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SUPERVISORY AGREEMENT

AKH This Supervisory Agreement ("Agreement") is made and is effective this ~~17~~ day of February 1992, by and between Annapolis Federal Savings Bank, Annapolis, Maryland, OTS No. 1714, for itself and its wholly owned service corporations and subsidiaries ("Annapolis Federal" or "Institution") and the Office of Thrift Supervision ("OTS" or "Agency"), 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 the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. Section 1818(b) (1988 & Supp. I 1989); and

WHEREAS, the Institution, without admitting or denying that grounds exist to initiate administrative proceedings against the Institution and in the interest of regulatory compliance and cooperation, 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 the Institution to require the actions referred to in this Agreement, for so long as the Institution is in compliance with the provisions of the 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 to require actions 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:

1. Within 60 days after the Effective Date of this Agreement, the Institution shall develop, adopt and, thereafter, adhere to loan underwriting policies and procedures that comply with the requirements of 12 C.F.R. Section 563.170 and, at a minimum, require the Institution to perform and document its review of all financial information gathered in the loan application process and, thereafter, perform and document its periodic review of said financial information. This documentation shall include, but not be limited to, the following items for all loans except loans secured by owner occupied single family dwellings and share loans:
 - a. An analysis of each credit report;
 - b. For any prospective borrower who is self employed or is a corporation, an analysis of the borrower's most recent income tax returns;
 - c. An analysis of current financial statements, including balance sheets and operating statements. This analysis shall include the review of the borrower's current assets and current liabilities, the borrower's net working capital, the amount of debt in relation to net worth, and the availability of funds for equity in any proposed security property;
 - d. An analysis of the borrower's cash flow and ability to service short and long term debt, including any prospective loan.
2. The Board shall ensure that the Institution adheres to appraisal policies and procedures sufficient to comply with the requirements of 12 C.F.R. Part 564 and that appraisals obtained by the Institution are reviewed and analyzed to ensure the safety and soundness of the Institution.
3. The Board shall ensure that the Institution appropriately values real estate owned in accordance with generally accepted accounting principles (SFAS 5 and SFAS 15) and shall properly calculate net realizable value and fair value estimates.

4. The Board shall ensure that the Institution adheres to asset classification policies and procedures sufficient to comply with the requirements of 12 C.F.R. Section 571.26.
5. Within 60 days of the effective date of this Agreement, the Institution shall develop, and the Board shall adopt, implement, and thereafter comply with a written plan to reduce the level of adversely classified and special mention assets ("criticized assets"). The plan shall include specific targets and quarterly time frames for the reduction of the level of criticized assets. The plan shall be periodically updated to include newly criticized assets subsequent to the Effective Date of this Agreement and to reflect changes in circumstances effecting troubled asset disposition. At a minimum, the Board shall review management's progress in meeting the targets on a quarterly basis.
6. The Institution shall continue to establish general valuation allowances in the manner described in the June 6, 1991 OTS Report of Examination. Additionally, the Board shall review the sufficiency of the general and specific valuation allowances at least quarterly.
7. The Institution shall discontinue the payment of dividends until such time as total classified assets equal an amount less than that of the institution's total risk based capital. After an OTS examination of Annapolis Federal's progress in resolving troubled assets and other factors, the Institution may provide the OTS with notice pursuant to 12 C.F.R. Section 563.134 of its intent to pay dividends. Annapolis Federal shall adhere to the stricter of Paragraph 3(c) of the December 31, 1986 Federal Home Loan Bank Board Resolution, which approved the Institution's holding company application, or 12 C.F.R. Section 563.134 with respect to capital distributions.
8. The Institution shall provide to the OTS a revised 3 year business plan as required by paragraph 4 of the December 31, 1986 Federal Home Loan Bank Board Resolution which approved the Institution's holding company application. Said business plan shall demonstrate the Institution's strategy in remaining capital compliant while reducing its investment in a nonincludable subsidiary.

9. The Institution shall not accrue interest on any asset upon which principal or interest has been in default for a period of 90 days or more unless it is both well secured and in the process of collection, i.e., collection from the borrower in cash and not from the eventual sale of the underlying collateral.
10. The Institution shall not commit to, make, invest in, purchase, refinance, extend or otherwise modify any loan with a principal amount in excess of \$100,000 to an affiliated person (as defined in 12 C.F.R. Section 561.5) of an outside thrift institution unless such loan is adequately secured or amortizing.

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. 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. Section 1818(b)(1).

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Annapolis Federal Savings Bank, Annapolis, Maryland, OTS No. 1714, ("Institution"), hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on February 17, 1992, and at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

RESOLUTION

WHEREAS, the officers and directors of the Institution have been advised that the Office of Thrift Supervision ("OTS") is of the opinion that the grounds exist to initiate administrative proceedings against Annapolis Federal Savings Bank pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C 1818(b); and

WHEREAS, said officers and directors have been informed that the OTS will forebear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

WHEREAS, the directors of the Institution have read and considered the proposed Agreement attached to the minutes of the meeting of the Board of Directors held on October 17, 1991, and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

NOW, THEREFORE, BE IT RESOLVED, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the seal of Annapolis Federal Savings Bank this 17th day of February 1992.

MARKER

15/
Secretary