision of this Agreement;
- (ii) Compliance with the items listed in Matters Requiring Board Attention on page 3 of the Report of Examination; and
- (iii) Compliance with the other required corrective actions noted in the Report of Examination.

PART II

2.01. Restriction on Asset Growth.

(a) Except with the prior written approval/non-objection of the OTS and/or until the restrictions of this Paragraph 2.01(a) are lifted pursuant to Paragraph 2.01(b), the Bank is prohibited from having any asset growth other than limited asset growth in an amount not to exceed net interest credited on deposit liabilities, as determined on a quarter-end basis. In view of the foregoing, at each quarter-end the Bank's Total Assets (as reported on line SC60 of its most recent TFR) must not exceed the sum of (i) the Bank's Total Assets (as reported on line SC60 of its prior TFR) and (ii) the amount of the Bank's deposit-related interest expense (as reported on line SO215 of its most recent TFR). See OTS Regulatory Bulletin 3b.

(b) The asset-growth restrictions set out at Paragraph 2.01(a) hereof will cease to be applicable to the Bank when the OTS provides it with written notice of the acceptability of the Bank's Business Plan (in accordance with Paragraph 1.03 of this Agreement), and instead the Bank's asset growth shall be subject to, and shall not exceed the asset-growth projections described in the Approved Business Plan (including the pro forma financial statements therein).

2.02. Board and Management Changes.

The Bank shall be and is subject to the requirements and limitations set out in Subpart H of Part 563 of the OTS's regulations (12 C.F.R. §§ 563.550 - .590). Without limitation on such requirements and limitations, this means, among other things, that, except as otherwise permitted by 12 C.F.R. § 563.590, (i) the Bank must notify the OTS at least 30 days before adding or replacing any member of its Board, employing any person as a senior executive officer, or changing the responsibilities of any senior executive officer so that the person would assume a different senior executive officer position, and (ii) the proposed director or senior executive officer may not begin service except as permitted by 12 C.F.R. § 563.585 and 12 U.S.C. § 1831i.

2.03. Compensation and Benefit Arrangements.

The Bank shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or senior executive officer of the Bank unless the Bank first -- (i) provides a minimum of 30 days advance notice of the proposed transaction and (ii) receives a written notice of non-objection from the OTS. See OTS Thrift Activities Handbook § 310 (p. 310.11) and OTS Regulatory Bulletin 27b.

2.04. Severance and Indemnification Payments and Agreements to Make Such Payments.

The restrictions at 12 C.F.R. Part 359 are applicable to the Bank. Such restrictions concern the making of agreements (including employment agreements) with severance provisions, "golden parachute payments" and "prohibited indemnification payments". Without limitation on the generality of the foregoing, this means, *inter alia*, that the Bank shall not make or agree to make any "golden parachute payment", as that term is defined 12 U.S.C. § 1828(k) and in 12 C.F.R. Part 359, except as may be permitted by the aforesaid statutory provision and regulations. See 12 C.F.R. §§ 359.2 and 359.4.

2.05. Brokered Deposit Restrictions. The Bank shall not accept brokered deposits except in compliance with the provisions of section 29 of the FDI Act (12 U.S.C. § 1831f) as implemented by section 337.6 of the FDIC's regulations (12 C.F.R. § 337.6). The Bank shall -- (i) provide Supervisory Agreement -- Page 12

written notice to the OTS's Regional Director if the Bank requests the FDIC for a waiver of any of the restrictions imposed by 12 U.S.C. § 1831f, and (ii) shall provide the OTS's Regional Director (or his designee) with a copy of the FDIC's document indicating its disposition of any request for such a waiver.

PART III

3.01. Submission of Required Documents to the OTS.

The Bank, when required by this Agreement to submit documents to the OTS, shall submit them as follows:

The original to:

Robert C. Albanese
Regional Director
Office of Thrift Supervision
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, New Jersey 07311

Two copies to:

Martin J. Lavelle
Assistant Director
Office of Thrift Supervision
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, New Jersey 07311

3.02. Compliance with Agreement.

Immediately and on an ongoing basis, the Bank's Board shall take all appropriate actions to cause the Bank to comply fully with the terms of this Agreement.

3.03. No Derogation of Board Responsibility.

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

3.04. Definitions.

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, the Home Owners' Loan Act ("HOLA"), the FDI Act, the provisions of the Ohio Revised Code governing savings and loan associations, or published OTS guidance (including the Thrift Activities Handbooks and Memoranda). Any such technical words or terms used in this Agreement and

undefined in said Code of Federal Regulations, HOLA, FDI Act, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

3.05. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Agreement to provisions of federal and state 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.

3.06. Time Limits.

Time limitations for compliance with the terms of this Agreement run from the Effective Date unless otherwise noted.

3.07. Rules of Interpretation.

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

(b) The paragraph headings herein are for convenience only and shall not affect the construction hereof.

(c) 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, unless the OTS determine otherwise in the exercise of their discretion.

3.08. Integration Clause; Relationship to Other Regulatory Actions.

This Agreement represents, as of the Effective Date, the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date.

3.09. 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, expressed or implied, shall give to any person or entity, other than the parties hereto, the Federal Deposit Insurance Corporation, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

3.10. Enforceability of Agreement; Director Attestation.

The Bank represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement of the Bank. Each director signing this Agreement at Appendix A hereof attests, by such act, that she or he, as the case may be, voted in favor of the Board resolutions (copies submitted to the OTS) authorizing the execution of this Agreement by the Bank.

3.11. Effective Date; Duration; Termination or Suspension of Agreement.

This Agreement shall be effective and enforceable as of the Effective Date, which date appears on the first page of this Agreement. This Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting by and through its Regional Director or other authorized representatives. The OTS may suspend any or all provisions of this Agreement by providing written notice of such action to the Bank.

3.12. No Bar or Estoppel.

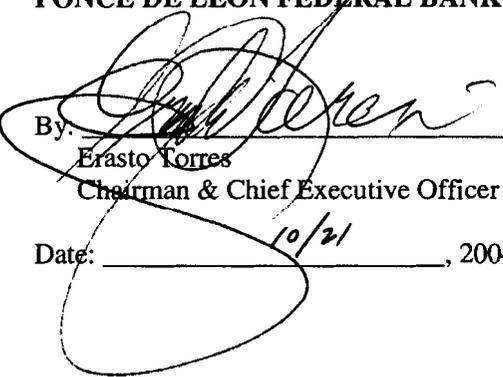
The provisions of this Agreement shall not bar, estop or otherwise prevent the OTS from taking any other action (including, without limitation, any type of supervisory, enforcement or resolution action) affecting the Bank or any of its current or former institution-affiliated parties.

3.13. Statutory Basis for Agreement.

This Agreement is a "written agreement" for the purposes of section 8 of the FDI Act, 12 U.S.C. § 1818.

IN WITNESS WHEREOF, the parties hereto hereby execute this Agreement.

PONCE DE LEON FEDERAL BANK

By: 
Erasto Torres
Chairman & Chief Executive Officer

Date: 10/21, 2004

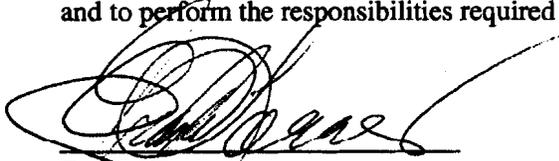
OFFICE OF THRIFT SUPERVISION

By: 
Robert C. Albanese
Regional Director, Northeast Region

Date: The Effective Date shown on page 1

APPENDIX A TO SUPERVISORY AGREEMENT

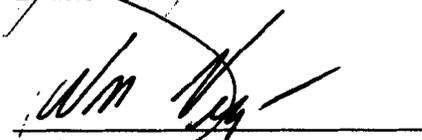
The undersigned individuals, each being directors of Ponce de Leon Federal Bank, acknowledge that each, following his review and consideration of the foregoing Agreement, has voted in favor of the Board resolutions authorizing the Bank to execute the foregoing Agreement and to perform the responsibilities required by the Agreement.



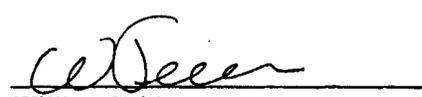
Errasto Torres



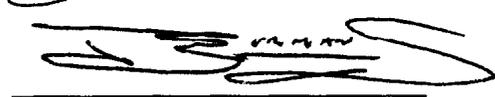
Steven Tsavaris



William Vega



William Feldman



Julio Gurman



Ruben Lugo