

94990

OTS No. 5481

**SUPERVISORY AGREEMENT**

This Supervisory Agreement ("Agreement") is made and is effective this 26th day of March, 1992 (the "Effective Date"), by and between The Little Falls Savings Bank, SLA (the "Association" or "Little Falls"), a state chartered mutual savings association, having its main office located at 86 Main Street, Little Falls, New Jersey 07424 and the Office of Thrift Supervision ("OTS"), an office within the Department of the Treasury, a department in the Executive Branch of the United States Government, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C.

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

WHEREAS, the OTS, represented by the Regional Director for the Northeast Region ("Regional Director") is of the opinion that the Association has engaged in acts and practices in operating the business of the Association 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: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain itself in a safe and sound condition; and

WHEREAS, the Board of Directors of the Association (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 demonstrate that they have the intent and ability to: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain the Association in a safe and sound condition.

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

## I. COMPLIANCE WITH LAWS AND REGULATIONS

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

(a) Section 563.170(c) of the OTS Regulations (regarding the establishment and maintenance of records);

(b) Section 563.176 of the OTS Regulations, 12 C.F.R. § 563.176 (regarding interest-rate-risk-management procedures); and

(c) Section 571.18 of the OTS Regulations, 12 C.F.R. § 571.18 (regarding accounting for troubled debt restructurings).

1.2 The compliance requirements set forth in Section 1.1 that the Association conduct its business in conformity with the requirements of the Federal laws and regulations set forth therein shall not be construed as an authorization for the Association or its affiliates to engage in the activities governed by the aforesaid laws, rules, and regulations. To the extent that it is lawful for the Association or its affiliates to engage in such activities, they shall be subject to any stricter restrictions, limitations and requirements set forth in this Agreement.

## II. CORRECTIVE PROVISIONS

### 2.1 General Valuation Allowances.

No later than 30 days from the Effective Date, Little Falls shall revise its policy relating to general valuation allowances ("GVAs") to include procedures for creating appropriate levels of GVAs for unclassified assets, including without limitation the assignment of one professional to monitor the adequacy of the GVAs and to report at least quarterly to management and the Board. In addition, at least quarterly the Board must review such report and the adequacy of the policies and procedures governing the GVAs.

### 2.2 Interest Rate Risk Management.

(a) No later than 10 days from the Effective Date, the Board shall submit for the prior written approval of the Regional Director the name of a consultant (the "Consultant") that the Board plans to engage to assist the Board in formulating, adopting, implementing and monitoring an interest rate risk policy that: (i) is consistent with 12 C.F.R. §§ 563.176 and 571.3 and Thrift Bulletins 13, 13-1 and 13-2, (ii) contains specific measures designed to significantly reduce the Association's level of interest rate risk, including (but not limited to) measures designed to match the maturities of the assets and liabilities of the Association, (iii) establishes and correlates target capital levels with interest rate risk exposure and (iv) explicitly describes the Association's strategies for reducing interest rate risk. Within 30 days of receiving the written approval of the Regional Director to engage the Consultant, the Board shall

adopt such an interest rate risk policy and within 10 days of such adoption shall provide the Regional Director with a copy thereof.

(b) On a monthly basis, the Board shall monitor the Association's progress (or lack thereof) toward reducing its exposure to interest rate risk to the level that has been determined to be acceptable by the Board. On a quarterly basis, the management of the Association shall provide the Board a report containing an analysis of compliance with the Board's adopted limits and how net interest income and the market value of portfolio equity would be affected by the hypothetical interest rate changes specified in the Board's policy. The Board shall record (i) its monthly monitoring of the interest rate risk exposure and (ii) its quarterly review of the management report, in the minutes of the Board.

(c) The Board also shall engage the Consultant to assist the Board's revision of the business plan of the Association in order to ensure that it consistently reflects the Association's goal of reducing its interest rate risk exposure, in particular with respect to the liability pricing strategy of the business plan.

### 2.3 Loan Underwriting Standards.

No later than 30 days from the Effective Date, the Board shall revise the underwriting policies of the Association relating to first mortgage loans and home equity loans to require a full assessment of a borrower's creditworthiness. In particular, the underwriting policies should require the evaluation and documentation of a borrower's total debt, including without limitation consumer debt and real estate taxes. The Board must ensure that the information relating to a borrower's creditworthiness is documented in the loan files and reported to the Board.

### 2.4 Accounting Procedures for REO.

No later than 30 days from the Effective Date, the Board shall establish a written policy that ensures that management implements the accounting procedures described in Section 571.18 of the OTS Regulations with respect to real estate owned and in-substance foreclosures.

### III. BOARD OF DIRECTORS

#### 3.1. Compliance with Agreement.

(a) The Board and the executive Officers of the Association shall take immediate action to cause the Association to fully 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.

(b) Each month, the Board shall adopt a formal resolution (the "Compliance Resolution") resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall specify in detail how, if at all, full compliance was found not to exist. No later than three Business Days after each monthly meeting of the Board, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution.

(c) The minutes of the monthly meetings of the Board (including any committees thereof) shall set forth the following information with respect to the adoption of each Compliance Resolution:

(i) the identity of each director voting in favor of its adoption; and

(ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, in each case setting forth each such director's reasoning for opposing or abstaining.

The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution. In the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the meeting.

#### 3.2. Director Responsibility.

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board of Directors shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

### 3.3. Duty of Care.

Each member of the Board of Directors, as part of the performance of his or her duty of care, shall become familiar with the contents of the Director Information Guidelines, published by OTS in December, 1989 and shall obtain and consider the kinds of information set forth therein which is applicable to the performance of his or her duties as a Director of the Association.

## IV. MISCELLANEOUS

### 4.1. Definitions:

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires: (a) the terms used in this Agreement have the meanings assigned to them in this Section 4.1 and include the plural as well as the singular; (b) all accounting terms not otherwise defined have the meanings assigned to them in accordance with generally accepted accounting principles in the United States, except that if such terms are defined in the Rules and Regulations of the OTS, such regulatory definitions shall be controlling; (c) all terms not otherwise defined herein that are defined in the HOLA, the FDIA, FIRREA, the Rules and Regulations of the OTS or its publicly available Bulletins and Advisory Memoranda shall have the meanings assigned to them in such statutes, Rules and Regulations, Bulletins, and Advisory Memoranda; and (d) all technical words or terms not subject to a definition in this Agreement shall have the meanings that accord with the best custom and usage in the thrift and banking industries.

"Advisory Memoranda" refers to inter alia, R Memoranda and T Memoranda issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Affiliate" shall have the meaning set forth in Section 23A of the Federal Reserve Act, 12 U.S.C. § 371c(b).

"Bulletins" refers to, inter alia, Regulatory Bulletins, Thrift Bulletins, and PA Bulletins, issued by the staff (or agents) of the OTS (or its predecessors in interest).

"Business Day" means any weekday excluding Federal holidays.

"FDIA" means the Federal Deposit Insurance Act, as amended.

"FIRREA" means the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183.

"HOLA" means the Home Owners' Loan Act, as amended, 12 U.S.C. §§ 1461 et seq.

"Officer" shall have the meaning set forth in Section 561.35 of the OTS Regulations, 12 C.F.R. § 561.35.

"Regional Director" or his successor is the "senior supervisory official" within the meaning of Section 723(d) of the FIRREA, and refers to the Regional Director of the Northeast region of OTS. All references to the Regional Director shall include the Regional Director and/or his designee(s).

#### 4.2. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Agreement to provisions of statutes, regulations, and OTS Advisory Memoranda and Bulletins 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.

#### 4.3. Notices.

(a) Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

(1) the OTS by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 10 Exchange Place, Jersey City, New Jersey 07302 or telecopied to 201-413-7543 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(2) the Association by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 86 Main Street, Little Falls, NJ 07424-1493 or telecopied to 201-256-6709 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

(b) Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

#### 4.4. Duration, Termination or Suspension of Agreement.

(a) This Agreement shall 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 or his designee, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

4.5. Effect of Headings.

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

4.6. 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.

4.7. No Violations of Law, Rule, Regulation or Policy Statement Authorized.

Nothing in this Agreement shall be construed as allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject.

4.8. 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 Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

4.9. Signature of Directors.

Each Director 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.

4.10. 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.

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:

By:

151  
Name: Robert C. Albanese  
Title: Regional Deputy Director

151  
Name: John P. Pullara  
Chief Executive Officer

**DIRECTORS OF THE ASSOCIATION**

151  
Director

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Director

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Director

Director

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Director

Director

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Director

Director

CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of The Little Falls Savings Bank, SLA (the "Association") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on 3/26/92, 1992;
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 and the Association have the intent and ability to: (1) comply with all applicable laws and regulations; (2) engage in safe and sound practices; and (3) maintain the Association in a safe and sound condition; 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 Norman A. Parker; George Kuiken) 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 26<sup>th</sup> day of March, 1992.

✓  
Name: \_\_\_\_\_

Title: SECRETARY

(SEAL)