

95212

**SUPERVISORY AGREEMENT**

This Supervisory Agreement, ("Agreement") is made and is effective this 12<sup>th</sup> day of November 1991, by and between The Federal Savings Bank, Waltham, Massachusetts (OTS No. 01126) ("Federal Savings Bank" or the "Institution") through its Board of Directors ("Board") for itself and any wholly-owned or partly-owned subsidiary, and the Office of Thrift Supervision ("OTS") through the Regional Deputy Director for the Boston District Office ("Regional Deputy Director"). This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that the Agreement is a "written agreement" entered into with the OTS within the meaning of 12 U.S.C. § 1818(b)(1) and (i)(2).

WHEREAS, as evidenced by the Report of Examination ("ROE") dated June 17, 1991, the OTS are of the opinion that the Institution has not complied with certain laws, rules and regulations to which the Institution is subject, thereby providing grounds for the initiation of cease and desist proceedings against the Institution; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against the Institution on the subjects covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement; and

WHEREAS, in the interest of regulatory compliance and cooperation, the Institution is willing to enter into this Agreement to avoid the initiation of such cease and desist proceedings:

NOW THEREFORE, in consideration of the above-stated forbearance by the OTS from the initiation of cease and desist proceedings against the Institution, it is agreed among the parties hereto as follows:

1. (a) Within sixty (60) days of the effective date of this Agreement, management shall develop with Board approval, and submit to the Regional Deputy Director for review, a revised asset classification policy (the "Classification Policy"), which shall include, at a minimum:

(1) asset classification definitions consistent with 12 C.F.R. §§ 563.160 and 571.26; and

(2) asset classification processes and reporting procedures that include all assets of the Institution, including real estate acquired through or as a result of foreclosure, deed in lieu of foreclosure, or "in-substance" foreclosure ("real estate owned" or "REO"), investment securities and other assets.

(b) The Board shall approve the Classification Policy, and such approval shall be recorded in the Board minutes. The Institution, its directors, officers, and employees shall implement and follow the Classification Policy and/or any subsequent modification(s) thereto.

2. Within sixty (60) days of the effective date of this Agreement, Management shall develop with Board Approval, and submit to the Regional Deputy Director for review, an internal loan review policy. Such policy shall provide for an ongoing monitoring of the loan portfolio and maintenance of loan file documentation to provide for an assessment of adequacy and adherence to internal loan policies and procedures, identification of potential problem loans, and an assessment of the overall quality of the loan portfolio. The policy shall include, at a minimum:

(a) identification of the function or position responsible for the review, the frequency of the reviews, the method of loan selection, the scope and depth of the review, and follow-up reporting procedures; and

(b) a requirement that updated financial information relating to certain outstanding loans (to the extent legally practicable) be obtained at least annually from all borrowers and guarantors with commercial real estate loans in excess of \$250,000 in the aggregate. In addition, operating statements and rent rolls on properties securing such commercial real estate loans shall be obtained from such borrowers and guarantors at least annually. All requests for such information, responses, and subsequent analysis shall be maintained as loan file documentation.

3. Within sixty (60) days of the effective date of this Agreement, the Board shall adopt and submit to the Regional Deputy Director for review a policy for Accounting for Troubled Assets. The policy shall provide guidelines for the identification of, and accounting treatment for, troubled assets and be consistent with 12 C.F.R. § 563.234, as interpreted and clarified by the OTS policy statement on troubled debt restructuring, 12 C.F.R. § 571.18, and Generally Accepted Accounting Principles ("GAAP"). Such policy shall provide the criteria for loan restructurings, including terms and conditions, documentation of the restructurings that shall be maintained in the credit file for each such restructuring and identification of the individuals with the authority to approve such restructurings. Such restructurings shall be reported to the Board for approval or ratification and shall be evidenced in the Board minutes.

4. Within thirty (30) days from the effective date of this Agreement, the Board shall adopt and implement an appraisal review process that complies with Part 564 of the OTS Regulations, 12 C.F.R. Part 564, and identifies and addresses deficiencies in the Institution's current appraisal policies. Such review process shall provide a summary of each appraisals' compliance with the regulatory standards set forth at 12 C.F.R. Part 564 and 12 C.F.R. §§ 563.170(b) and 563.170(c)(1)(iv) and a list of weaknesses or deficiencies in the appraisal. Such process shall be consistent with the Board of Director's Appraisal Policy. Guidelines shall be established by which the Board will review, ratify, and/or approve appraisers on at least an annual basis and that this process shall provide detailed documentation supporting conclusions reached. A record of this review shall become part of the Board minutes.

5. (a) Within sixty (60) days of the effective date of this Agreement, Management shall develop with Board approval, and submit to the Regional Deputy Director for review, workout plans for reducing each loan or concentration of loans to one borrower and real estate asset in excess of \$1 million classified "Substandard," "Doubtful," or "Special Mention" in the ROE ("Workout Plans"). As used in the Agreement, the word "reduce" means (1) to collect; (2) to charge off; or (3) to improve the quality of such loans or other assets criticized sufficiently to warrant the removal of the adverse classification or criticism. Each such Workout Plan shall detail the steps to be taken to rehabilitate the loan/property and estimate the period of time within which correction is expected to be accomplished.

(b) Progress reports shall be submitted to the Regional Deputy Director every ninety (90) days after submission of the original Workout Plans. Such reports shall identify, for each such loan or property: (1) the name of the obligor/property; (2) the balance as of the examination date; (3) the balance as of the reporting date; (4) status of the actual reductions versus those projected in the workout Plan; and; and (5) any other comments deemed appropriate. The first progress report shall be submitted on March 31, 1992 with the status as of February 29, 1992.

6. The Institution shall not extend or renew directly, or with knowledge, indirectly, any additional credit to any borrower whose loans have been classified or listed for special mention in the ROE without the prior approval of the Executive Committee or the Directors' Loan Committee. Such approval shall include approval of each advance individually or of a project budget with which each advance is consistent. The Board shall ratify all approvals, and such approvals shall be recorded in the Board minutes.

7. The Institution shall immediately charge off or establish specific reserves for all assets classified "Loss" in the ROE, and shall increase its general loan loss reserves to a minimum of \$3.6 million.

8. In accordance with the provisions of 12 C.F.R. §§ 563.160(c)(2) and 571.26, the Board shall revise its loan loss allowance policy to require that recent charge-off and recovery experience be included as part of the assessment of portfolio risk. In addition, minimum and maximum reserve allocations for classified and special mention loans shall be revised to incorporate this experience. The reserve shall be reviewed for adequacy on at least a quarterly basis. Adjustments to the reserve shall be made within fifteen (15) days following each such quarterly review. Such reviews and supporting analysis for the adequacy of the general loss reserves shall be documented within the Board minutes of the meeting at which they are considered.

9. The Board shall review the adequacy of staffing in the loan monitoring and loan workout functions to ensure that sufficient resources are available to effectively monitor the quality of the loan portfolio and manage problem credits and REO. Management shall develop a plan of action to recruit and hire any additional or replacement personnel with the ability, experience or other qualifications, which the Board of Directors determines are necessary to meet needs and expectations for those functions.

10. Within sixty (60) days of the effective date of this Agreement, the Board shall:

(a) ensure that the regulatory violations noted in the ROE are addressed and corrective action initiated;

(b) revise the Commercial Mortgage Loan Policy to ensure that loan terms are consistent with regulatory requirements of 12 C.F.R. § 545.36; and

(c) pursuant to 12 C.F.R. §§ 563.176 and 571.3, revise the Institution's internal Interest Rate Risk Policy to expand Board adopted exposure limits from  $\pm 300$  basis points to  $\pm 400$  basis point interest rate changes.

11. Within thirty (30) days after the Institution's Board meeting immediately following the end of each calendar quarter, the Board shall submit to the Regional Deputy Director a resolution signed by each director, certifying that to the best of his or her knowledge and belief, the Institution and its subsidiaries are complying in all material respects with each condition of this Agreement. This resolution shall set forth any exceptions to any conditions of this Agreement that were approved by the Regional Deputy Director.

12. References in this Agreement to provisions of statutes and regulations shall be deemed to include references to all successor provisions of such statutes and regulations as they become applicable.

13. A copy of all documentation or reports required under the terms of this Agreement to be submitted to the Regional Deputy Director shall also be provided to the Regional Director of the Federal Deposit Insurance Corporation.

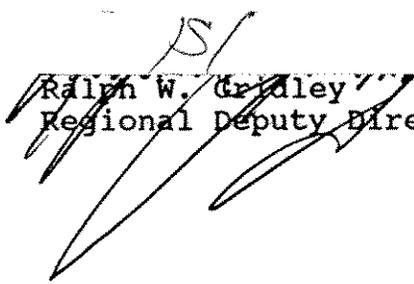
IN WITNESS WHEREOF, the parties have executed this Agreement.

THE FEDERAL SAVINGS BANK  
Waltham, Massachusetts  
By: Its Board of Directors

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DEPARTMENT OF THE TREASURY  
OFFICE OF THRIFT SUPERVISION

by   
Ralph W. Bradley  
Regional Deputy Director