

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

BUREAU OF FINANCIAL INSTITUTIONS
OF THE COMMONWEALTH OF VIRGINIA
RICHMOND, VIRGINIA

_____)	
Written Agreement by and among)	
)	
GUARANTY FINANCIAL)	
CORPORATION)	Docket Nos. 00-017-WA/RB-HC
Charlottesville, Virginia)	00-017-WA/RB-SM
)	
GUARANTY BANK)	
Charlottesville, Virginia)	
)	
FEDERAL RESERVE BANK)	
OF RICHMOND)	
Richmond, Virginia)	
)	
and)	
)	
BUREAU OF FINANCIAL)	
INSTITUTIONS OF THE)	
COMMONWEALTH OF VIRGINIA)	
Richmond, Virginia)	
_____)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Guaranty Financial Corporation, Charlottesville, Virginia (the "BHC"), a registered bank holding company, and its subsidiary bank, the Guaranty Bank, Charlottesville, Virginia (the "Bank"), a state chartered bank that is a member of the Federal Reserve System, the BHC, the Bank, the Federal Reserve Bank of Richmond (the "Reserve Bank"), and the Bureau of Financial Institutions (the "Bureau") have mutually agreed to enter into this Written Agreement (the "Agreement"); and

WHEREAS, on October 26, 2000, the boards of directors of the BHC and the Bank at duly constituted meetings, adopted resolutions:

- (1) authorizing and directing Thomas P. Baker to enter into this Agreement on behalf of the BHC and the Bank, respectively, and consenting to compliance by the BHC and the Bank and their institution-affiliated parties, as defined by sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (12 U.S.C. 1813(u) and 1818(b)(3)) (the "FDI Act"), with each and every applicable provision of this Agreement; and
- (2) waiving any and all rights that the BHC and the Bank may have pursuant to 12 U.S.C. 1818: to a hearing for the purpose of taking evidence on any matters set forth in the Agreement; to judicial review of this Agreement; and to challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Agreement or any provisions hereof.

NOW, THEREFORE, without this Agreement constituting an admission of any allegation made or implied by the Board of Governors, the Reserve Bank, or the Bureau, the BHC, the Bank, the Reserve Bank, and the Bureau agree as follows:

Management

1. Within 60 days of this Agreement, the Bank shall take such actions as are necessary to hire a qualified, full-time Chief Financial Officer.

2. During the term of this Agreement, or as otherwise required by law, the Bank shall comply with the provisions of section 32 of the FDI Act (12 U.S.C. 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. Part 225, Subpart H), with respect to the appointment of any new directors or the hiring or promotion of any senior executive officers as defined in Regulation O of the Board of Governors (12 C.F.R. Part 215).

Asset/Liability Management

- 3.(a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau acceptable written asset/liability management policies designed to improve the management of the Bank's sensitivity to market risk and liquidity.
- (b) The policy regarding liquidity shall, at a minimum, address, consider, and include the following: (i) appropriate standards for volume, mix and maturity of the Bank's loans, investments, deposits, off-balance sheet commitments, and alternative funding sources; (ii) meaningful liquidity targets and parameters; (iii) appropriate oversight and review by management and the board of directors; and (iv) an appropriate contingency funding plan.
- (c) The policy regarding sensitivity to market risk shall, at a minimum, address, consider, and include the following: (i) identification of responsible individuals for measuring, monitoring, and controlling interest rate sensitivity; (ii) appropriate oversight and review by management and the board of directors; (iii) maintenance of documentation to support the validity and accuracy of assumptions used in measuring interest rate risk; (iv) parameters for controlling interest rate risk based on capital levels, earnings performance, and the risk tolerance of the Bank; and (v) action plans to reduce potential interest rate risk in the event that rate sensitivity results fall outside approved limits.

- (d) The Bank's Asset/Liability Committee (the "ALCO") shall review, on a monthly basis, all asset/liability management decisions made by the Bank's management, paying particular attention to whether each decision was made in accordance with approved policies. All exceptions to the policies shall be documented by the ALCO as to the reason for the exceptions and the continuance of the exceptions, taking into account the Bank's overall goals and strategies. The ALCO shall maintain full and complete minutes of its actions and shall provide monthly written reports to the board of directors to enable the board to make informed decisions regarding the Bank's management of market risk and liquidity.

Risk Management

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan to establish and maintain effective risk management programs to address board oversight, control, and supervision of the Bank's senior management and the major operations and activities of the Bank. The plan shall address and consider, at a minimum:
- (a) credit administration practices and policies including, without limitation, loan underwriting, documentation, and approval, monitoring of concentrations of credit, problem loan identification, compliance with laws and regulations and independent loan review; and
 - (b) identification and monitoring of all risks affecting the Bank, including, without limitation, market and credit risks.

Loan Administration

5. Within 60 days of this Agreement, the Bank shall review the adequacy of the loan administration function and shall submit to the Reserve Bank and the Bureau an

acceptable revised loan policy. The purposes of the review are (a) to develop systems and procedures to correct loan administration deficiencies cited in the report of the examination that closed on June 1, 2000 (the "Report of Examination"); (b) to develop a loan documentation review system; (c) to develop policy parameters addressing loan mix and concentrations; (d) to implement information systems to adequately monitor builder/developer loans, including inspections, draws, completion status, and lot releases; (e) to establish a process for independent review of builders' plans, cost estimates, and appraisals; and (f) to establish adequate internal controls over the lending function.

Loan Status Reports

6. Within 30 days following the end of each calendar quarter, the Bank shall submit to the Reserve Bank and the Bureau a written quarterly report regarding the status of all classified loans and special mention loans in excess of \$500,000 listed in the Report of Examination. The report shall include a brief summary of specific actions taken to collect or otherwise strengthen classified loans.

Allowance for Loan and Lease Losses

7. The Bank shall maintain, through charges to current operating income, an adequate allowance for loan and lease losses (the "Allowance"). The adequacy of the Allowance shall be determined in light of the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of the probable losses in the Bank's portfolio, including the potential for the existence of unidentified losses in loans adversely classified and the imprecision of loss estimates, current economic conditions, the requirements of the Interagency Policy Statement on the Allowance for Loan and Lease Losses, dated December 22, 1993, SFAS 114, SFAS 5, and examiners' other criticisms as contained in the Report of Examination. The Bank shall develop a

methodology for determining the adequacy of the Allowance, and shall maintain a written record of documentation to support the methodology. The methodology shall be submitted to the Reserve Bank and the Bureau within 60 days of this Agreement.

Capital Adequacy

8. Within 60 days of this Agreement, the BHC and the Bank shall submit to the Reserve Bank and the Bureau an acceptable joint written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address and consider:
 - (a) the Bank's current and future capital requirements, including compliance with the Capital Adequacy Guidelines of the Board of Governors (12 C.F.R. Part 208, App. A and B);
 - (b) any planned growth in the Bank's assets;
 - (c) the Bank's level of concentrations of credit;
 - (d) the volume of the Bank's adversely classified assets;
 - (e) the volume of volatile funds placed with the Bank and the composition of the Bank's funding, including any volatile funds that could require the maintenance of higher capital levels;
 - (f) the Bank's anticipated level of retained earnings;
 - (g) dividend payments;
 - (h) any unrealized depreciation in the Bank's securities portfolio; and
 - (i) the source and timing of additional funds to fulfill the future capital needs of the Bank.

Dividends

9. 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 (the "Director") and the Bureau. Requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall

contain, but not be limited to, information on the Bank's earnings for the most recent annual and interim periods.

10. The BHC shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director and the Bureau. Requests for approval shall be received at least 30 days prior to the proposed date for declaration of dividends and shall contain, but not be limited to, information on consolidated earnings for the most recent annual and interim periods.

Debt Service

11. The BHC shall not, directly or indirectly, incur any debt without the prior written approval of the Reserve Bank and the Bureau. 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 sources for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

Strategic Plan and Budget

- 12.(a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau a written strategic plan and budget concerning the Bank's proposed business activities for the remainder of 2000. This plan shall, at a minimum, provide for or describe:

- (i) the operating assumptions that form the bases for major projected income and expense components, and the sources and uses of new funds;
- (ii) financial performance objectives, including plans for asset growth, earnings, liquidity, and capital supported by detailed quarterly and annual pro forma financial statements, including projected budgets, balance sheets and income statements;

- (iii) the establishment of a monthly review process to monitor the actual income and expenses of the Bank in comparison to budgetary projections; and
 - (iv) steps to be taken to improve earnings.
- (b) A strategic plan and budget for each calendar year subsequent to 2000 shall be submitted to the Reserve Bank and the Bureau at least one month prior to the beginning of that calendar year. The board of directors shall each month review actual performance for that month in comparison to each month's budgetary projections and document analysis of significant variances.

Call Reports

13. The Bank shall take such actions as are necessary to ensure that all reports filed by the Bank, including Consolidated Reports of Condition and Income, accurately reflect the Bank's condition on the dates for which such reports are filed, that all reports are filed in a timely manner, and that all records indicating how such reports are prepared are adequately maintained for supervisory review.
14. The BHC shall take such actions as are necessary to ensure that all FR-Y Reports accurately reflect the BHC's condition on the dates for which such reports are filed, that all such reports are filed in a timely manner, and that all records indicating how such reports are prepared are adequately maintained for subsequent supervisory review.

Internal Controls

15. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written plan describing specific actions the board of directors will take to correct any internal control weaknesses and deficiencies noted in the Report of Examination.

Audit

- 16.(a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Bureau an acceptable written internal audit program designed to ensure that internal audits are conducted to verify implementation and compliance with policies, procedures, and controls established in connection with this Agreement.
- (b) The results of internal audits performed and management's actions to correct any noted deficiencies shall be reported by the Bank to the Reserve Bank and the Bureau within 30 days of the end of each quarter.
- 17.(a) Within 10 days of receipt of its external audit report for each year-end, the Bank shall provide the Reserve Bank and the Bureau with the audit report and management letter.
- (b) Within 45 days of receipt of the audit report and management letter, the Bank shall provide the Reserve Bank and the Bureau with an acceptable written plan, including acceptable time frames, to correct any deficiencies noted in the audit report or management letter.

Compliance with Laws and Regulations

- 18.(a) The Bank shall take the necessary steps, consistent with sound banking practices, to correct all violations of law and regulation set forth in the Report of Examination.
- (b) The Bank shall immediately initiate an affirmative compliance program in order to ensure compliance with the provisions of all applicable laws, rules, and regulations. Pursuant thereto, the management of the Bank shall familiarize itself with applicable federal laws and regulations and laws of the Commonwealth of Virginia.

Compliance Report

19. Within 45 days of this Agreement, and, thereafter, within 30 days after the end of each calendar quarter following the date of this Agreement (September 30, December 31, March 31, June 30), the board of directors of the Bank shall submit a written progress report to the Reserve Bank and the Bureau setting forth in detail the actions taken to comply with each provision of this Agreement and the results of those actions. The board of directors shall certify in writing to the Reserve Bank and the Bureau that each director has reviewed each quarterly progress report required by this paragraph. Such reports may be discontinued when the Reserve Bank and the Bureau, in writing, release the Bank from making further reports.

Approval of Plans and Policies

- 20.(a) The plans and policies required by paragraphs 3(a), 4, 5, 8, 15, 16(a), and 17(b) hereof shall be submitted to the Reserve Bank for approval, and a copy of each shall be sent to the Bureau. Acceptable plans and policies shall be submitted to the Reserve Bank and the Bureau within the time periods set forth in this Agreement. The Bank shall adopt all approved plans and policies within 10 days of approval by the Reserve Bank and then shall fully comply with them. During the term of this Agreement, the Bank shall not amend or rescind the approved plans and policies without the prior written approval of the Reserve Bank.
- (b) The boards of directors of the BHC and the Bank shall establish a process to ensure that all approved written plans and policies are reviewed at least annually.

Communications

21. All communications regarding this Agreement shall be sent to:
- (a) Jeffrey S. Kane
Senior Vice President
Banking Supervision and Regulation
Federal Reserve Bank of Richmond
Post Office Box 27622
Richmond, Virginia 23261

- (b) E.J. Face, Jr.
Commissioner of Financial Institutions
Bureau of Financial Institutions of the Commonwealth of Virginia
1300 E. Main Street, P.O. Box 640
Richmond, Virginia 23218-0640
- (c) Thomas P. Baker
President and CEO
Guaranty Financial Corporation / Guaranty Bank
1658 State Farm Boulevard
P.O. Box 7206
Charlottesville, Virginia 22906-7206

Miscellaneous

22. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank, and the Bureau, may, in their sole discretion, grant written extensions of time to the BHC and the Bank to comply with any provision of this Agreement.
23. The provisions of this Agreement shall be binding upon the BHC and the Bank and all of their institution-affiliated parties, in their capacities as such, and their successors and assigns.
24. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated or suspended by the Reserve Bank, and the Bureau.
25. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors or the Bureau or any other federal or state agency from taking any other action affecting the BHC or the Bank or any of their current or former institution-affiliated parties and their successors and assigns.
26. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued 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 26th day of October, 2000.

Guaranty Financial Corporation

Federal Reserve Bank of Richmond

By: Thomas P. Baker, President

By: [Signature]

Guaranty Bank

Bureau of Financial Institutions of the Commonwealth of Virginia

By: Thomas P. Baker, President

By: [Signature]

The undersigned directors of the BHC and the Bank individually acknowledge reading the foregoing Agreement and approve of the consent thereto by the BHC and the Bank.

[Signature]
Douglas E. Caton

[Signature]
Harry N. Lewis

[Signature]
Thomas P. Baker

[Signature]
Henry J. Browne

[Signature]
Jason I. Eckford, Jr.

[Signature]
Robert P. Englander

[Signature]
John R. Metz

[Signature]
James R. Sipe, Jr.

[Signature]
Oscar W. Smith, Jr.