

## SUPERVISORY AGREEMENT

OTS Docket No. H-2544

This written Supervisory Agreement ("Agreement") is entered into and made effective this 8th day of January, 2002 (the "Effective Date"), by and between Public Finance Service, Inc., Willow Grove, Pennsylvania ("Public Finance" or the "Holding Company"), a registered savings and loan holding company that owns and controls Public Savings Bank, Willow Grove, Pennsylvania (the "Bank"), a state-chartered savings bank, and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, acting through its Northeast Regional Director or his/her designee ("Regional Director").

### *Recitals*

WHEREAS, the OTS, pursuant to 12 U.S.C. §§ 1818 and 1467a(g), has statutory authority to require Public Finance to take actions to correct matters of regulatory concern; and

WHEREAS, the OTS and the Board of Directors of Public Finance (the "Board") mutually agree that Public Finance and its institution-affiliated parties should take actions to address concerns indicated in the report of the OTS's holding company examination of Public Finance started on April 16, 2001 (the "2001 Exam Report"); and

WHEREAS, on DECEMBER 11, 2001, the Board of Directors of Public Finance (the "Board") at a duly constituted meeting, duly adopted a resolution authorizing and directing L. Gene Gatter (President) to execute this Agreement on behalf of Public Finance and consenting to compliance by Public Finance and its institution-affiliated parties with each and every provision of this Agreement.

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

1. Restrictions Relating to Dividends and Other Capital Distributions.

(a) The Holding Company shall not accept any dividends or other capital distributions (within the meaning of 12 C.F.R. § 563.141) that the Bank declares or pays (directly or indirectly) without the prior written approval of the Regional Director based on a filing made by the Bank pursuant to 12 C.F.R. §§ 563.143 and 563.144. See 12 U.S.C. § 1467a(f).

(b) The Holding Company shall not, directly or indirectly, purchase or redeem any shares of its stock except as may be provided in a Plan for Servicing Debt and Enhancing Capital approved by the Regional Director. See Paragraph 2 of this Agreement.

(c) The Holding Company shall not declare or pay any dividends to any holders of its equity securities unless either –

- (i) the Holding Company is in full compliance with an OTS-approved plan submitted and adopted pursuant to Paragraph 2 hereof AND the Bank's capital levels satisfy all FDIC requirements (including but not limited to the 7.00%-leverage capital ratio required by the Memorandum of Understanding dated August 23, 2001); or
- (ii) the Regional Director approves a written request for the Holding Company to declare and pay dividends.

(d) Until the OTS's Regional Director has issued a written approval of the Holding Company's Plan for Servicing Debt and Enhancing Capital, the Holding Company shall not make any principal payments to any Insider relative to any Holding Company indebtedness (including but not limited to the indebtedness identified at page 16 of the Report of Examination). For purposes of this subparagraph, the term "Insider" means: (i) any person who is a director, officer, or shareholder of the Holding Company or the Bank; (ii) any member of such person's "immediate family" within the meaning of 12 C.F.R. § 215.2(g), and/or (iii) any "related interests" of such persons within the meaning of 12 C.F.R. § 215.2(n).

## 2. Plan for Servicing Debt and Enhancing Capital.

(a) The Holding Company shall develop and implement a written 3-year plan ("Plan for Servicing Debt and Enhancing Capital" or "Plan") that must be acceptable to the Regional Director and be designed – (i) to support the Bank in its efforts to maintain prudent levels of capital, including any such capital requirements imposed by the FDIC, (ii) to cause the Holding Company to maintain its consolidated capital position such that its consolidated leverage ratio of capital exceeds 5.00% at all times,<sup>1</sup> and (iii) to avoid a default by the Holding Company on its debt obligations.

(b) The Plan, which must be submitted to the OTS's Regional Office within 60 days of the Effective Date of this Agreement, shall, at a minimum, address and consider: (i) the Bank's and Holding Company's present and future capital needs, taking into account their respective current and

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<sup>1</sup> The term "leverage ratio" has the meaning assigned in 12 C.F.R. Part 565.2(c) ("leverage ratio means the ratio of Tier 1 capital to adjusted total assets, as calculated in accordance with part 567 of this chapter.")

projected earnings performance and risk profiles and (ii) comprehensive pro-forma cash flow projections, detailing all anticipated sources and uses of funds, including any scheduled payment obligations of the Holding Company related to its outstanding debt instruments. The plan also should address whether a voluntary dissolution of the Bank would be in the best interests of the Bank, the Holding Company, the investors in the Holding Company, and the FDIC's deposit insurance fund.

(c) Finally, the Plan shall address the intentions of the Holding Company's shareholders to support the Holding Company's and Bank's capital levels and cash flow needs, including: (i) the infusion of additional equity capital into the Holding Company and (ii) other steps to preserve existing equity capital, such as reduction of compensation expenses paid to such shareholders.

3. Compliance with Laws and Regulations.

(a) (i) The Holding Company and its affiliates shall comply with Sections 10(d) and 11(a) of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. §§ 1467a(d) and 1468(a), which, *inter alia*, require compliance with restrictions at Sections 23A and 23B of the Federal Reserve Act ("FR Act"), 12 U.S.C. §§ 371c and 371c-1.

(ii) Neither the Holding Company nor any affiliate thereof may accept any extension of credit from the Bank (including any subsidiary thereof) unless the Holding Company (or affiliate) is engaged solely in activities described in 12 U.S.C. § 1467a(c)(2)(F)(i) (as defined in 12 C.F.R. § 584.2-2).

(iii) The Holding Company acknowledges that all agreements between the Bank and the Holding Company (or any subsidiary thereof or other affiliate) relative to services provided to the Bank (hereinafter the "Outsourcing Agreements") are subject to the restrictions imposed by Section 23B of the Federal Reserve Act, 12 U.S.C. § 371c-1. The Holding Company shall maintain appropriate documentation demonstrating that all Outsourcing Agreements (including any revisions thereto or payments thereunder) comply fully with 12 U.S.C. § 371c-1 and all applicable regulations thereunder.

(b) The Holding Company shall timely submit to the OTS accurate and complete reports (including H-(b)11 reports) to the OTS as required by 12 C.F.R. § 584.1.

4. Restrictions On Golden Parachutes and Directorate/Management Changes.

(a) The restrictions at 12 C.F.R. Part 359 (concerning "golden parachute payments" and "prohibited indemnification payments") shall be and are applicable to Public Finance. Without limitation on the generality of the foregoing, this means, *inter alia*, that Public Finance shall not make any "golden parachute payment", as that term is defined 12 U.S.C. § 1828(k) and in 12 C.F.R. Part 359,<sup>2</sup> except as may be permitted by the aforesaid statutory provision and regulations.

(b) Public Finance shall be and is subject to the requirements and limitations set out in Subpart H of Part 563 of the OTS's regulations (12 C.F.R. §§ 563.550 - .590). Without limitation on such requirements and limitations, this means, among other things, that, except as otherwise permitted by 12 C.F.R. § 563.590, no person shall be appointed to the position of or be hired as a member of the Board or as a senior executive officer of Public Finance unless -- (1) Public Finance (or the individual, if appropriate) previously has filed with the OTS an appropriate and complete notice pursuant to 12 C.F.R. Part 563, Subpart H; and (2) the person's commencement of service on behalf of Public Finance is permissible under 12 C.F.R. § 563.585 and 12 U.S.C. § 1831i.

5. Adoption and Compliance with Required Plans.

The plans, policies, procedures and/or reports required by Paragraph 2 of this Agreement shall be submitted to the OTS's Regional Office for review and approval by the Regional Director (or his designee) following review, consideration and tentative approval of such plans, policies, procedures and/or reports by the Holding Company's Board of Directors (or duly established and authorized board committee thereof). Acceptable plans, policies, procedures and reports shall be submitted to the Regional Office by the required due dates or within the required time periods. The Holding Company shall, by action of its Board of Directors, adopt the approved plans, policies, and procedures within twenty-one (21) days of approval by the Regional Director (or his designee) and then shall fully implement and comply with them. While this Agreement is outstanding and effective, the approved plans, policies, and procedures shall not be amended or rescinded without the prior written approval of the Regional Director (or his designee). The plans, policies, procedures and reports shall be sent to:

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<sup>2</sup> The term "golden parachute payment" has a broad meaning and includes, *inter alia*, entering into or revising an agreement containing severance provisions. See 12 C.F.R. § 359.1(f). In many instances, troubled institutions must

Mr. Robert C. Albanese, Regional Director  
Office of Thrift Supervision  
10 Exchange Place, 18<sup>th</sup> Floor  
Jersey City, New Jersey 07302

with a copy sent to Mr. Martin J. Lavelle, Assistant Director, at the above-mentioned address.

6. Compliance with Agreement. The Board and officers of Public Finance shall take immediate action to cause Public Finance to comply fully with the terms of this Agreement. On an ongoing basis, the Board and officers of Public Finance also shall take all actions necessary or appropriate to cause Public Finance to continue to carry out the provisions of this Agreement. The Board also shall be responsible for regularly monitoring Public Finance's compliance with this Agreement by, *inter alia*, making diligent inquiry of relevant information, including information provided by Board Committees, Public Finance's senior officers and auditors. The Board's monitoring efforts must be accurately reflected in the minutes of its meetings.

7. No Derogation of Board Responsibility. Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director (or his designee) for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual Board member's continuing fiduciary duty to Public Finance. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of Public Finance at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

8. Definitions; Regulatory References; Reservation of Rights.

(a) 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, the Home Owners' Loan Act, the Federal Deposit Insurance Act ("FDI Act"), the Federal Reserve Act ("FR Act"), or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDI Act, FR Act, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan/banking industry.

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seek written non-objection from the OTS and the FDIC prior to making a golden parachute payment. See 12 C.F.R. §§ 359.4 and 303.244.

(b) Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the date hereof and references to successor provisions as they become applicable.

(c) Neither the OTS's issuance of this Agreement nor the Holding Company's compliance therewith shall bar, estop or otherwise prevent the OTS from taking any other action (including, without limitation, any type of supervisory, enforcement or resolution action) affecting the Holding Company, or any of its current or former institution-affiliated parties.

9. Time Limits. Time limitations for compliance with the terms of this Agreement run from the Effective Date unless otherwise noted.

10. Rules of Interpretation; Integration Clause; Counterparts.

(a) Nothing in this Agreement shall be construed as –(i) allowing Public Finance to violate any law, rule, regulation, or policy statement to which it is subject; or (ii) restricting the OTS from taking such action(s) that are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory, enforcement or resolution action that the OTS determines to be appropriate.

(b) The paragraph and section headings herein are for convenience only and shall not affect the construction hereof.

(c) This Agreement represents, as of the Effective Date, the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

(d) 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, unless the Regional Director in his/her sole discretion determines otherwise.

(e) This Agreement may be executed in several counterparts, each of which shall be deemed an original, but such counterparts shall together constitute one and the same Agreement.

11. Successors in Interest. 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 Federal Deposit Insurance Corporation, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement

12. Enforceability of Agreement.

(a) Public Finance represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding agreement of Public Finance.

(b) This Agreement is a "written agreement" for the purposes of, and is enforceable by the OTS as an order issued under, Section 8 of the FDI Act, 12 U.S.C. § 1818. Also see 12 U.S.C. § 1467a(g).

(c) Each director of the Holding Company signing this Agreement attests, by such act, that she or he, as the case may be, voted in favor of the Board resolution (submitted herewith) authorizing the execution of this Agreement by Public Finance.

13. Duration; Termination or Suspension of Agreement.

(a) This Agreement shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below; and (ii) 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). No amendment or modification of this Agreement shall be valid or binding unless written and duly executed by the OTS and the Holding Company.

(b) The Regional Director, in his or her sole discretion, may, by written notice, suspend or waive (temporarily or permanently) any or all provisions of this Agreement.

IN WITNESS WHEREOF, the OTS and Public Finance (in accordance with a duly adopted resolution of its Board) hereby execute this Agreement.

OFFICE OF THRIFT SUPERVISION

PUBLIC FINANCE SERVICE, INC.

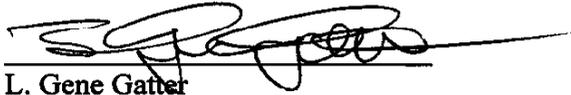
By:   
Robert C. Albanese  
Regional Director

By:   
L. Gene Gatter  
President and Director

Date: January 8, 2002 

Date: 12/11, 2001

DIRECTORS OF PUBLIC FINANCE SERVICE, INC.



L. Gene Gatter  
Director



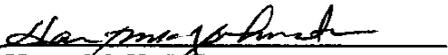
Jeffrey E. Gatter  
Director



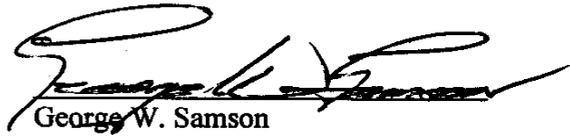
Joseph Livezey  
Director



Theodore S. Cox  
Director



Harry M. K. Johnston  
Director



George W. Samson  
Director

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