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**SUPERVISORY AGREEMENT**

This Supervisory Agreement ("Agreement") is made and is effective this 12th day of December, 1991, by and between Citizens Savings Bank, FSB, Silver Spring, Maryland, OTS No. 2207, for itself and its wholly owned service corporations ("Citizens" or "Institution"), and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

**WHEREAS**, the OTS is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b)(1988 and Supp. I 1989); and

**WHEREAS**, the Institution, in the interest of regulatory cooperation and compliance, and without admitting or denying that such grounds exist, is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

**WHEREAS**, the OTS is willing to forbear from the initiation of such administrative proceedings against the Institution to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement; and

**WHEREAS**, it is understood by the parties that execution of Agreement does not preclude the OTS from taking further supervisory or enforcement measures to require actions not specifically covered by this Agreement which the OTS considers appropriate under the circumstances.

**NOW, THEREFORE**, in consideration of the above-stated forbearance, it is agreed between the parties hereto as follows:

1. Real Estate Owned

(a) Without the prior written approval of the Regional Director, the Institution shall not expend any monies for the development of any acquisition, development, and/or construction project acquired by the Institution by foreclosure or the acceptance of a deed in lieu of foreclosure ("ADC project"), except as contemplated by the Institution's Capital Plan as submitted to the OTS on September 23, 1991, or as such Capital Plan may be subsequently amended by the Institution with the approval of the Regional Director.

(b) The Institution shall submit a quarterly report to the

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Regional Director showing the amounts expended by the Institution for that quarter on the development of any ADC project.

(c) The Board of Directors of the Institution ("Board") shall document its review and evaluation of each bona fide written offer submitted to the Board to purchase any ADC project. At least 10 calendar days prior to any final rejection by the Board of such offer, the Board shall send the Regional Director written notice of the terms and conditions of the offer and the bases for its decision to reject the offer.

(d) Within 45 calendar days of the effective date of this Agreement, the Board shall review any existing incentive and/or compensation agreements between the Institution and developers relating to the development of its ADC projects ("developer agreements") to determine whether said developer agreements are prudent, necessary, commensurate with services rendered and consistent with the best interests of the Institution. Where possible, the Board shall renegotiate any developer agreement that fails to meet the above-mentioned criteria. The Board shall document the results of its review of existing developer agreements, as well as its evaluation of and the basis for, its decisions concerning any developer agreements proposed after the effective date of this Agreement.

(e) Any loan made by the Institution to finance the sale of 1 to 4 family permanent residential Real Estate Owned that is at an interest rate below the prevailing market and/or on preferential terms and conditions shall be sold in the secondary market and not placed in the portfolio of the Institution.

(f) To the extent applicable, the Institution shall account for capitalized interest on its ADC projects in accordance with Financial Accounting Standards Board Statements ("FASB") Nos. 34 and 58.

(g) Within 45 calendar days of the end of each calendar quarter, the Board shall submit to the Regional Director a report on the amount of interest capitalized to the ADC projects during the quarter and the balance of interest capitalized as of the end of the quarter. The report shall contain the Institution's justification for the level of capitalized interest under FASB Nos. 34 and 58 and in relation to the net realizable value of the asset.

## 2. Criticized Assets

Within 45 calendar days of the effective date of this Agreement, the Board shall adopt and direct management to implement a written plan to collect, strengthen, or otherwise reduce the risk of loss for each loan that is more than 60 days

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delinquent, each parcel of Real Estate Owned, and each loan classified or designated "Special Mention" in the June 10, 1991 OTS Report of Examination ("1991 Exam") or subsequently classified or so designated by the Institution or the OTS ("problem assets"). The plan shall include, at a minimum, explicit goals and timeframes for the resolution of each problem asset, as well as goals and timeframes for an orderly reduction in the aggregate level of problem assets. This plan shall be maintained and updated on at least a quarterly basis to include assets that meet the criteria in this Paragraph 2 after the effective date of this Agreement. Within 30 calendar days of the end of each calendar quarter, the Board shall submit a report to the Regional Director on the Institution's progress in meeting the goals and timeframes set out in the plan.

3. Valuation Allowances

(a) The Institution shall continue to establish and maintain adequate valuation allowances in accordance with the provisions of 12 C.F.R. § 563.160.

(b) The Institution shall immediately establish and maintain general valuation allowances in an amount no less than \$8,453,000, and shall provide the Regional Director with written confirmation that such allowances have been established.

(c) Within 45 calendar days of the effective date of this Agreement, the Board shall adopt and direct management to implement valuation allowance policies and procedures that are consistent with the provisions of 12 C.F.R. § 563.160 and the guidance provided in Section 261 of the OTS Thrift Activities Handbook. Such policies shall take into consideration, at a minimum, the following factors:

- i. assets criticized in the 1991 Exam;
- ii. the results of the Institution's internal loan review and asset classification;
- iii. the Institution's loan loss experience;
- iv. an estimate of the potential loss exposure on each significant asset;
- v. concentrations of loans and investments; and
- vi. present and prospective economic conditions.

(d) The Board, at least quarterly, shall review the adequacy of the Institution's general and specific valuation allowances, make any necessary adjustments, and document its determinations

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concerning the adequacy of these allowances.

4. Interest Rate Risk

Within 60 calendar days of the effective date of this Agreement, the Board shall adopt and direct management to implement a plan to reduce the Institution's exposure to interest rate risk. Such plan shall include, at a minimum, strategies to reduce the Institution's interest rate risk exposure. At least quarterly, the Board shall review the Institution's compliance with the plan.

5. Options Transactions

(a) The Institution shall comply with the provision of 12 C.F.R. § 563.175.

(b) Within 60 calendar days of the effective date of this Agreement, the Board shall adopt and direct management to implement policies and procedures that are consistent with and ensure compliance with the provisions of 12 C.F.R. § 563.175.

6. Valuation of Assets

(a) The Institution shall comply with the provisions of 12 C.F.R. § 563.172.

(b) Within 60 calendar days of the effective date of this Agreement, the Board shall adopt, and direct management to implement, policies and procedures that are consistent with and ensure compliance with the provisions of 12 C.F.R. §§ 563.172 and 571.18.

7. Appraisals

(a) The Institution shall comply with the provisions of 12 C.F.R. Part 564.

(b) Within 60 calendar days of the effective date of this Agreement, the Board shall revise the Institution's appraisal policies and procedures to ensure that they are consistent with the provisions of 12 C.F.R. Part 564 and that they correct the internal appraisal review deficiencies cited in the 1991 Exam. The revised policies shall, at a minimum, require that management review the performance of all approved appraisers in accordance with the provisions of 12 C.F.R. § 564.8(c)(3).

8. Loans to One Borrower

Within 60 calendar days of the effective date of this Agreement, the Board shall adopt and submit to the Regional

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Director written strategies to be followed in seeking to bring loans made prior to the enactment of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), which exceed the Institution's loan to one borrower limit under FIRREA into conformance with the FIRREA limitation. The Institution shall hereafter quarterly furnish the Regional Director with a report documenting the Institution's efforts to bring such loans into conformance with the Institution's current loans to one borrower limitation.

9. Compliance Committee

Within 30 calendar days of the effective date of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, the majority of whom shall not be executive officers of the Institution. Within 45 calendar days of the appointment of the Compliance Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail: (a) actions taken to comply with each provision of this Agreement, and (b) the results of those actions. The Board shall forward to the Regional Director a copy of the Compliance Committee's report, with any additional comments by the Board.

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, and any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry. For purposes of this Agreement references to regulations, bulletins, memoranda and publications shall include any successor regulations, bulletins, memoranda and publications which are provided pursuant to, issued or remain in effect under the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub.L. No. 101-73, 103 Stat. 183.

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 this Agreement is a "written agreement entered into with the agency" as that phrase is used in Section 8(b)(1) of the FDIA, 12 U.S.C. 1818(b)(1), as amended.

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.

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This Agreement shall remain in effect until terminated or suspended by the OTS, acting through the Regional Director. The Regional Director may suspend, in his sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director and the Institution, by its duly elected directors, have executed this Agreement.

CITIZENS SAVINGS BANK, FSB  
SILVER SPRING, MARYLAND

By: SI Director Date: 12/12/91

By: SI Director Date: 12-12-91

By: SI Director Date: 12-12-91

OFFICE OF THRIFT SUPERVISION

By: SI Regional Director Date: \_\_\_\_\_  
John E. Ryan

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by  
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DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of Citizens Savings Bank, FSB, Silver Spring, Maryland, at 2:00pm, December 12, 1991, held at Silver Spring, Maryland, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between Citizens Savings Bank and the Office of Thrift Supervision.

<u>151</u>	<u>12/12/91</u>
<u>151</u>	<u>12-12-81</u>
<u>151</u>	<u>12-12-91</u>
(Name)	(Date)

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**CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly qualified, <sup>INSISTENT</sup> Secretary of Citizens Savings Bank, FSB, Silver Spring, Maryland ("Institution"), hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on December 12, 1991, and at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

**RESOLUTION**

**WHEREAS**, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(b), as amended; and

**WHEREAS**, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

**WHEREAS**, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on December 12, 1991, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to authorize the Institution to enter into the proposed Agreement:

**NOW, THEREFORE, BE IT RESOLVED**, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

**IN WITNESS WHEREOF**, I have hereto subscribed my name and affixed the seal of the Institution this 12th day of December, 1991.

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Secretary