

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 6th day of March 1992, by and between Surety Federal Savings Bank, Vallejo, California (hereinafter "Surety" or the "Institution") and the Office of Thrift Supervision ("OTS"), an office of the United States Department of Treasury. References in this Agreement to the Institution shall be understood to include all wholly owned or majority owned subsidiaries of the Institution unless a contrary meaning is apparent.

WHEREAS, the OTS is of the opinion that Surety has engaged in practices or failed to take certain actions in operating the business of the Institution that warrant supervisory correction;

WHEREAS, the OTS acknowledges that Surety has initiated and implemented some supervisory corrections; and

WHEREAS, in the interest of resolving OTS' supervisory concerns in a cooperative manner, Surety and OTS agree as follows:

NOW THEREFORE, it is agreed that:

1. Within 30 days of the date of this agreement, Surety shall 1) submit to the OTS for non-objection the name and qualifications of the recently hired Compliance/CRA officer, and 2) develop and submit to the OTS for approval the position descriptions, level of authority and reporting relationships for the Compliance/CRA officer. Non-objection to the Compliance/CRA officer will be based on the review of the individual's competence, experience, character, and integrity. The Compliance/CRA officer position shall be a full time position covering both the Compliance and CRA responsibilities, and shall be vested with the appropriate level of responsibility, authority, and resources necessary to carry out the duties of these positions.

2. Within 60 days of the date of this Agreement, the members of Surety's Board of Directors and senior management shall receive training in their duties and responsibilities under federal civil rights, fair housing and lending, consumer protection, and other compliance laws and regulations administered by the OTS. Prior to providing such training to Surety's Board of Directors and senior management, the Institution shall submit a training plan to the OTS for review and comment.

3. Within 90 days of OTS non-objection to the Compliance/CRA Officer, in order to ensure substantial compliance and consistent credit decisions which adhere with the prohibited provisions of nondiscrimination, Surety shall develop and implement clearly articulated underwriting standards for both its residential and consumer credit products. Prior to implementing underwriting standards, the Institution shall submit a copy to the OTS for review and comment.

4. Within 90 days of OTS non-objection to the Compliance/CRA Officer, in order to ensure ongoing, effective substantial compliance with nondiscrimination, fair housing and lending, consumer protection, and other compliance laws and regulations, Surety shall develop a comprehensive strategy, including an agenda for full implementation and a mechanism for effective Board of Directors' oversight. The strategy should address not only the matters covered by this Agreement but also those aspects of Surety's business covered by OTS's Compliance Activities Handbook and any other pertinent federal and state laws and regulations. At a minimum, the strategy shall include the following actions:

- a. A complete self-assessment of the Institution, conducted by the Compliance Officer, to develop a plan ("the Plan") for identifying and correcting existing deficiencies. This Plan is to include: (i)

a timetable for the review; (ii) the means of implementing corrective actions; (iii) a training program and schedule for current employees; and (iv) the follow-up to ensure the effectiveness of such actions thereafter. The Plan shall be submitted to OTS for review and non-objection. Subsequently, a quarterly report on the status of the Plan's completion is to be submitted to the OTS by the Board of Directors.

- b. The development and implementation of a written ongoing compliance program encompassing (i) development and periodic updating of policies and procedures; (ii) training of new and periodic retraining of existing staff; (iii) day-to-day operational controls; (iv) periodic compliance audits; and (v) mechanisms for updating the program and correcting deficiencies that arise. The responsibility and timetable for implementing each aspect of this program, as well as the specific areas it will cover, should be included. The roles, responsibilities, and relationship between relevant management personnel should be defined, and a description of the Board of Directors' involvement and oversight role should be set forth.
- c. The development and implementation of a procedure to review loan applications denied after the date revised lending standards are implemented in accordance with the Report of Examination dated December 9, 1991, for conformance with the Institution's revised standards and compliance with pertinent regulations. The results of such review will be incorporated into the Institution's comprehensive ongoing compliance program set forth above.
- d. The development and implementation of a program for monitoring loan applications received, granted, and denied in order to identify and

address any disparate patterns in the Institution's lending, particularly with respect to low/moderate-income areas of the Institution's community, minorities, and members of other protected classes. This monitoring should at a minimum conform to the recommended analyses set forth in Thrift Bulletin 25, dated April 19, 1989, and any applicable subsequent bulletins and should include a mechanism for providing at least semiannually its results to the Board of Directors and for incorporating them into the Institution's business planning.

5. Within 45 days of written non-objection to the Plan, the Institution will implement the initial program for training its staff to ensure consistent implementation of the Plan and compliance with applicable laws and regulations. A schedule for this training is to be submitted with the Plan to the OTS for review and comment.

6. The Institution will establish a formalized CRA program with specific goals, objectives, and accountabilities that will be actively overseen by its Board of Directors, the Compliance/CRA Officer, and senior management. This program should conform, at a minimum, to the guidelines provided in the "Interagency Policy Statement on the Community Reinvestment Act," dated March 30, 1989, and should include (i) a description of efforts to ascertain community credit needs and affirmatively incorporate the results of those efforts into the Institution's planning for product development and delivery; (ii) incorporation of the results of the Institution's monitoring of its lending patterns; and (iii) periodic evaluation of the Institution's own performance and procedures for documenting its CRA activities and how they relate to its CRA goals.

7. Prior to each regularly scheduled meeting of the Board of Directors occurring after completion of each calendar quarter, the Compliance/CRA officer shall prepare and submit as part of the package provided to the Board of Directors a comprehensive report regarding compliance matters. At each regularly scheduled meeting occurring after completion of each calendar quarter, the Board of Directors will review the report prepared by the Compliance/CRA officer and provide certification of such review to the OTS along with a description of any proposed corrective action. The report by the Compliance/CRA officer should include, at a minimum, evidence:

- (i) that the Institution's loan application register is completed as required by Title 12 C.F.R. Part 528.6(d)(2);
- (ii) that the Institution does not deny or discourage loan applicants on any prohibited basis, including lending practices which are not consistently applied to all applicants, as required by Title 12 C.F.R. Parts 202 and 528 and 42 U.S.C. § 3601;
- (iii) that the Institution reviews its underwriting guidelines on an annual basis for discrimination issues as required by Title 12 C.F.R. § 528.2a(b);
- (iv) that the last 5 years of the Institution's home mortgage reports for are available as required by Title 12 C.F.R. § 203.5 (Home Mortgage Disclosure Act);
- (v) that the specific reason(s) for adverse action taken on a loan application is documented in the Institution's loan application files as required by Title 12 C.F.R. § 202.12(b) (Regulation B of the Federal Reserve System) and 12 U.S.C. § 1691 et seq. (Equal Credit Opportunity Act);

- (vi) that the Institution's adverse action notices list the OTS as the federal agency as required by Title 12 C.F.R. § 202.9(b)(1) (Regulation B) and 12 U.S.C. § 1691 et seq. (Equal Credit Opportunity Act);
- (vii) that the Institution's loan disclosure statements are provided within the applicable time frames as required by Title 12 C.F.R. §§ 226.19(a)(1) and 226.19(b) (Regulation Z of the Federal Reserve System), 15 U.S.C. § 1601 et seq. (Truth-in-Lending Act), Title 12 C.F.R. §§ 563.99(b) and 563.99(d), and Title 24 C.F.R. § 3500.6(a) (Regulation X of the Department of Housing and Urban Development), and 12 U.S.C. § 2601 et seq. (Real Estate Settlement Procedure Act);
- (viii) that the maximum interest rate for the Institution's construction loans is documented as required by Title 12 C.F.R. § 226.30 (Regulation Z) and 15 U.S.C. § 1601 et seq. (Truth-in-Lending Act);
- (ix) that construction loan APR's are accurately calculated as set forth in Title 12 C.F.R. § 226.22(a) (Regulation Z and Appendix D of said regulation) and 15 U.S.C. § 1601 et seq. (Truth-in-Lending Act);
- (x) that construction loans "amount financed" is correct as set forth in Title 12 C.F.R. § 226.18 (Regulation Z and Appendix D of said regulation) and 15 U.S.C. § 1601 et seq. (Truth-in-Lending Act);
- (xi) that ARM loan disclosures contain language pertaining to historical index value as required by 12 C.F.R. § 563.99(b)(20)(viii);

- disclosure as required by to Title 12 C.F.R. § 205.7(a) and 12 U.S.C. § 1693(b) (Electric Fund Transfers Act);
- (xiii) that the Institution has implemented and is adhering to written policies and procedures addressing funds availability not inconsistent with 12 C.F.R. Part 229 (Regulation CC) and 12 U.S.C. § 4001 et seq. (Expedited Funds Availability Act) and is providing staff training as required by Title 12 C.F.R. § 229.19(f);
- (xiv) that check hold information is provided to customers as required by Title 12 C.F.R. § 229.13(g)(2) (Regulation CC);
- (xv) that the Institution has implemented and is adhering to comprehensive written policies and provide staff training pursuant to Title 12 C.F.R. § 563.177(c) and 31 U.S.C. § 5311 et seq. (Bank Secrecy Act);
- (xvi) that Institution staff is submitting reports of currency transactions, including suspicious transactions, on the Currency Transaction Report forms, as required by Title 31 C.F.R. § 103.27 of the Treasury Regulations and 31 U.S.C. § 5311 et seq. (Currency and Foreign Transactions Reporting (Banks Secrecy Act));
- (xvii) that Institution staff is documenting the basis for exempting customers, if any, from currency transaction reporting as required by Title 31 C.F.R. § 103.22(d) of the Treasury Regulations;
- (xviii) that Institution staff is using the correct forms to capture the information regarding bank checks, drafts, cashier's

checks, money orders and travelers checks as required by Title 31 C.F.R. § 103.29 of the Treasury Regulations; and

- (xix) that Institution staff is completely and correctly obtaining all information on Currency Transaction Report forms as required by Title 31 C.F.R. § 103.27(d) of the Treasury Regulations and 31 U.S.C. § 5311 et seq. (Currency and Foreign Transactions Reporting (Banks Secrecy Act))

8. For good cause shown, the Assistant Regional Director may extend the time to complete any act required by the Agreement, specifically;

- a. If the Assistant Regional Director disapproves any policy, plan, or act submitted for approval under the terms of this Agreement, Surety shall submit a revision of the policy, plan, or act, to the Assistant Regional Director within 30 days after it receives written notice of disapproval;
- b. No policy, plan, or act, approved by the Assistant Regional Director may be amended, suspended, or revoked without the prior written approval of the Assistant Regional Director, except as required by amendments to any applicable laws, regulations or rules referred to in the Agreement. However, if Surety has been in substantial compliance with any requirement imposed by this Agreement for a reasonable period of time, the Assistant Regional Director may terminate such requirement upon written request.

9. Those plans, policies, procedures or evidence of corrective or other actions expressly required by this Agreement to be submitted directly to the OTS for approval, shall be prepared by Surety management and submitted to the Board for review and approval. Upon review and approval by the Board, the

Board shall direct management to submit such plan, policy, procedure, or action to the OTS for its approval.

10. Those plans, policies, procedures, and corrective or other actions not expressly required by this Agreement to be approved by the OTS, shall be prepared by Surety management and submitted to the Board for review and approval. Upon review and approval by the Board, the Board shall direct management to implement and adhere to such plan, policy, procedure, or action.

11. All plans, policies, procedures, or evidence of corrective or other actions required by this Agreement shall be maintained by Surety for review by OTS for compliance with this Agreement.

12. The Board shall submit to OTS by the tenth day following the regularly scheduled Board meeting following each calendar quarter during the duration of this Agreement a report detailing Surety's progress, status and/or adherence to each of the requirements set forth in Paragraphs 1 through 7 of this Agreement. Included in such quarterly report shall be sufficient detail of the evidence the Board reviewed to establish the progress, status and/or adherence to the requirements of Paragraphs 1 through 7. The status report should also include a discussion of any material variances or deviations from the Plan required in Paragraph 4 of this Agreement.

13. The OTS does not relinquish any of its rights to take any supervisory or other action whatsoever with respect to Surety as a result of this Agreement. Surety acknowledges that it has not received any oral or written representations to the contrary by OTS or any of its agents or employees.

14. As used in this Agreement, the term "savings bank" shall have the meaning as set forth in Section 2(4) of the Home Owners Loan Act ("HOLA"), as amended by Section 301 of FIRREA, Pub. L. No. 101-73, Section 301 (1989).

15. References 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 of this Agreement pursuant to Section 401(h) of FIRREA, Pub. L. No. 101-73, Section 401(h) (1989), and references to successor provisions as they become applicable.

16. All technical words or terms used in this Agreement, for which meanings are not defined or otherwise provided by the provisions of this Agreement, shall, insofar as applicable, have the meanings set forth 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.

17. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement of Surety and the OTS. It is understood and agreed that this Agreement is a "written agreement" between the depository institution and the OTS, as that term is used in Section 8 of the Federal Deposit Insurance Act (12 U.S.C. § 1818).

18. This Agreement constitutes the entire agreement between the OTS and the Institution, but does not supersede any prior order, directive, or agreement imposed upon, or agreed to, by Surety. No amendment or modification of this Agreement shall be valid and binding unless executed in writing by both the OTS and Surety.

19. The terms and provisions of this Agreement shall be binding upon, and inure to the benefit of, the parties hereto, their successors in interest, and respective assigns.

20. This Agreement shall remain in effect until terminated by the OTS. All requests for termination of the Agreement shall be submitted to the Assistant Regional Director. Upon review of any such request, the Assistant Regional Director shall make a recommendation to the Regional Director for denial or approval of the request. The Regional Director may grant a written request for termination or modification of the Agreement if, in his opinion, Surety has satisfactorily complied with the terms of this Agreement for an appropriate period of time. The Regional Director's grant of such written request shall only be evidenced by the issuance of a written amendment to this Agreement executed by a duly authorized representative of the OTS.

21. A certified copy of the Board's resolution authorizing the execution of this Agreement, evidencing its intent to be bound thereby and requiring action to be taken to comply with its terms, shall be attached hereto as Exhibit A and made part thereof.

IN WITNESS WHEREOF, the OTS, acting through the Assistant Regional Director, and the Institution, acting through its duly elected directors, have executed this Agreement as of the date first above written.

OFFICE OF THRIFT SUPERVISION

SURETY FEDERAL SAVINGS BANK
BOARD OF DIRECTORS

By: 15/
James Woods
Assistant Regional Director
West Region

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RESOLUTION

IT IS HEREBY RESOLVED by the Board of Directors of Surety Federal Savings Bank, Vallejo, California, that the Board be, and it hereby is, authorized to execute that certain Supervisory Agreement, dated and effective the 6th day of March, 1992, between the Bank and the Office of Thrift Supervision, an office of the United States Department of Treasury; and

IT IS FURTHER RESOLVED that each individual member of the Board is hereby ordered and directed to execute said Agreement.

CERTIFICATION

I, BERNARD J. FAVARO, am the Assistant Secretary of the Surety Federal Savings Bank, Vallejo, California. I DO HEREBY CERTIFY that the above Resolution is a true and exact copy of the Resolution passed by the Board of Directors of said Bank, upon motion duly made, seconded and passed unanimously, on the 6th day of March, 1992.

Executed under penalty of perjury this 6th day of March, 1992, at Vallejo, California.



BERNARD J. FAVARO