

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 24 day of February, 1997 (the "Effective Date"), by and between Bankers Federal Savings, FSB (the "Association"), a federally chartered stock association, having its main office located at 110 William Street, New York, New York and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Northeast Regional Director or his/her designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, based on the OTS Compliance Report of Examination for the examination of the Association which commenced on February 5, 1996 and concluded on October 3, 1996, the regular Report of Examination for the examination of the Association which commenced on August 5, 1996 and concluded on October 18, 1996, and the Field Visit which commenced on February 21, 1996 and concluded on June 19, 1996, the OTS is of the opinion that the Association has engaged in acts and practices that: (i) have resulted in violations of certain of the laws or regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of 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: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices; and~~

WHEREAS, the Association, acting through its Board of Directors (the "Board"), without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and regulations and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises and the mutual undertakings set forth herein, the parties hereto agree as follows:

I. COMPLIANCE WITH LAWS, REGULATIONS & SAFE AND SOUND PRACTICES

1.1 The Association shall comply with the following Federal laws and regulations:

A. Section 23B of the Federal Reserve Act, 12 U.S.C. § 371c-1 and Sections 563.41 and 42 of the regulations of the Office of Thrift Supervision, 12 C.F.R. §§ 563.41 and 563.42 (regarding transactions with affiliates);

B. Section 5(c) of the Real Estate Settlement Procedures Act, 12 U.S.C. § 2604(c) and Section 3500.7 of Regulation X of the Department of Housing and Urban Development ("Regulation X"), 24 C.F.R. § 3500.7 (regarding good faith estimates);

C. Section 563.161 (a) of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.161 (a) (regarding safe and sound management);

D. Section 563.170(c) of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.170(c) (regarding establishment and maintenance of records);

E. Section 563.176 of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.176 and Thrift Bulletins 13, 13-1 and 13-2 (regarding interest-rate-risk management procedures);

F. Section 563.180 (b) of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.180 (b) (regarding false or misleading statements or omissions);

G. Section 563.200 of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.200 (regarding conflicts of interest);

H. Section 202.13 of the regulations of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 202.13 (regarding collection of information for monitoring purposes); and

I. Section 226.19 (a) of the regulations of the Board of Governors of the Federal Reserve Board, 12 C.F.R. § 226.19 (a) (regarding mortgage loan disclosures).

II. CORRECTIVE PROVISIONS

2.1 Director Responsibility: Oversight

The Board shall oversee management's activities and is ultimately responsible for the affairs of the Association. In this regard, the Board shall be responsible for providing adequate direction, policies and monitoring of institution operations in accordance with all applicable OTS regulations.

2.2 Meeting With Counsel

The Board shall arrange for a meeting with counsel within ten (10) days of the Effective Date. The Board shall seek counsel's advice and assistance with regard to: (i) the meaning, nature, extent, and application of its fiduciary responsibilities, (ii) complying with this Agreement, and (iii) formulating any necessary and appropriate corrective measures, consistent with the Board's fiduciary responsibilities, that address the deficiencies cited in the Reports.

2.3 Code of Ethics/Conflicts of Interest Policy

Within thirty (30) days of the Effective Date, the Board shall revise the Association's existing written code of ethics ("Code") to ensure that the following elements are included:

A. Corporate Creed - The Code shall set forth a broad statement of corporate policy on ethics.

B. Conflicts of Interest - The Code shall:

(1) define what is meant by a conflict of interest, an apparent conflict of interest, and a potential conflict of interest (collectively referred to as "Conflicts");

(2) mandate timely, comprehensive, and accurate disclosure to the Audit Committee of the Board of Directors of Conflicts;

(3) prescribe a formal system for the identification, disclosure and resolution of Conflicts and the written documentation thereof; and

(4) address: (i) the acceptance of gifts, entertainment, favors and loans, (ii) employment of relatives, (iii) participating in any manner in any transaction or loan in which the individual, his/her spouse, child or any related interest has, or had, a financial interest, and (iv) providing goods or services to the Association.

~~C. Personal Finances - The Code shall:~~

(1) state that improper handling of personal finances could undermine the credibility of the affiliated person, the employee, or the institution and that a precarious financial position could be thought to influence actions or judgments made for the institution; and

(2) set forth specific policies and procedures for reporting loans and other financial transactions of employees and affiliated persons in accordance with the criteria set forth in the Code.

D. Confidentiality - The Code shall:

(1) define confidential information, and

(2) show how information must be guarded, and why abuses in this area can be harmful to the institution, the employees, and the customers.

E. Outside Employment/Activities - The Code shall state that the Association's employees and affiliated persons must manage his/her outside activities in accordance with

the requirements mandated by all applicable OTS regulations, and the provisions of the Code.

F. Protection of Institution Property - The Code shall adopt guidelines for the protection of the Association's property, including information, products and services in accordance with the requirements mandated by all applicable OTS regulations.

G. Laws and Regulations - The Code shall address applicable criminal statutes and financial institution regulations relating to conflicts of interest.

H. Code Administration - The Code shall provide methods -including training -- for ensuring compliance with the Code, and policies and procedures for enforcing the Code should be clearly described. The Code shall require a quarterly statement to the Association from each officer and director of the Association certifying their respective compliance with the Code. The Audit Committee shall identify a compliance officer who shall report directly to it and who, acting under the auspices of the Committee, shall be responsible for administering the Code and reviewing and maintaining all records, including the quarterly statements, regarding the matters governed by the Code.

I. Internal Review - Within ninety (90) days of the promulgation of the Code, the Association shall review its books and records to determine whether there are any matters or transactions to which the Code applies but which have not been previously resolved by the Audit Committee. Within ten (10) days thereafter, the compliance officer shall refer the said matters and transactions to the Audit Committee which shall resolve them within ~~thirty (30) days, except that this time period may be extended for an additional thirty (30)~~ day period upon a vote of the Audit Committee if "good cause" is shown. Upon the completion of the internal review and the resolution of any matters or transactions arising therefrom, the compliance officer shall submit a report to the Regional Director with respect thereto.

J. Reports - The compliance officer shall submit a report to the Regional Director on a quarterly basis which shall describe all matters arising under the Code during the said quarter.

2.4 Internal Audit Department

A. The Association's Internal Audit Department ("IAD") shall be independent of the Association's management and shall receive its assignments solely and directly from the Audit Committee.

B. The Audit Committee, on an ongoing basis, shall assure that the IAD is provided with adequately staffed and qualified personnel.

C. On an annual basis, the Audit Committee shall establish, and take all actions needed to assure the completion of, a schedule of assignments for the IAD encompassing all of the Association's operations and departments designed to determine:

- (1) whether the Association is in compliance with laws and regulations;
- (2) whether the internal controls system is working;
- (3) whether all significant deficiencies noted in audit reports have been corrected by management;
- (4) the soundness and adequacy of accounting, operating and administrative controls;
- (5) the effectiveness of internal policies and procedures; and
- (6) the extent to which the Association's assets are protected against loss.

2.5 Transactions with Affiliates/Compensation of Directors

With respect to any transactions between the Association and the members of the board of directors or affiliates of BFS Bankorp, Inc., ("BFS") the Association shall comply with Section 23B of the Federal Reserve Act, 12 U.S.C. §371c-1 and Section 563.42 of the regulations of the Office of Thrift Supervision, 12 C.F.R. §563.42. BFS shall reimburse the Association all fees, expenses, and other benefits paid to BFS board members by the Association through the Effective Date hereof. Within 30 days of the Effective Date, the Association shall submit documentation to the OTS evidencing its receipt of such reimbursement from BFS.

2.6 Interest Rate Risk Management

A. Within sixty (60) days of the Effective Date, the Board shall modify its existing an interest rate risk management policy and procedures ("Policy") to ensure that they are consistent with Section 563.176 of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.176 and Thrift Bulletins Nos. 13, 13-1 and 13-2. Approval by the Board of the Policy shall be documented in the Board minutes.

B. The Policy shall delegate responsibility for the management of interest rate risk and, at a minimum, provide for:

- (1) the accurate measuring and monitoring of interest rate risk;
- (2) the assessment of the impact of varying interest rate scenarios on the market value of portfolio equity and net interest income;

(3) goals, strategies and timetables for reducing the Association's interest rate risk exposure; and

(4) prudent limits on the amount of acceptable maximum change in the market value of portfolio equity as a result of possible changes in market interest rates.

C. The Board, on a quarterly basis, shall review a report (i) describing the Association's actual interest rate risk exposure, (ii) comparing the Association's exposure to the limits approved by the Board, and (iii) addressing any material differences in results between the Association's interest rate risk model and the OTS interest rate risk model. The Board's analysis of the report shall be documented in the Board minutes.

2.7 Consumer Compliance Program

A. Within sixty (60) days after the Effective Date, the Board shall modify its existing compliance program (the "Program") to ensure compliance with all applicable consumer, fair lending, non-discrimination, and public-interest related laws and regulations.

B. The Program, which shall be in writing, shall set forth the requirements of the applicable laws and regulations.

C. The Board shall designate a Compliance Officer who shall:

(1) coordinate the Program;

(2) monitor and test the Association's compliance therewith; and

(3) receive, and assure that the Association's Board, management, and staff, receive, mandatory and ongoing training with respect to the Program, its policies and procedures, and applicable laws and regulations.

2.8 Fair Lending

Within sixty (60) days of the Effective Date, the Board shall adopt policies and procedures ("Policy") that are separate and distinct from the Association's consumer compliance policy to assure that its lending operations comply with all fair lending and non-discrimination laws and regulations¹. At a minimum, the Policy shall:

¹ Including the Home Mortgage Disclosure Act, 12 U.S.C. § 2801 et seq.; the Equal Credit Opportunity Act, 15 U.S.C. § 1691 et seq.; the Fair Housing Act, 42 U.S.C. § 3601 et seq.; Regulations B and C promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 202 and 203; Part 528 of the regulations of the Office of Thrift Supervision, 12 C.F.R. Part 528; and Part 100 of the regulations promulgated by the Department of Housing and Urban Development, 24 C.F.R. Part 100.

- A. contain a mission statement setting forth the Association's commitment to the principles of fair lending and equal treatment in its lending operations;
- B. commit the Association to communicate to its Board, management, and employees (i) the importance of fair lending and (ii) the consequences of a failure to comply with the Policy and applicable fair lending and non-discrimination laws and regulations;
- C. provide for the adoption of nondiscriminatory lending practices including specific criteria regarding the treatment and resolution of oral communications by or on behalf of potential borrowers;
- D. prescribe ongoing training regarding the Policy, applicable fair lending and non-discrimination laws and regulations, and the Association's lending and underwriting policies, procedures, and standards; and
- E. require that the Association's Compliance Officer monitor and test the Association's compliance with the Policy and applicable fair lending and non-discrimination laws and regulations.

2.9 Truth-in-Lending

The Board shall assure that the Association complies with the disclosure requirements of Section 226.19(a) of the regulations promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. §§ 226.19(a).

2.10 Good Faith Estimate

The Board shall assure that the Association complies with its responsibility to provide timely and complete good faith estimates of settlement charges in accordance with Section 5(c) of the Real Estate Settlement and Procedures Act, 12 U.S.C. § 2604(c) and the regulations promulgated thereunder by the Department of Housing and Urban Development, 24 C.F.R. §§ 3500.7(a) and (e).

2.11 Loan Underwriting Policies and Procedures

A. In order to assure that the Association complies with all laws and regulations, including but not limited to fair lending laws and regulations, the Board, within sixty (60) days of the Effective Date, shall formally revise, and thereafter monitor the implementation of, its loan underwriting policies and procedures ("Policy") with respect to its capitalization rate methodology. The revised Policy shall:

- (1) provide that capital rate adjustments shall be addressed in comprehensive written detail;

(2) mandate that capital rate adjustments be clearly documented and based on (i) economically objective criteria and (ii) safety and soundness considerations; and

(3) establish criteria for when differences between the value of the property: (a) determined by the internal valuation (based on the capitalization rate methodology) and (b) determined by the external appraisal must be explained.

B. The Association's Compliance Officer, on a periodic basis to be established by the Audit Committee, shall review multi-family property loan applications both approved and declined to determine that any capitalization rate adjustment is consistent with the Association's policies and procedures including, but not limited to, the policies and procedures applicable to fair lending.

2.12 Equal Credit Opportunity Monitoring Information

The Board shall assure that the Association complies with its responsibility to obtain and maintain the monitoring information required by Section 202.13 of Regulation B of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 202.13.

2.13 Establishment and Maintenance of Records

A. The Board shall assure that the Association complies with the recordkeeping requirements of the Code established pursuant to Section 2.3 of this Agreement and, in connection with transactions with affiliates, complies with the recordkeeping requirements of 12 C.F.R. §§ 563.41(e) and 563.42(e).

B. The Association shall, within thirty (30) days after the Effective Date, establish a tracking system ("System") for all multi-family loan solicitations, whether or not broker originated. The establishment and administration of the System shall be addressed in the Program, and shall, among other things, define what the Association considers to be a "solicitation." The System shall log each solicitation and with respect to each shall record, to the extent relevant information is provided:

- (1) the date the solicitation is received;
- (2) the specific address of the referable property;
- (3) the name, address and telephone number of the broker or such other person making the solicitation;
- (4) the identity of the Association employee responsible for the review and analysis of the solicitation and the results thereof; and
- (5) the reason why any solicitation did not result in an application.

The Compliance Officer shall review periodically the System to ascertain whether the Association's processing of the solicitations is consistent with the Association's policies.

III. MISCELLANEOUS

3.1 Compliance with Agreement

The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.

3.2 Definitions

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, Home Owners' Loan Act ("HOLA"), Federal Deposit Insurance Act ("FDIA"), or OTS Memoranda. Any such technical words or terms used in this Directive and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

3.3 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.~~

3.4 Duration, Termination or Suspension of Agreement

A. This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below and (ii) 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, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

3.5 Time Limits

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

3.6 Effect of Headings

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

3.7 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, unless the Regional Director in his/her sole discretion determines otherwise.

3.8 No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

Nothing in this Agreement shall be construed as:

- A. allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject; or
- B. restricting the OTS from taking such action(s) that are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

3.9 Successors in Interest/Benefit

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

3.10 Integration Clause

This Agreement represents, as of the Effective Date, the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

3.11 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.

3.12 Signature of Directors

Each director of the Association signing the Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director, and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

THE ASSOCIATION

By: RS
Robert C. Albanese
Regional Director

By: RS
James A. Randall
President and Chief
Executive Officer

DIRECTORS OF THE ASSOCIATION

RS
Director

RS
Director

RS
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OFFICE OF THRIFT SUPERVISION

THE ASSOCIATION

By: _____
Robert C. Albanese
Regional Director

By: _____
James A. Randall
President and Chief
Executive Officer

DIRECTORS OF THE ASSOCIATION

Director

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

I, the undersigned, being the duly appointed and qualified Secretary of Bankers Federal Savings, FSB (the "Association"), hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on February 19, _____, 1997;
2. At said meeting a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board of Directors and the Association have the intent to: (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS, the Directors of the Association have read and considered the proposed Supervisory Agreement ("Agreement") which shall be attached to the minutes of this meeting; and

~~**WHEREAS**, after due consideration, the Directors of the Association have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;~~

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of the Agreement be, and they hereby are, authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Association be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Association to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except _____) and all members of the Board of Directors (except _____) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal
of the Association on this 19th day of February, 1997.

JSJ
Secretary

(SEAL)