

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 23rd day of July, 1992 ("effective date"), by and between Standard Federal Savings Bank, Gaithersburg, Maryland, OTS No. 7156, for itself and its wholly owned service corporations and subsidiaries ("Standard Federal" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, Standard Federal is a Federally chartered savings association regulated by the Office of Thrift Supervision ("OTS"); and

WHEREAS, Standard Federal, over the last year, has assumed the servicing responsibilities for large portfolios of loans from failed thrift institutions and, in many instances, the recordkeeping systems of those thrifts were deficient and incompatible with the systems used by Standard Federal; and

WHEREAS, Standard Federal currently services approximately 625,000 mortgage loans and is one of the major providers of loan servicing in the United States; and

WHEREAS, with the decline in interest rates beginning during the first quarter of 1992, Standard Federal received an unprecedented number of inquiries and document requests relating to the refinancing of existing loans; and

WHEREAS, under the circumstances described above, and with the resultant surge in demand on Standard Federal's consumer servicing systems and procedures, consumer inquiries, complaints and delays are expected; and

WHEREAS, during the first quarter of 1992, the volume of complaints lodged by Standard Federal consumers with the Consumer Affairs Department of the Southeast Region of the OTS ("Consumer Affairs") increased dramatically, and during this period, Consumer Affairs received over 200 written complaints from consumers, as well as at least 195 telephone inquiries and complaints; and

WHEREAS, OTS' review of consumer complaints filed against Standard Federal disclosed that the Institution does not have adequate consumer servicing systems and procedures to address the problems created by increased consumer demands and the increased number of loans serviced for others; and

WHEREAS, the increased volume and the nature of such complaints and problems at Standard Federal require immediate remedial action; and

WHEREAS, Standard Federal, commencing in the first quarter of 1992, has taken certain steps to address the increased volume of consumer inquiries and problems, including the enhancement and expansion of its consumer telephone lines; and

WHEREAS, additional problems may result whenever in the future Standard Federal acquires loan servicing portfolios and/or the Institution experiences a surge in consumer demands; and

WHEREAS, the OTS wishes to assure that Standard Federal will maintain enhanced and enlarged consumer servicing systems and procedures; and

WHEREAS, the OTS also has found that Standard Federal's Electronic Data Processing audit function is inadequate; and

WHEREAS, the OTS is of the opinion that grounds exist to initiate administrative proceedings against Standard Federal pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C.A. § 1818(b) (West 1989 & Supp. 1992); and

WHEREAS, Standard Federal, in the interest of regulatory compliance and cooperation, is willing to enter into this Agreement to avoid the initiation of such administrative proceedings regarding the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forebear from the initiation of such administrative proceedings against Standard Federal to require the actions specifically covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement that pertain to such actions; 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 regarding matters 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. a. Within 10 days after the effective date of this Agreement, the Board of Directors of Standard Federal ("the Board") shall direct a committee of Board members, the majority of whom shall be outside directors, to create a Customer Service Improvement Plan ("Plan") that addresses each of the problems noted above.
- b. The Plan, at a minimum, shall assign responsibilities and create procedures:

- ix. consistent with the ARM adjustment notice provisions of 12 C.F.R. § 563.99(c), the restrictions on late charges contained in 24 C.F.R. § 3500.21(e)(4), the provisions concerning the duty to acknowledge receipt of a borrower inquiry contained in 24 C.F.R. § 3500.21(f)(1), the provisions concerning action by a loan servicer with respect to a borrower inquiry contained in 24 C.F.R. § 3500.21(f)(3), and the provisions requiring timely payments from a borrower's escrow account for taxes, insurance premiums, and other charges contained in Section 6(g) of the Real Estate Settlement Procedures Act of 1974, as amended, 12 U.S.C. § 2605(g).

- c. The Plan shall include the establishment of a "critical response unit" at Standard Federal to identify and process on an expedited basis those requests/transactions that may have a material adverse effect on the Institution's customers.

- d. The Plan also shall include provisions requiring that before Standard Federal enters into any servicing arrangements with third parties, the Institution shall conduct and document due diligence sufficient to determine whether the Institution is able to provide such servicing in compliance with applicable consumer laws and regulations and the provisions of this Agreement.

- e. The provisions of Paragraph 1d of this Agreement shall not apply to legally binding obligations of Standard Federal or any of its service corporations and subsidiaries for back up servicing arrangements with the Government National Mortgage Association ("GNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") provided that, within 10 days of the effective date of this Agreement, the Institution submits to the Regional Director documentation that supports, to his satisfaction:
 - i. the legally binding nature of any such obligations,
 - ii. the fact that any such obligations were in existence as of the effective date of this Agreement, and
 - iii. Standard Federal's contention that the terms and conditions of such legally binding obligations preclude the Institution from conducting the due diligence required by Paragraph 1d of this Agreement.

2. Within 30 days after the effective date of this Agreement, the Board shall adopt and submit to the Regional Director for review the Plan required by Paragraph 1 of this Agreement. The Board shall implement and thereafter comply with the Plan within 30 days after receiving any comments or suggestions from the Regional Director concerning the Plan, including a notice of no objection.
3.
 - a. The Board shall monitor the number and nature of consumer inquiries and complaints concerning Standard Federal filed with the OTS and/or with the Institution, the adequacy and effectiveness of the Institution's servicing system, and compliance by the Institution's management and staff with the Plan required by Paragraph 1 of this Agreement and with applicable consumer laws and regulations, and shall document such monitoring and oversight in the minutes of each Board meeting where it occurs.
 - b. The Board shall review on a timely basis each of the written audit reports required by Paragraph 3c of this Agreement, and shall document such review, including any discussions of and/or actions taken to address any deficiencies in the Institution's servicing system, noncompliance with the Plan required by Paragraph 1, noncompliance with applicable consumer laws and regulations, or any other problems identified in the audit report.
 - c. Within 60 days after the effective date of this Agreement, the Board shall direct its internal audit function to monitor on an ongoing basis Standard Federal's consumer servicing system and procedures. The internal audit staff shall make a written report to the Board on at least a quarterly basis on the number and nature of inquiries and complaints from consumers, the adequacy and effectiveness of the Institution's servicing system and whether the Institution is complying with the Plan required by Paragraph 1 of this Agreement and with applicable consumer laws and regulations.
 - d. On an annual basis, Standard Federal's audit function shall develop a detailed, written audit plan for achieving the monitoring requirements of Paragraph 3a of this Agreement, and shall submit the audit plan to the Board and the Regional Director for review.
4. Within 30 days after the effective date of this Agreement, the Institution shall adopt and implement procedures to ensure that the HMDA Loan/Application Registers submitted pursuant to 12 C.F.R. §§ 528.6(d) and 203.4 are completed in an accurate and timely manner.

5. Within 60 days after the effective date of this Agreement, the Board shall adopt and implement written policies and procedures for adequate EDP audit coverage that, at a minimum:
 - a. establish a formal risk assessment methodology for EDP audit;
 - b. prioritize identified EDP risks;
 - c. allocate sufficient resources to provide adequate audit coverage of significant identified risks; and
 - d. establish procedures for quarterly review by the Board of EDP audit reports.

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, 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. 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.A. § 1818(b)(1).

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.

This Agreement shall remain in effect until terminated, modified, or suspended by the OTS, acting through the Regional Director. The Regional Director may suspend, in his sole discretion, any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director, and the Institution, by its duly elected directors, have executed this Agreement.

Standard Federal Savings Bank
Gaithersburg, Maryland
OTS No. 7156

By: 15/
Sheldon S. Cohen
Director

By: 15/
Robert C. Embry, Jr.
Director

By: 15/
Robert A. Goldstein
Director

By: 15/
Paul S. Harab
Director

By: 15/
Harry Hughes
Director

By: 15/
Allan Lang
Director

By: 15/
Theodore J. Noffsinger, Jr.
Director

By: 15/
Luize O. Tyler
Director

By: 15/
Marvin R. Lang
Director

By: 15/
Emmett R. Garlock
Director

OFFICE OF THRIFT SUPERVISION

By: John E. Ryan
John E. Ryan
Regional Director

DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of Standard Federal Savings Bank, Gaithersburg, Maryland, OTS No. 7156, held on the 23rd day of July, 1992, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between Standard Federal Savings Bank and the Office of Thrift Supervision.

By: 151
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Director

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