

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 26 day of June, 1991, by and between Bay State Federal Savings Bank, Brookline, Massachusetts (OTS No. 03934) ("Bay State" or the "Institution") for itself and the Office of Thrift supervision ("OTS") through the Regional Deputy Director for the Boston District Office ("Regional Deputy Director"). 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 OTS within the meaning of 12 U.S.C. 1818(b)(1) and (i)(2).

**WHEREAS**, as evidenced by the Report of Examination ("ROE") dated February 19, 1991, the OTS is of the opinion that the Institution has not complied with certain laws, rules and regulations to which the Institution is subject, thereby providing grounds for the initiation of a cease and desist proceeding against the Institution; and

**WHEREAS**, the OTS is willing to forbear at this time from the initiation of cease and desist proceedings against the Institution on the subjects covered by this Agreement for so long as the Institution is in compliance with the provisions of this Agreement; and

**WHEREAS**, in the interest of regulatory compliance and cooperation, the Institution is willing to enter into this

Agreement to avoid the initiation of such cease and desist proceedings:

NOW, THEREFORE, in consideration of the above-stated forbearance by the OTS from the initiation of cease and desist proceedings against the Institution, it is agreed among the parties hereto as follows:

1. (a) Within ten (10) days of the effective date of this Agreement, the Institution shall charge off or establish specific reserves for all assets classified "Loss" in the OTS ROE dated February 19, 1991. In addition, the Institution shall establish a general loss reserve of at least \$1.6 million.

(b) The Institution shall review its assets for potential classification and its general valuation reserve for adequacy on at least a quarterly basis. Adjustments to the reserve shall be made within fifteen (15) days following each such quarterly review. Such reviews and supporting analysis for the adequacy of the general loss reserve shall be documented within the Board minutes.

2. (a) The Institution shall make no loans in excess of the amounts permitted by 12 U.S.C. 84 and 12 C.F.R. 563.93 regarding loans to one borrower.

(b) Within thirty (30) days from the effective date of this Agreement, the Institution's Board of Directors ("Board") shall develop and submit to the Regional Deputy Director for review, detailed plans to bring the following concentrations of credit into regulatory compliance with the statutory limitations of 12 U.S.C. 84 and 12 C.F.R. 563.93 by December 31, 1991:

(1) Donelle

(2) Gristmill Construction (Heim and  
Zarella)

(3) Rossi and Marinelli

(c) Within thirty (30) days of the effective date of this Agreement, the Institution shall develop, and thereafter shall maintain, a comprehensive borrower credit ledger. At a minimum, the ledger shall provide an accurate record of total borrower credit in all loan types, including direct liability (including liability as maker, co-maker, partner, and any other kind of direct liability), and indirect liability (including liability as endorser, guarantor, and any other kind of indirect or contingent liability). Such ledger shall be maintained in a current status for all multiple borrowers.

3. Within thirty (30) days from the effective date of this Agreement, the Board shall revise and submit to the Regional Deputy Director for review, an internal classification of assets policy ("Classification Policy") consistent with, and no less stringent than, the provisions of 12 C.F.R. 563.160. The Classification Policy shall include:

(a) provisions for ongoing monitoring of the loan portfolio and maintenance of loan file documentation to provide for an assessment of adequacy and adherence to internal loan policies and procedures, identification of potential problem loans, and an assessment of the overall quality of the loan portfolio;

(b) identification of the individuals responsible for the internal loan review, the frequency of reviews, the method of loan selection, the scope and depth of the review, and follow-up reporting procedures;

(c) a requirement that the Institution's Asset Classification Committee include at least one outside director; and

(d) a provision to ensure that all classified assets be reported as required on Thrift Financial Reports ("TFRs") submitted to the OTS.

4. Within thirty (30) days from the effective date of this agreement, the Institution shall revise its loan underwriting policy to include a requirement that updated financial information be obtained at least annually on all borrowers and guarantors with commercial real estate loans in excess of \$250,000 in the aggregate, and that updated operating statements on properties securing such commercial real estate loans be obtained at least annually from such borrowers and guarantors. All such requests, responses and subsequent analysis shall be maintained as loan file documentation.

5. The Institution shall, on a quarterly basis, submit to the Regional Deputy Director a status report on each borrower with outstanding loans or extensions of credit aggregating more than \$250,000 and each parcel of real estate acquired through foreclosure, deed in lieu of foreclosure, or "in substance" foreclosure ("Real Estate Owned" or "REO"), with a balance in excess of \$250,000 classified or subject to special mention in the

OTS ROE dated February 19, 1991. Such reports shall include the balance of each separate asset as of the date of the ROE, the balance as of the reporting date, identification of past due status and a summary of efforts taken to alleviate the credit deficiency. The first such status report shall be submitted on July 31, 1991, with the status as of June 30, 1991. Thereafter, each report shall be due within thirty (30) days following the end of each succeeding three month period.

6. The Institution shall not knowingly extend credit, directly to or indirectly, or for the benefit of any borrower who has a loan or other extension of credit with the Institution that has been charged off or classified, in whole or in part, "Loss," "Doubtful," or "Substandard" in the OTS ROE dated February 19, 1991 and is uncollected unless a majority of the Board first (a) determines that such advance is in the best interest of the Institution, and (b) gives approval for such advance individually or by approving a schedule or project budget with which the advance is consistent. A written record of the Board's determination and approval of any advance under the terms of this paragraph shall be maintained in the credit file of the affected borrower(s) as well as the minutes of the Board. The requirements of this paragraph do not prohibit the Institution from renewing any credit already extended to a borrower.

7. (a) The Institution shall make no loans secured by real property without first obtaining an appraisal report complying with the requirements of 12 C.F.R. Part 564. A market value appraisal shall be obtained pursuant to 12 C.F.R.

563.170(c)(1)(iv) prior to granting or purchasing any loan or extension of credit.

(b) The Institution shall make no loan without first obtaining current financial statements signed by a borrower disclosing the borrower's financial ability to repay the loan as required by 12 C.F.R. 563.170(c)(1)(v).

8. Within sixty (60) days of the effective date of this Agreement, the Board shall adopt and submit to the Regional Deputy Director, a revised strategic Business Plan. The plan shall include at a minimum:

(a) a mission statement of the basic business, scope, activities, and purpose of the Institution;

(b) goals that the Institution desires to achieve;

(c) objectives providing specific quantitative measures consistent with each goal;

(d) strategies regarding the courses of action the Institution will take to achieve its goals;

(e) proforma financial statements and budgets that reflect the existing position of the Institution and the anticipated position demonstrating the impact of its goals, objectives, and strategies on its existing position; and,

(f) capital projections and capital enhancement strategies to ensure continued regulatory compliance.

9. The Institution shall pay no bonuses until such time as the Institution has developed a Compensation Policy and such policy has been reviewed and approved by the Regional Deputy Director. The Compensation Policy shall include, at a minimum:

(a) pay scales for each management position (including the criteria used (i.e. industry standards) in the development of the pay scales); and (b) should the policy contain a provision for the payment of bonuses, a bonus policy with clearly and specifically detailed qualifiable and quantifiable goals and objectives and/or measures of performance that must be met prior to granting bonuses to any personnel affiliated with the Institution.

10. Within sixty (60) days of the effective date of this Agreement, the Institution shall correct all violations of law and regulations listed on Appendix Page A-26.1 in the OTS ROE dated February 19, 1991, and shall adopt procedures to prevent recurrence. Such procedures shall be documented in the Board minutes.

11. Within ten (10) days after its meeting immediately following the end of each calendar quarter, the Board shall submit to the Regional Deputy Director a resolution signed by each director, certifying that to the best of his or her knowledge and belief, and based upon a prudent review, during the previous quarter, the Institution is complying in all material respects with each condition of this Agreement. This resolution shall set forth any exceptions to any conditions of this Agreement that were approved by the Regional Deputy Director.

12. References in this Agreement to provisions of statutes and regulations shall be deemed to include references to all successor provisions of such statutes and regulations as they

become applicable.

13. A copy of all documentation or reports required under the terms of this Agreement to be submitted to the Regional Deputy Director shall also be provided to the Regional Director of the Federal Deposit Insurance Corporation.

IN WITNESS WHEREOF, the parties have executed this Agreement effective June 26, 1991.

BAY STATE FEDERAL SAVINGS BANK  
Brookline, Massachusetts

By: Its Board of Directors

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DEPARTMENT OF THE TREASURY  
OFFICE OF THRIFT SUPERVISION

By: 151  
~~Ralph W. Grydley~~  
Regional Deputy Director

Concur: 151

FEDERAL DEPOSIT INSURANCE CORPORATION

By: 151  
Paul H. Weichman  
Regional Director