

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

Written Agreement by and among

PARAMOUNT BANCORP, INC.  
Farmington Hills, Michigan

PARAMOUNT BANK  
Farmington Hills, Michigan

FEDERAL RESERVE BANK  
OF CHICAGO  
Chicago, Illinois

and

MICHIGAN OFFICE OF FINANCIAL  
AND INSURANCE REGULATION  
Lansing, Michigan

Docket Nos. 08-033-WA/RB-HC  
08-033-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of Paramount Bancorp, Inc. (“Bancorp”), Farmington, Hills, Michigan, Paramount Bank (the “Bank”), Farmington Hills, Michigan, a state chartered bank that is a member of the Federal Reserve System, Bancorp, the Bank, the Federal Reserve Bank of Chicago (the “Reserve Bank”), and the Michigan Office of Financial and Insurance Regulation (the “OFIR”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 23, 2008, the boards of directors of Bancorp and the Bank, at duly constituted meetings, adopted resolutions authorizing and directing Jeffrey A. Sugg and Thomas E. Purther, to enter into this Agreement on behalf of Bancorp and the Bank, and consenting to compliance by Bancorp and the Bank and their institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the "FDI Act") (12 U.S.C. §§ 1813(u) and (b)(3)), with each and every applicable provision of this Agreement.

NOW, THEREFORE, Bancorp, the Bank, the Reserve Bank, and the OFIR agree as follows:

**Management Review**

1. Within 90 days of this Agreement, the Bank's board of directors shall complete an assessment of the Bank's management structure and staffing needs, particularly in the lending and credit administration areas, (the "Management Review"). The primary purpose of the Management Review shall be to aid in the development of a suitable management structure that is adequately staffed by qualified and trained personnel. The Management Review shall, at a minimum, address, consider, and include:

(a) The identification of the type and number of officers needed to manage and supervise properly the affairs of the Bank;

(b) a clear and concise description of the required experience for each management position at the Bank; and

(c) an evaluation of the adequacy of the existing management structure and staffing levels to ensure the effective performance of present and anticipated duties by Bank management and staff, including the ability to adhere to applicable laws and

regulations and the Bank's established policies and procedures, restore and maintain the Bank to a safe and sound condition, and comply with the requirements of this Agreement.

2. Upon completion of the Management Review, the board of directors shall forward to the Reserve Bank and the OFIR a written report that includes the findings and conclusions and a description of specific actions that the board of directors proposes to take to strengthen the Bank's management, including any plans to recruit, hire, or appoint personnel.

3. In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. §§ 225.71 *et seq.*).

4. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

### **Asset Improvement**

5. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, "loss" in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the board of directors meetings, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower’s credit file for subsequent supervisory review. For purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

6. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OFIR an acceptable written asset improvement plan designed to improve the Bank’s position through repayment, amortization, liquidation, additional

collateral, or other means on each loan or other asset in excess of \$500,000, including other real estate owned (“OREO”), that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank’s problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$500,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank’s problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the OFIR an acceptable written plan to improve the Bank’s position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the OFIR to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank’s current problem loan list, extension report, and past due/non-accrual report.

#### **Allowance for Loan and Lease Losses**

7. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “loss” in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified “loss” unless otherwise approved in writing by the Reserve Bank and the OFIR.

(b) Within 60 days of this Agreement, the Bank shall review and revise its allowance for loan and lease losses (“ALLL”) methodology consistent with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the OFIR. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank’s loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank’s loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OFIR an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and

the OFIR, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

### **Capital Plan**

8. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OFIR an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the ALLL;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future capital and ALLL needs of the Bank.

9. The board of directors shall monitor and review the sufficiency of the Bank's capital on a monthly basis and shall reflect such reviews in the minutes of the board of directors' meetings.

### **Earnings Plan and Budget**

10. (a) Within 90 days of this Agreement, the Bank shall submit to the Reserve Bank and the OFIR a written business plan for 2009 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

(i) a realistic and comprehensive budget for calendar year 2009, including income statement and balance sheet projections; and

(ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components.

(b) A business plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the OFIR at least 30 days prior to the beginning of that calendar year.

### **Liquidity/Funds Management**

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the OFIR an acceptable revised written plan designed to improve management of the Bank's liquidity position. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the monitoring and reporting of the Bank's liquidity position; and

(b) measures to reduce reliance on short-term noncore funding.

12. Within 60 days of this Agreement, the Bank shall revise and submit to the Reserve Bank and the OFIR an acceptable written contingency funding plan that, at a

minimum, identifies available sources of liquidity and includes adverse scenario planning.

### **Dividends**

13. (a) Bancorp and the Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (“Director”), and, as to the Bank, also the OFIR.

(b) Bancorp shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank.

(c) Bancorp and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank and the Director.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent’s capital, earnings, and cash flow; the Bank’s capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, Bancorp and the Bank, as appropriate, must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors’ Policy Statement on the Payment of Cash

Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

### **Debt and Stock Redemption**

14. (a) Bancorp and its nonbank subsidiaries shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) Bancorp shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

### **Compliance with the Agreement**

15. (a) Within 10 days of this Agreement, the board of directors shall appoint a compliance committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include at least three outside directors who are not executive officers of the Bank, as defined in section 215.2(e)(1) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(e)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the board of directors.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the OFIR written

progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

### **Approval and Implementation of Plans and Program**

16. (a) The Bank shall submit written plans and a program that are acceptable to the Reserve Bank and the OFIR within the applicable time periods set forth in paragraphs 6(a), 6(b), 7(c), 8, 11 and 12 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the OFIR, the Bank shall adopt the approved plans and program. Upon adoption, the Bank shall promptly implement the approved plans and program and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans and program shall not be amended or rescinded without the prior written approval of the Reserve Bank and the OFIR.

### **Communications**

17. All communications regarding this Agreement shall be sent to:

(a) Ms. Julie A. Williams  
Assistant Vice President  
Federal Reserve Bank of Chicago  
230 South LaSalle Street  
Chicago, Illinois 60690

(b) Mr. Gary L. Thielsen  
Assistant Director  
Michigan Office of Financial and Insurance Regulation  
P.O. Box 30224  
Lansing, Michigan 48909

- (c) Mr. Jeffrey A. Sugg  
President  
Paramount Bancorp, Inc.  
Paramount Bank  
31000 Northwestern Highway, Suite 200  
Farmington Hills, MI 48334

**Miscellaneous**

18. Notwithstanding any provision of this Agreement, the Reserve Bank and the OFIR may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

19. The provisions of this Agreement shall be binding upon the Bancorp, the Bank and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

20. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the OFIR.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the OFIR, or any other federal or state agency from taking any other action affecting Bancorp, the Bank or any of their current or former institution-affiliated parties and their successors and assigns.

22. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 23rd day of October, 2008.

PARAMOUNT BANCORP, INC.

FEDERAL RESERVE BANK  
OF CHICAGO

By: /s/ Thomas E. Purther  
Vice Chairman

By: /s/ Mark H. Kawa  
Vice President

PARAMOUNT BANK

MICHIGAN OFFICE OF  
FINANCIAL AND INSURANCE  
REGULATION

By: /s/ Jeffrey A. Sugg  
President and CEO

By: /s/ Stephen R. Hilker  
Chief Deputy Commissioner