

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made and is effective this 22 day of NOVEMBER, 1999 (the Effective Date), by and between Carnegie Savings Bank (the Association), a federally-chartered savings association, having its main office located at 17 West Mall Plaza, Carnegie, Pennsylvania 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 Compliance Report of Examination dated May 3, 1999 (CROE), the OTS is of the opinion that the Association has engaged in acts and practices that have resulted in violations of certain of the laws or regulations to which the Association is subject; 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 comply with all applicable laws and regulations; and

WHEREAS, the Association, acting through its Board of Directors (Board), and without admitting or denying any violations of laws or regulations, wishes to cooperate with the OTS and to evidence the intent to comply with all applicable laws and regulations.

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. the Bank Secrecy Act, 31 U.S.C. § 5313, Section 563.177 of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.177, and Subpart B of the regulations of the Department of the Treasury, 31 C.F.R. § 103.22 (regarding Bank Secrecy Act compliance);

B. Sections 202.5(b) and 202.13(a) of the regulations of the Board of Governors of the Federal Reserve System, 12 C.F.R. §§ 202.5(b) and 202.13(a) (regarding information for monitoring purposes);

C. Section 202.7(d) of the regulations of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 202.7(d) (regarding signature of spouse or other person);

D. Sections 226.18(d) and (e) of the regulations of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 226.18(d) and (e) (regarding disclosure of finance charge and annual percentage rate);

E. Section 528.2a(b) of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 528.2a(b) (regarding availability to public of written non-discriminatory underwriting standards);

F. Section 560.210(b) of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 560.210(b) (regarding adjustment notices for adjustable rate mortgages); and

G. Sections 568.2 and 4 of the regulations of the Office of Thrift Supervision, 12 C.F.R. §§ 568.2 and 4 (regarding security program).

II. CORRECTIVE PROVISIONS

2.1 Consumer Compliance Program

A. Within 60 days of the Effective Date, the Board shall adopt, and file with the Regional Director, a written compliance program (Program). The Program shall specify the policies and procedures designed to meet the Association's responsibilities to comply on an ongoing basis with the applicable consumer and public-interest laws and regulations (Compliance Laws). The Compliance Laws are generally set forth in the *Compliance Activities Handbook* issued by OTS and include but are not limited to the Equal Credit Opportunity Act, the Community Reinvestment Act, the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Bank Secrecy Act, the Bank Protection Act, and Parts 528 and 568 and Sections 560.210 and 563.177 12 C.F.R. of the regulations of the Office of Thrift Supervision, 12 C.F.R. Parts 528 and 568 and 12 C.F.R. §§ 560.210 and 563.177. The Board shall ensure implementation of, and adherence to, the Program.

B. Concomitant with the adoption of the Program, and subject to notice to and the non-objection of the Regional Director, the Board shall appoint, and thereafter retain, a competent compliance officer who shall report directly to the Board. The compliance officer shall have the authority to implement and supervise the Program including: (i) overseeing training for the Association's Board, officers, managers, and staff in the Compliance Laws including determining ongoing training needs and identifying appropriate external and internal compliance training resources, (ii) establishing internal controls and procedures designed to ensure compliance with and prevent violations of the Compliance Laws, and (iii) performing or supervising periodic written reviews to ascertain the Association's compliance with the Compliance Laws and the Program.

The ongoing determination of whether the Association is retaining a competent compliance officer within the meaning of this paragraph shall be based upon the officer's continued effectiveness in ensuring that the Association achieves compliance with the Compliance Laws, the Program, and the

pertinent requirements of this Agreement.

C. The Program, at a minimum, shall address and provide for the following:

(1) the opportunity for the compliance officer to receive continuing education and training in the Compliance Laws;

(2) the education and training, pursuant to an annual written training program, of Association officers, directors, managers, and staff in the requirements and prohibitions of the Compliance Laws and the Program;

(3) the reporting to the Board on a semi-annual basis of all education and training in Compliance Laws and/or the Program conducted or attended by Association personnel during the preceding six months;

(4) the establishment of review procedures and a schedule of periodic written reviews to be performed or supervised by the compliance officer for the purpose of monitoring the Association's compliance with the Compliance Laws and the Program; and

(5) the Board's required review of the periodic written reviews and implementation of appropriate follow-up procedures to correct any deficiencies cited in the reviews.

2.2 Review of Adjustable Rate Mortgage Loan Files

A. With respect to the Association's extant Adjustable Rate Mortgage Loan portfolio and those Adjustable Rate Mortgage Loans otherwise paid off by borrowers subsequent to June 17, 1996 (collectively referred to as ARMs), the Association shall review the associated loan documents and periodic adjustment notices and shall determine whether all interest rate adjustments (adjustments) were calculated in the manner prescribed in the pertinent Adjustable Rate Note (Note). Within sixty (60) days of the Effective Date, the Association shall file a report with the Regional Director regarding its review of the ARMs. The report shall: (i) address whether the adjustments were calculated in accordance with the referable loan documents, and (ii) with respect to any borrower for which the adjustment was not properly calculated, set forth the name of the borrower, the affected accounts, and the amount the Association overcharged the borrower because of the Association's failure to calculate the adjustment as prescribed by the loan documents.

B. Within thirty (30) days of the filing of the report, the Association shall: (i) issue corrected disclosures notifying any borrower of past overpayments due to the calculation of a periodic rate adjustment that did not conform to the terms of the referable Note, (ii) make appropriate refunds to any such overcharged borrowers, and (iii) take whatever other actions as may be necessary to assure that the Association has abided by the terms of the legal obligations between it and the borrowers.

C. With respect to the ARMs currently in its loan portfolio, the Association, from and after the Effective Date, shall abide by the terms of the legal obligation between it and its borrowers and provide true and accurate disclosures regarding the interest rate payable applicable to periodic adjustments in

interest rates.

2.3 Loan Underwriting Standards

In accordance with Section 528.2a(b) of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 528.2a(b), the Board shall assure that written copies of its approved underwriting standards are and remain available to the public upon request. Within thirty (30) days of the Effective Date hereof, the Board shall file with the Regional Director a copy of the said standards.

2.4 Extension of Unsecured Credit

With respect to the extension by the Association of unsecured credit, the Board shall ensure that the Association: (i) complies with the requirements of Section 202.7 of the regulations promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. § 202.7, (ii) does not require the signature of an applicant's spouse or other person, other than a joint applicant, except to the extent permitted under 12 C.F.R. § 202.7, on any credit instrument if the applicant qualifies under the Association's standards of creditworthiness for the amount and terms of the credit requested, and (iii) makes loan decisions based upon a demonstrable relationship between its underwriting standards and the creditworthiness of the applicant.

2.5 Bank Secrecy Act

A. Within sixty (60) days after the Effective Date, the Board shall adopt, and thereafter oversee compliance with, *specific written policies and procedures* to insure that the Association shall comply with the requirements of the Bank Secrecy Act, 31 U.S.C. § 5311 *et seq.* and the regulations promulgated thereunder, Section 563.177 of the regulations of the Office of Thrift Supervision, 12 C.F.R. § 563.177 and Subpart B of the regulations of the Department of the Treasury, 31 C.F.R. § 103.21 *et seq.* At a minimum, the policies and procedures shall: (i) designate Association personnel who shall be responsible for the timely filing of complete and accurate currency transaction reports required by Section 103.22 of the regulations of the Department of the Treasury, 31 C.F.R. § 103.22 and (ii) require the maintenance of exempt complete and accurate records with respect to "exempt persons" as designated by the Association pursuant to Section 103.22(d) of the regulations of the Department of the Treasury, 31 C.F.R. § 103.22(d).

B. Within thirty (30) days after the Effective Date, the Association shall file with the Regional Director a report, including all pertinent correspondence, with respect to the resolution of exemption and currency transaction report filing requirements regarding a certain beverage distributor referred to in the CROE.

2.6 Security Devices and Procedures

The Board shall assure that the Association's designated security officer performs all testing of the Association's security devices as required by the Association's approved Security Policy and maintains written records of such testing. The security officer, on an annual basis, shall file a written report with the Board regarding the implementation, administration, and effectiveness of the

Association's security program. The Board's review and consideration of the annual report and implementation of appropriate follow-up procedures to correct any deficiencies cited in the report shall be documented in the minutes of the Board.

2.7 Truth-in-Lending

The Board shall assure that the Association accurately calculates the finance charge and the annual percentage rate applicable to closed-end credit transactions by complying with the requirements of Section 226.18 of the regulations promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. § 226.18.

2.8 Information for Monitoring Purposes

The Board shall assure that the Association does not request from applicants for home equity lines of credit the information enumerated in Section 202.13(a) of the regulations promulgated by the Board of Governors of the Federal Reserve System, 12 C.F.R. § 202.13(a), unless the credit is primarily for the purchase or refinance of a dwelling occupied or to be occupied by the applicant as a principal residence, where the extension of credit will be secured by the dwelling.

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
for Robert C. Albanese
Regional Director

By: RS
Shirley C. Chiesa
President

DIRECTORS OF THE ASSOCIATION

RS
Director

RS
Director

RS
Director

RS
Director

Director

Director