

Metropolitan Bank for Savings, FSB

## SUPERVISORY AGREEMENT

94830

This Supervisory Agreement ("Agreement") is made and is effective this 24th day of May, 1993 ("effective date"), by and between Metropolitan Bank for Savings, FSB, Arlington, Virginia, Docket Number 05848, for itself and its wholly owned service corporations and subsidiaries ("Metropolitan" 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 grounds exist to initiate administrative proceedings against Metropolitan pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C.A. § 1818(b) (West 1989 & Supp. 1992); and

WHEREAS, Metropolitan, in the interest of regulatory compliance and cooperation, 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 forebear from the initiation of such administrative proceedings against Metropolitan 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 this Agreement does not preclude the OTS from taking further supervisory or enforcement measures on matters not specifically covered by this Agreement that 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:

INVESTMENT POLICIES AND PROCEDURES

1. (a) The Institution shall comply with 12 C.F.R. § 563.174.  
  
(b) Within 45 days after the effective date of this Agreement, Metropolitan shall, to the extent not already accomplished, revise, and thereafter comply with, investment policies and procedures that are consistent with the comments in the Institution's August 28, 1992 report of examination ("1992 ROE") and incorporate all applicable regulatory investment limitations, including provisions that the Institution's use of financial futures complies with 12 C.F.R. § 563.174. The

Institution's investment policies and procedures shall, at a minimum, specifically detail the Institution's hedging strategies and activities, including but not limited to, the exact types of instruments to be used as hedges, the specific balance sheet items for which such instruments will be used to hedge, and the method, model, or means used to analyze the Institution's hedging strategies and activities and measure the effectiveness of such upon interest rate risk management.

(c) Metropolitan shall revise the reports used by management to analyze the Institution's interest rate risk sensitivity and measure the effect of its current hedging activities upon the Institution's interest rate risk exposure and earnings consistent with the guidance provided in the Institution's 1992 ROE and revised investment policies and procedures.

#### BUSINESS PLAN

2. (a) Within 90 days after the effective date of this Agreement, Metropolitan shall submit to the Regional Director for review a comprehensive three year business plan ("Plan") for the three year period ending December 31, 1995. The Plan shall: (i) set forth the specific goals and objectives of the Institution; (ii) clearly and accurately describe the Institution's current operations, as well as its intended operations during the term of the Plan, including any off-balance sheet activities; (iii) discuss the board of directors' (the "Board") strategies for maintaining the Institution's compliance with Regulatory Bulletin 3a-1, all applicable capital requirements throughout the period covered by the Plan, including but not limited to 12 C.F.R. Parts 565 and 567, improving the Institution's performance under the Community Reinvestment Act, 12 C.F.R. Part 563e, and demonstrating the Institution's compliance with this Agreement; and (iv) include quarterly pro forma financial statements for the first full year of the Plan, annual pro forma financial statements for the second and third years of the Plan, and a statement of the significant assumptions on which the pro forma financial statements are based, including projected interest rates and loan delinquency rates.

(b) Upon the receipt of written notice of no objection from the Regional Director, which shall not be unreasonably withheld, the Institution shall adhere to, and operate consistent with, the terms and provisions of the Plan. Within 90 days after receipt of the Plan, the OTS shall provide the Institution with written notice of no objection or notice that the Plan is not acceptable. If the Institution is notified that the Plan is not acceptable, within 30 days after receipt of such notice,

the Institution shall submit a revised Plan that addresses the deficiencies noted by the OTS. Such revised Plan shall be subject to the provisions of paragraph 2 of this Agreement.

(c) The Institution shall, not later than 45 days prior to the beginning of each subsequent year covered by the Plan, submit to the Regional Director for review quarterly pro forma financial statements for that year. Such submissions shall include any proposed changes in the strategic plan and the assumptions underlying the pro forma financial statements.

(d) The Institution shall not substantially deviate from the Plan, including the pro forma financial projections provided therewith, unless such deviations have received prior written notice of no objection from the Regional Director. Within 90 days after receiving notice of a deviation, the OTS shall provide the Institution with written notice of no objection or notice that the deviation is not acceptable.

(e) Within 45 days after the end of each calendar quarter, the Institution shall submit a variance report that compares actual and budgeted operations and explains any material variations.

#### EXECUTIVE COMPENSATION AND EMPLOYMENT CONTRACTS

3. (a) The Institution shall comply with 12 C.F.R. §§ 563.39 and 563.161(b) and OTS Regulatory Bulletin 27a ("RB 27a").

(b) Within 60 days after the effective date of this Agreement, the Board shall, to the extent not already accomplished, develop, adopt, implement, and thereafter comply with, written policies and procedures governing the compensation of all senior executive officers, directors, and employees. Such policies and procedures shall incorporate, at a minimum, the factors outlined in Section 140 of the OTS Regulatory Handbook on Thrift Activities and require that compensation for senior executive officers be approved in writing in advance by a majority of the Board, with any interested party abstaining from participating in any way, including taking part in discussion of or otherwise attempting to influence the Board's decision with respect to that interested party's compensation.

(c) Within 60 days after the effective date of this Agreement, the Board shall, to the extent not already accomplished, submit to the Regional Director a copy of the policies and procedures required by paragraph 3(b). Any changes in the Institution's policies and procedures

governing compensation shall be submitted to the Regional Director within 30 days after adoption by the Board.

(d) Upon the effective date of this Agreement and thereafter, Metropolitan shall submit to the Regional Director, for prior review, copies of all proposed employment contracts with senior executive officers or directors.

(e) The Board shall annually review all employment contracts and compensation arrangements for senior executive officers and directors for compliance with this Agreement. The Board shall document its review, justification, and approval of all employment contracts and compensation arrangements in the minutes of the Board meeting during which such review was conducted.

#### AFFILIATED TRANSACTIONS

4. (a) Upon the effective date of this Agreement and thereafter, the Institution shall not, directly or indirectly (e.g. by a guarantee), extend credit or be a party to any indebtedness of any registered savings and loan holding company of the Institution or any affiliate of the Institution except upon providing the Regional Director with 30 days prior notice.

(b) The Institution, and its directors, officers, employees, affiliated persons, and affiliates shall comply with Section 11 of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. Section 1468; Sections 23A and 23B of the Federal Reserve Act, 12 U.S.C. §§ 371c and 371c-1, respectively; 12 C.F.R. §§ 563.41 and 563.42; and any other applicable laws, regulations, memorandum, and bulletins regarding the avoidance of conflicts of interest in conducting the business of the Institution or transactions with affiliates.

#### LOAN UNDERWRITING STANDARDS

5. Within 45 days after the effective date of this Agreement, the Institution shall, to the extent not already accomplished, establish, adopt and adhere to loan underwriting policies and procedures to achieve and maintain compliance with the provisions of 12 C.F.R. § 563.170.

#### APPRAISALS

6. Within 45 days after the effective date of this Agreement, the Institution shall, to the extent not already accomplished, develop, adopt and adhere to appraisal policies and procedures to achieve and maintain compliance with the provisions of 12 C.F.R. Part 564.

VALUATION ALLOWANCES

7. Within 30 days after the effective date of this Agreement, the Institution shall, to the extent not already accomplished, establish general valuation allowances consistent with the comments in the Institution's 1992 ROE. The Board shall review the adequacy of Metropolitan's general valuation allowances on at least a quarterly basis.

TAX SHARING AGREEMENT

8. Within 30 days after the effective date of this Agreement, Metropolitan shall, to the extent not already accomplished, submit to the Regional Director, for prior review, a formal tax sharing agreement proposed to be entered into with MET Holdings Corporation, the Institution's parent holding company. The tax sharing agreement shall contain provisions that are consistent with the guidance provided in the OTS' April 30, 1992 letter to President Smilow, the Institution's 1992 ROE, and any further comments by the OTS. Within 10 days after receiving the Regional Director's written notice of no objection, the tax sharing agreement shall be executed and a copy thereof provided to the Regional Director.

INVESTMENTS IN ASTRO, INC./ARLO, INC.

9. The Institution shall continue to reasonably and prudently dispose of all loans to and/or investments in Astro, Inc., and Arlo, Inc.

BOARD OF DIRECTORS

10. (a) The Institution shall comply with 12 C.F.R. § 552.6-1.  
  
(b) Within 30 days after the effective date of this Agreement, the Board shall divide its directors into three classes and modify the directors' terms of service to ensure compliance with the provisions of Section 552.6-1(b).  
  
(c) The Board shall, as soon as possible, add additional directors to bring the total number of directors into compliance with Section 552.6-1(b) and the Institution's bylaws. The addition of all directors and senior executive officers is subject to and shall be made in compliance with Section 32 of the FDIA, 12 U.S.C. § 1831i, and the OTS' policies and procedures concerning the addition of directors and senior executive officers, including but not limited to OTS Thrift Bulletin 45 ("TB 45").

COMPLIANCE REVIEW COMMITTEE

11. Within 30 days after the effective date of this Agreement, the board of directors shall appoint a Compliance Committee of at least three (3) directors, the majority of which shall not be executive officers of the Institution. The Compliance Committee shall be responsible for monitoring and coordinating the Institution's adherence to the provisions of this Agreement. Within 30 days after 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 and 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.

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.A. § 1818(b)(1).

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.

The section headings herein are for convenience only and shall not affect the construction of this Agreement.

In the event that any provision of this Agreement shall be declared invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. This Agreement shall remain in effect until terminated or suspended by the OTS, acting through the Regional Director. The Regional Director may, in his sole discretion, suspend any or all provisions of this Agreement.

