

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made this 6th day of October, by and through the Board of Directors (Board) of Prospect Financial Corporation, Warwick, Rhode Island, OTS Docket No. H2403 (Holding Company) and the Office of Thrift Supervision (OTS), acting by and through its Regional Director for the Northeast Region (Regional Director);

WHEREAS, the OTS, pursuant to 12 U.S.C. §§ 1818 and 1467a(g), has the statutory authority to enter into and enforce supervisory agreements to ensure the establishment and maintenance of appropriate safeguards in the operation of the entities it regulates; and

WHEREAS, the Holding Company is subject to examination, regulation and supervision by the OTS; and

WHEREAS, the Holding Company owns one hundred percent (100%) of Home Loan Investment Bank, F.S.B., Warwick, Rhode Island, OTS Docket No. 12504 (Association); and

WHEREAS, in furtherance of their common goal to ensure that the Holding Company continues to address the unsafe or unsound practices, and/or violations of law or regulation, and/or conditions imposed in writing addressed in: (a) the OTS Reports of Examination of the Association dated November 24, 2008 (2008 ROE) and September 14, 2009 (2009 ROE); and (b) the OTS Report of Examination of the Holding Company dated September 14, 2009 (HC 2009 ROE), the Holding Company and the OTS have mutually agreed to enter into this Agreement; and

WHEREAS, on October 4, 2010, the Holding Company's Board, at a duly constituted meeting, adopted a resolution (Board Resolution) that authorizes the Holding Company to enter into this Agreement and directs compliance by the Holding Company and its

directors, officers, employees, and other institution-affiliated parties with each and every provision of this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Association Oversight.

1. Effective immediately, the Holding Company shall ensure the Association's compliance with the terms of: (a) the Order to Cease and Desist, OTS Order No. NE-09-22, issued by the OTS against the Association effective August 18, 2009; and (b) the Amended Order to Cease and Desist, OTS Order No. NE-10-25, issued by the OTS against the Association effective October 6, 2010; and shall continue to provide financial, operational, and managerial support to the Association.

Debt Limitations.

2. Effective immediately, the Holding Company shall not: (a) incur, issue, renew, or rollover any debt,¹ increase any current lines of credit, or otherwise incur any additional debt without receiving the prior written non-objection of the Regional Director; or (b) authorize or permit any subsidiary of the Holding Company to incur, issue, renew, or rollover any debt, increase any current lines of credit, or otherwise incur any additional debt without receiving the prior written non-objection of the Regional Director. All written requests to the Regional Director shall include, at a minimum: a statement regarding the purpose of the debt; a copy of the debt agreement; the planned source(s) for debt repayment; and an analysis of the cash flow

¹ For purposes of this Paragraph of the Supervisory Agreement, the term "debt" includes, but is not limited to: loans, bonds, cumulative preferred stock, hybrid capital instruments such as subordinated debt or trust preferred securities, and guarantees of debt; and does not include: liabilities that are incurred in the ordinary course of business to acquire goods and services and that are normally recorded as accounts payable under generally accepted accounting principles.

resources available to meet such debt repayment. The Holding Company's written request for non-objection shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed debt issuance, renewal, or rollover; the proposed increase in any current lines of credit; the proposed guarantee of the debt of any entity; or any other incurrence of additional debt.

Dividends and Other Capital Distributions.

3. Effective immediately, the Holding Company shall not declare or pay dividends, or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director in accordance with applicable regulations and regulatory guidance. The Holding Company's written request for approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed declaration, dividend payment or distribution of capital.

Effective Date.

4. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

5. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by the OTS, acting by and through its authorized representatives.

Time Calculations.

6. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

Submissions and Notices.

7. All submissions to the OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

8. Except as otherwise provided herein, all submissions, requests, communications, consents or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- (a) To the OTS:
Office of Thrift Supervision
Attn: Michael E. Finn
Regional Director, Northeast Region
Harborside Financial Center Plaza Five
Suite 1600
Jersey City, NJ 07302
Fax: (201) 413-7543

- (b) To the Holding Company:
Attn: Brian J. Murphy, President
Prospect Financial Corporation
Two Altieri Way
Warwick, Rhode Island 02886

No Violations Authorized.

9. Nothing in this Agreement shall be construed as allowing the Holding Company, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

10. Nothing in this Agreement shall inhibit, estop, bar or otherwise prevent the OTS from taking any other action affecting the Holding Company if at any time the OTS deems it appropriate to do so to fulfill the responsibilities placed upon the OTS by law.

Other Governmental Actions Not Affected.

11. The Holding Company acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein, consistent with Paragraph 10 above, and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any

way affect any actions, charges against, or liability of the Holding Company that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than the OTS.

Miscellaneous.

12. The laws of the United States of America shall govern the construction and validity of this Agreement.

13. If any provision of 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, unless the Regional Director in his or her sole discretion determines otherwise.

14. All references to the OTS in this Agreement shall also mean any of the OTS's predecessors, successors, and assigns.

15. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

16. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

17. This Agreement is a "written agreement" entered into with an agency within the meaning and for the purposes of 12 U.S.C. § 1818.

Signature of Directors/Board Resolution.

18. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Holding Company to the issuance and execution of the

Agreement. This Agreement may be executed in counterparts by the directors after approval of execution of the Agreement at a duly called board meeting. A copy of the Board Resolution authorizing execution of this Agreement shall be delivered to the OTS, along with the executed original(s) of this Agreement.

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WHEREFORE, the OTS, acting by and through its Regional Director, and the Board of the Holding Company, hereby execute this Agreement.

Accepted by:

PROSPECT FINANCIAL CORPORATION
Warwick, Rhode Island

OFFICE OF THRIFT SUPERVISION

By: _____ /s/ _____
Brian J. Murphy, President

By: _____ /s/ _____
Michael E. Finn
Regional Director, Northeast Region

Date: See Effective Date on page 1