

SUPERVISORY AGREEMENT

95231

This Supervisory Agreement, ("Agreement") is made and is effective this 16th day of December 1991, by and between Hampton Co-operative Bank, Hampton, New Hampshire (OTS No. 05683) ("Hampton" or the "Institution") for itself and any wholly-owned or partly-owned subsidiary which is controlled by the Institution, 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 July 22, 1991, the OTS is of the opinion that the Institution has not complied with certain laws, rules and regulations to which the Institution is subject, and, as a consequence thereof, the OTS is also of the opinion that the Institution should enter into this Agreement; and

WHEREAS, the OTS is willing to forbear at this time from the initiation of proceedings to 12 U.S.C. 1818(b)(1) 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:

NOW, THEREFORE, in consideration of the above-stated premises and other mutual promises and consideration, it is agreed among the parties hereto as follows:

1. (a) The provision for loss of \$40,000 per month shall continue to be made through 1991.

(b) The Board of Directors shall review assets for potential classification and the general valuation reserve for adequacy on at least a quarterly basis. Adjustments, if any, 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 reserve shall be documented within the Board minutes.

(c) The Board of Directors shall initiate steps to increase participation in the asset classification and asset/liability review processes through greater involvement of both management and Board members on appropriate operating committees.

2. Unless previously developed and implemented by the Institution, within sixty (60) days of the effective date of this Agreement, the Institution shall develop, implement, and thereafter maintain a system, including a comprehensive borrower credit ledger, which shall accurately identify and monitor all aggregate loans to one borrower to ensure

compliance 12 C.F.R. 563.93. At a minimum, the manager shall provide an accurate record of total borrower credit in all loan types, including direct liability (including liability as maker, co-maker, partner, and any other kind of direct liability), and indirect liability (including liability as endorser, guarantor, and any other kind of indirect or contingent liability). Such ledger shall be maintained in a current status for all multiple borrowers. Approval and adoption of this system shall be documented in the board minutes.

3. Within ninety (90) days of the effective date of this Agreement, the Board of Directors of the Institution shall adopt and submit to the Regional Deputy Director for review, an internal loan review policy. The Regional Deputy Director or his designee shall advise the Institution that such policy is (i) acceptable, (ii) acceptable, subject to inclusion of recommended changes or (iii) unacceptable, stating the reasons therefor, within a reasonable period of time. The policy shall include, at a minimum:

(a) provisions for 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; and

identification of the individuals 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.

4. Within ninety (90) days of the effective date of this Agreement, the Board of Directors shall adopt and submit to the Regional Deputy Director for review a revised lending policy. The Regional Deputy Director or his designee shall advise the Institution that such policy is (i) acceptable, (ii) acceptable, subject to the inclusion of recommended changes or (iii) unacceptable, stating the reasons therefor, within a reasonable period of time. Such policy shall include at a minimum:

(a) enhanced guidelines for underwriting the various types of credit;

(b) detailed criteria for analyzing financial information on borrowers and properties;

(c) detailed loan file documentation requirements for the various types of credit;

(d) loan pricing policies that ensure an adequate rate of return for the risk being taken;

(e) a requirement that updated financial information relating to certain outstanding loans be obtained at least annually. Personal financial information shall be obtained 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. All such requests, responses and subsequent analysis shall be maintained as loan file documentation; and

(f) internal controls to ensure that proper procedures are being adhered to during the underwriting and monitoring process.

5. The Board of Directors shall maintain an appraisal policy which shall provide for a review process that complies with the appraisal review requirements of 12 C.F.R. 564.8. The policy shall specify the procedures by which the Board of Directors will review, ratify, and approve appraisers on, at least, an annual basis, and provide for detailed documentation to be maintained to support the conclusions reached. A record of this review shall become part of the Board of Directors minutes.

6. The Institution shall, on a quarterly basis, submit to the Regional Deputy Director a status report on each borrower with outstanding loans or extensions of credit aggregating more than \$250,000 and each parcel of real estate acquired through foreclosure, deed in lieu of foreclosure, or "in substance" foreclosure ("Real Estate Owned" or "REO"), with a balance in excess of \$250,000, that is classified or subject to Special Mention in the OTS ROE dated July 22, 1991. Such reports shall include the balance of each separate asset as of the date of the ROE, the balance as of the reporting date, identification of past due status, a

summary of efforts taken to alleviate the credit deficiency. The first such status report shall be submitted on January 31, 1992, with the status as of December 31, 1991.

Thereafter, each report shall be due within thirty (30) days following the end of each succeeding three month period.

7. Within ninety (90) days of the effective date of this Agreement, the Board of Directors of the Institution shall adopt and submit an updated written investment policy to the Regional Deputy Director for review. The Regional Deputy Director or his designee shall advise the Institution that such policy is (i) acceptable, (ii) acceptable, subject to the inclusion of recommended changes or (iii) unacceptable, stating the reasons therefor, within a reasonable period of time. Such policy shall address the overall goals and objectives of the investment portfolio and provide investment strategies for each type of investment security. In addition, the policy shall conform to the guidelines of 12 C.F.R. 571.19(b).

8. The Institution shall maintain its deposits with Mid Maine Savings Bank, Auburn, Maine, in an amount that is in accordance with the limitations of 12 C.F.R. 563.96.

9. Within sixty (60) days of the effective date of this Agreement, the Institution shall correct all violations of law and regulations listed on Appendix Page A-2.1 in the OTS ROE dated July 22, 1991, and shall adopt procedures to prevent recurrence. Such procedures shall be documented in the Board minutes.

10. Within ten (10) days after its meeting immediately following the end of each calendar quarter, the Board of Directors 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, and based upon a prudent review, during the previous quarter, the Institution and its controlled 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.

11. 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.

12. (a) All technical words or terms used in this Agreement, for which meanings are not specified or otherwise provided by the provisions of the Agreement, shall, insofar as applicable, have meanings as defined in the Home Owners' Loan Act, 12 U.S.C. 1461 et seq. ("HOLA"), the Federal Deposit Insurance Act, 12 U.S.C. 1811 et seq. ("FDIA"), Chapter V of Title 12 of the Code of Federal Regulations ("CFR"), and/or OTS Regulatory or Thrift Bulletins. Any such technical words or terms used in this Agreement and undefined in the HOLA, FDIA, CFR or OTS Bulletins shall have meanings that are in accordance with the best custom and usage in the savings and loans industry.

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.

(c) This Agreement shall remain in effect until terminated, modified or suspended by the OTS, acting through the Regional Deputy Director of the OTS.

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 Commissioner of Banks of the State of New Hampshire.

IN WITNESS WHEREOF, the parties have executed this Agreement.

HAMPTON CO-OPERATIVE BANK
Hampton, New Hampshire
By: Its Board of Directors

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DEPARTMENT OF THE TREASURY
OFFICE OF THRIET SUPERVISION

By: *IS/*
Ralph W. Gridley
Regional Deputy Director

Concur:
OFFICE OF THE BANK COMMISSIONER
STATE OF NEW HAMPSHIRE

Concur:
FEDERAL DEPOSIT INSURANCE CORPORATION

By: *IS/*
Roland Roberge
Commissioner of Banks

By: *IS/*
Paul Wiechman
Regional Director