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OTS No. 8063

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 2nd day of December, 1991 (the "Effective Date"), by and between Wawel Savings Bank, SLA (the "Association"), a state chartered mutual-form savings bank, having its main office located at 175 Wallington Avenue, Wallington, New Jersey 07055 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 is a state chartered mutual-form 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 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, consistent with its fiduciary duties owed to the Association and its depositors.

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) Section 563.93(f)(2) of the OTS Regulations, 12 C.F.R. §563.93(f)(2) (regarding lending limitations - calculating compliance and record-keeping);
- (b) Section 563.170(c) of the OTS Regulations, 12 C.F.R. §563.170(c) (regarding establishment and maintenance of records);
- (c) Sections 563.176(a), 563.176(b)(2) and 563.176(d) of the OTS Regulations, 12 C.F.R. §§563.176(a), 563.176(b)(2) and 563.176(d) (regarding interest rate risk management procedures);
- (d) Section 566.2(c) of the OTS Regulations, 12 C.F.R. §566.2(c) (regarding liquidity 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. Business Plan.

- (a) Submission of Business Plan. No later than 60 days of the Effective Date, the Association shall submit a one (1) year and three (3) year business plan to the Regional Director, which has been prepared by the board or its designee and approved by the Board. Such approval shall be documented in the Board minutes.

- (b) Contents. The business plan shall, at a minimum address the following areas: (i) the Association's objectives, operating strategy and business philosophy during the next one (1) year and three (3) year period; (ii) its present financial condition; (iii) the budget and budget review procedures specified in Section 2.1; (iv) credit exposure; (v) regulatory capital position; (vi) profit composition; (vii) market penetration; (viii) interest rate risk management; (ix) deposit solitication strategies; (x) projected sources and uses of funds; (xi) asset/liability management; (xii) internal audit program; and (xiii) new business initiatives.
- (c) Review by Board. The business plan and its implementation by management shall be reviewed by the Board at least once during every calendar quarter and such review shall be documented in the Board minutes. The Board shall in addition to such quarterly reviews, review the business plan annually to determine if revisions are required and shall revise the business plan accordingly. Any revisions in the business plan shall be submitted to the Regional Director.

2.2. Budget.

- (a) New Budget. Within 30 days of the Effective Date, the Board shall implement a new budget for the current fiscal year. The budget shall include, at a minimum, preparation of proforma statements of condition, operations, changes in equity, cash flows, and sources and uses of funds.
- (b) Budget Review Procedures. No later than 30 days after the Effective Date, the Board shall adopt and implement procedures for a budget review process which shall include, at a minimum: (i) monitoring of the income and expenses of the Association; (ii) comparison of actual results against budgetted projections; (iii) preparation of monthly variance reports describing the differences between actual and projected results; and (iv) making appropriate adjustments to the budget based upon actual results and to reflect changes in underlying assumptions.
- (c) Review by the Board. The Board shall review and compare the budget to actual operating results on a monthly basis and such review shall be documented in the Board minutes.

2.3. Interest Rate Risk Management.

- (a) Policy and Procedures. No later than 30 days of the Effective Date, the Board shall implement an interest rate risk management policy and procedures which are consistent with OTS Regulations 12 C.F.R. §§563.17 and 571.3 and OTS Thrift Bulletins Nos. 13, 13-1 and 13-2. Approval by the Board of such policy shall be documented in the Board minutes. The policy shall at a minimum provide for: (i) the accurate measuring and monitoring of interest rate risk; (ii) the assessment of the impact of varying interest rate scenarios on the market value of portfolio equity and net interest income; (iii) goals, strategies and timetables for reducing the Association's interest rate risk exposure; (iv) targetted gap ratios and procedures for monitoring the Association's progress towards achieving these ratios; and (v) a more prudent limit on the amount of acceptable maximum change in the market value of portfolio equity as a result of possible changes in market interest rates.
- (b) Review by the Board. The Association shall prepare a report on a quarterly basis comparing actual interest rate risk exposure to the limits approved by the Board pursuant to Section 2.3(a). Such report shall be reviewed by the Board and the Board's review shall be documented in the Board minutes.

2.4. Management Plan and Compensation Policy.

- (a) Management Plan. No later than 120 days of the Effective Date, the Board shall adopt and implement a plan which shall ensure that the Association has capable and effective management and staff to carry out the affairs of the Association. Such plan shall include, at a minimum:
 - (i) a written analysis and assessment of both the type and number of senior management and other positions needed to properly manage, supervise and carry out the affairs of the Association, taking into consideration any plans to expand the type of products offered by the Association;

- (ii) specification of the actions required to recruit, hire, and train any additional or replacement personnel with the ability, experience and other qualifications which the Board determines are necessary to fill the Association's deficiencies with respect to senior management and other staff;
 - (iii) steps which shall be taken to ensure the retention of qualified management and other staff and the timely and orderly filling of vacancies; and
 - (iv) provision for the presence of at least one full-time senior management person during the Association's normal business hours.
- (b) Compensation Policy. No later than 30 days of the Effective Date, the Board shall implement a compensation policy which ensures that compensation to each of the Association's officers, directors and employees is reasonable and commensurate with each individual's duties and responsibilities in compliance with 12 C.F.R. §563.161(b). The approval of such policy shall be documented in the Board minutes.

2.5. Valuation Allowance Policy.

No later than 30 days from the Effective Date, the Board shall develop and implement revised policies and procedures for general and specific valuation allowances which: (i) are consistent with 12 C.F.R. §571.26; (ii) are based upon prudent levels of general valuation allowances; and (iii) take into account specific risk factors relative to all asset categories.

2.6. Procedures for Monitoring Loans to One Borrower.

No later than 60 days of the Effective Date, the Association shall 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.

2.7. Internal Audit Program.

- (a) Policy. No later than 90 days of the Effective Date, the Board shall adopt and implement an internal audit policy which will enable the Board to effectively monitor the implementation of its policies. Approval of the policy by the Board shall be documented in the Board minutes. The policy shall, at a minimum: (i) address the issues of physical and accounting controls in the areas listed in the FHLBB Bulletin 1A-5; and (ii) provide for the hiring of either (A) an internal auditor/ compliance officer or (B) an independent outside auditor, other than the firm currently used by the Association for preparation of its audited financial statements.
- (b) Quarterly Reports. The auditor specified in Section 2.7(a) shall, on a quarterly basis, prepare a report for the Board which shall, at a minimum, discuss: (i) any exception(s) with respect to the Association's compliance with laws and regulations; (ii) whether the internal controls system is working; (iii) the soundness and adequacy of accounting, operating and administrative controls; and (iv) the effectiveness of internal policies and procedures.
- (c) Review by the Board. The Board shall review the quarterly report specified in Section 2.7(b) and such review shall be documented in the Board minutes.

2.8. Asset Collection.

- (a) Policy. No later than 30 days of the Effective Date, the Board shall adopt and implement an asset collection policy. Approval of the policy by the Board shall be documented in the Board minutes. The policy shall, at a minimum, include the following:
- (i) prompt identification of all loans that are past due, including 1 to 4 family residential real estate loans and passbook loans and procedures for the treatment of such past due loans;
 - (ii) presentation to management of the status of required filings and payments so that the Association's collateral interests are maintained and protected;
 - (iii) documented written and verbal contacts with delinquent borrowers; and
 - (iv) prompt referrals to asset workout personnel and/or legal counsel for collection.

- (b) Review by the Board. The Board shall take steps to ensure that management is adhering to the asset collection policy. At a minimum, the Board shall: (i) designate a management official responsible for overseeing compliance with the asset collection policy; and (ii) require monthly reports from the management official as to the extent of the Association's compliance (or non-compliance) with the asset collection policy. Review by the Board of such monthly reports shall be documented in the Board minutes.

2.10. Liquidity.

The Association shall at all times maintain liquid assets (as defined in 12 C.F.R. §566.1(g)) in accordance with the requirements of 12 C.F.R. Part 566. The Association shall maintain adequate liquidity records so that examiners and auditors can verify the Association's compliance with the liquidity requirements.

2.11. Data Security and Disaster Recovery Plan.

The Association shall develop and implement a data security program to ensure the safety and integrity of the financial records stored on its computer systems. Additionally, the Association shall develop a disaster recovery plan to ensure that all vital information is appropriately duplicated and stored from time to time to protect against the loss of important data.

SECTION 3 -- LENDING ACTIVITY

3.1. Construction Lending.

- (a) Policies and Procedures. No later than 30 days of the Effective Date, the Board shall 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: (a) inspection reports done upon completion of the paid-for-improvements and (b) lien waivers or title updates.

- (b) Restrictions on Construction Lending. As of the Effective Date, the Association shall not make any construction loans, the proceeds of which shall be used for any purpose other than the construction of an individual 1 to 4 family residence.

3.2. Underwriting.

- (a) 1 to 4 Family Residential Real Estate Loans. No later than 30 days of the Effective Date, the Association shall implement procedures to ensure that with respect to the underwriting of 1 to 4 family residential real estate loans: (i) appropriate debt ratios for purposes of qualifying candidates are calculated; and (ii) such calculations are documented in the loan files.
- (b) Passbook Loans and Letters of Credit. No later than 30 days of the Effective Date, with respect to loans secured by passbooks, the Association shall ensure that its records include documents evidencing the creation and perfection of a security interest in the collateral securing the loan. The Association shall implement procedures to ensure that accurate and complete records of all passbook loans and letters of credit are maintained in accordance with 12 C.F.R. §563.170(c).

3.3. Lending Limit.

No later than 30 days of the Effective Date, the Board shall implement a policy to ensure that the maximum lending limits on a per loan basis, as well as on an LTOB basis, and for a given type of loan are prudent given the capital position of the

Association. The Board shall monitor the lending limits in connection with the capital position of the Association and shall revise such limits as appropriate. Approval of such policy and its periodic review shall be documented in the Board minutes.

SECTION IV - THE BOARD

4.1. Immediate Action.

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

4.2. Director Responsibility.

Each member of the Board owes fiduciary duties to the Association and its depositors. 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, at all times, shall have the ultimate responsibility for overseeing the safe and sound operation of the Association.

4.3. Oversight.

The Board has the ultimate responsibility for overseeing the safe and sound operation of the Association. Specifically, the Board shall: (i) establish policies, procedures and controls to ensure the safe and sound operation of the Association; (ii) monitor compliance with such policies and procedures, as well as with the laws and regulations governing the Association; and (iii) more closely supervise management's performance. In connection with its oversight of the Association, the Board shall, at a minimum, obtain and consider all applicable information suggested in the Director Information Guidelines, published by the OTS in December, 1989.

4.4. Minutes of Meetings.

No later than 30 days of the Effective Date, the Board shall establish procedures to ensure that, with respect to meetings of the Board and of committees of the Board, minutes of all Board and committee

meetings are accurate, contain sufficient detail, and are reviewed and adopted in a timely fashion. At a minimum, such procedures shall provide that:

- (i) each member of the Board receives draft copies of minutes of Board and committee meetings for review prior to each meeting and reads them individually prior to their being adopted;
- (ii) attendance at all meetings is accurately recorded;
- (iii) all deliberations of the Board, including discussions held, policies and procedures approved, committee actions ratified and information reported to the Board by management is recorded; and
- (iv) the Board reviews in detail and in a timely fashion all information necessary to ensure that the Association is operating in a safe and sound matter, including such information as financial reports regarding operating results, capital adequacy and asset/liability management.

4.5. Review of Policies and Procedures.

Approval by the Board of all policies and procedures adopted by the Board, including those adopted pursuant to this Agreement, shall be recorded in the Board minutes. Thereafter, all such policies and procedures shall be reviewed by the Board on an annual basis, at a minimum, and such review shall be documented in the Board minutes.

4.6 Board Review of Compliance With Agreement:

- (a) 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 favor of, opposition to or abstaining from its adoption. The minutes of the meeting of the Board shall reflect the adoption of the Compliance Resolution.

- (b) 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.

SECTION 5 -- DEFINITIONS AND MISCELLANEOUS PROVISIONS

5.1. Definitions:

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms defined in this Section 5.1 have the meanings assigned to them in this Section 5.1 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).

"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).

"Board Resolution" means a resolution duly adopted by a disinterested majority of 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.

"FDIA" means the Federal Deposit Insurance Act, as amended, 12 U.S.C. §1811 et seq.

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

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

"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).

5.2. 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.

5.3. 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:

(i) 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.

(ii) 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 Wawel Savings Bank, SLA, 175 Wallington Avenue, Wallington, New Jersey 07055.

(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.

5.4. 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.

5.5. Effect of Headings.

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

5.6. 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.

5.7. 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.

5.8. Successors in Interest.

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.

5.9. Benefits of the Agreement.

Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

5.10. Signature of Directors.

Each Director signing the Agreement attests that s/he voted positively in favor of the resolution authorizing the execution of the Agreement by the Association.

5.11. 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. 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.

