

**SUPERVISORY AGREEMENT**

This Supervisory Agreement ("Agreement") is made and is effective this 18th day of December, 1995 (the "Effective Date"), by and between Greater Atlantic Savings Bank, FSB, Rockville, Maryland, OTS No. 8491, for itself and its wholly owned service corporations and subsidiaries (hereinafter referred to as "Greater Atlantic" or "Institution") and the Office of Thrift Supervision ("OTS"), a bureau of the United States Department of the Treasury, acting through its Acting Regional Director for the Southeast Region or his designee ("Regional Director").

**WHEREAS**, the OTS is the primary federal regulator of the Institution; and

**WHEREAS**, based upon the results of Greater Atlantic's safety and soundness Report of Examination, dated April 18, 1994 ("1994 Exam"), and Compliance Examination dated April 4, 1994 ("1994 Compliance Exam"), the OTS and Greater Atlantic entered into a Supervisory Agreement dated December 15, 1994 (the "1994 Agreement"), which is currently outstanding and in effect; and

**WHEREAS**, based upon the OTS safety and soundness Report of Examination, dated July 24, 1995 ("1995 Exam"), the OTS is of the opinion that additional grounds exist to initiate an administrative proceeding against Greater Atlantic pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b)<sup>1</sup>; and

**WHEREAS**, Greater Atlantic, acting through its board of directors, without admitting or denying that such grounds exist, in the interest of regulatory compliance and cooperation, is willing to enter into this Agreement to avoid the initiation of such administrative proceedings on the matters covered by this Agreement; and

**WHEREAS**, the OTS is willing to forebear from the initiation of such administrative proceedings against Greater Atlantic to require the actions specifically covered by this Agreement, for so long as the Institution is in compliance with the provisions of this Agreement that pertain to such actions; and

**WHEREAS**, it is understood by the parties that execution of this Agreement does not preclude the OTS from taking further supervisory or enforcement measures on matters not specifically covered by this Agreement that the OTS considers appropriate under the circumstances.

1. All references to the United States Code ("U.S.C.") are as amended.

NOW, THEREFORE, in consideration of the above-stated forbearance, it is agreed between the parties hereto as follows:

PRIOR AGREEMENT

1. The 1994 Agreement is hereby terminated as of the Effective Date of this Agreement.

MANAGEMENT/BOARD OF DIRECTORS

2. Within 90 days of the Effective Date of this Agreement, Greater Atlantic's board of directors (the "Board") shall review Greater Atlantic's management structure, employment contracts, and overall compensation, to determine if they are appropriate for the Institution's size, complexity and capital position and in compliance with the requirements of 12 C.F.R. §§ 563.39, 563.161(b) and 570 and Regulatory Bulletin 27a. The Board's review shall be fully documented in the Board minutes and a copy of the Board minutes shall be submitted to the Regional Director for review within 10 days after the date of the Board meeting at which the Board's review was conducted.

3. As required by Section 32 of the FDIA, 12 U.S.C. § 1831i, and Section 574.9 of the OTS Regulations, 12 C.F.R. § 574.9, the Institution shall provide at least 30 days prior written notice of the proposed addition of any individual as a director or senior executive officer (as those terms are defined in § 574.9) to the OTS before the employment becomes effective.

4. Pursuant to OTS Regulatory Bulletin 27a, the Institution shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director or senior executive officer, of the Institution or any subsidiary thereof, unless it first (i) provides a minimum of 30 days advance written notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director.

5. The Institution shall not make any "golden parachute payment", as that term is defined in Section 18(k) of the FDIA, 12 U.S.C. § 1828(k), and as it may be further defined in regulations adopted by the Federal Deposit Insurance Corporation ("FDIC") under that authority, unless it first (i) provides a minimum of 30 days advance written notice of the proposed payment and (ii) receives a written notice of non-objection from the Regional Director.

CAPITAL

6. The Board shall adopt a detailed plan ("Capital Augmentation Plan") with specific written strategies for increasing the level, strength and integrity of the Institution's capital. The Capital Augmentation Plan shall be in writing and approved by the Board. At a minimum, the Capital Augmentation Plan shall: (i) indicate the amount of capital that is to be raised; (ii) outline the timeframe needed to raise such capital; (iii) discuss the method

by which the additional capital will be raised; and (iv) discuss the reasonableness of such amount of capital given the Institution's asset, liability and investment structure, interest rate risk exposure, past and projected earnings, classified assets, loss allowances, and the Institution's cost of funds and operations. A copy of the Capital Augmentation Plan, along with relevant, supporting information, shall be provided to the Regional Director within 20 days after the date of this Agreement. The Institution shall provide the OTS with monthly updates of its capital raising efforts under the Capital Augmentation Plan. Further, the Institution shall immediately notify the Regional Director of any updates or changes to the Capital Augmentation Plan and shall promptly provide any documentation or supporting information.

#### DIVIDENDS

7. The Institution shall pay no dividends without receiving the prior written approval of the Regional Director. The Institution's written request for such approval should be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed dividend payment.

#### BUSINESS PLAN

8. Within 90 days after the Effective Date of this Agreement, the Board shall develop, adopt and submit to the Regional Director for review the first in a series of three comprehensive one year business plans ("Business Plans") for Greater Atlantic that cover the calendar years 1996, 1997 and 1998. The 1997 and 1998 Business Plans shall be prepared, adopted and submitted at least 60 days prior to the first day of the respective calendar years to which they apply, and shall address and consider the Institution's performance under the prior year's Business Plan. Each of the Institution's Business Plans shall, at a minimum:

- (i) specify and discuss the Board's plans and strategies for raising additional capital sufficient to meet applicable capital requirements and adequately support the risk profile of the Institution;
- (ii) specify and discuss the Board's strategies for returning the Institution to a viable condition without relying on mortgage banking operations and income;
- (iii) include a comprehensive narrative section for each of the Business Plans;
- (iv) detail the specific goals and objectives of the Institution;
- (v) clearly, accurately and completely describe the Institution's current operations and lines of business, as well as the intended operations and lines of business that will be pursued by the Institution,

including any off-balance sheet activities or other new activities, and identifying the target markets that will be served by such existing or intended operations or lines of businesses;

- (vi) include an annual budget, as approved by the Board, and quarterly pro forma financial statements addressing the growth limitations imposed, pursuant to Regulatory Bulletin 3a-1 ("RB 3a-1"), by paragraph 11 of this Agreement and realistic quarterly mortgage banking income and expense projections, as well as the relevant assumptions upon which the Business Plan and financial statements are based, including projected interest rates and loan delinquency rates; and
- (vii) discuss the Board's strategies for: (1) reducing the Institution's reliance on jumbo deposits; (2) reducing the Institution's operating expenses and cost of funds; (3) achieving and maintaining compliance with fully phased-in capital requirements; (4) improving the core earnings and profitability of the Institution and (5) reducing the Institution's reliance on mortgage banking income.

9. Quarterly variance reports shall be prepared by the Board for Greater Atlantic within 30 days after the close of each quarter. Such variance reports shall detail actual operating results versus projected results and shall include an explanation of any material deviation from the Business Plan and a specific description of the measures that have been implemented, proposed or under current consideration to correct any adverse deviation. The Board shall review the variance reports on a quarterly basis to monitor the Institution's compliance with the terms of the Business Plan. A deviation shall be considered material under this paragraph when:

- (i) Greater Atlantic engages in any type or level of activity that is inconsistent with the Business Plan;
- (ii) Greater Atlantic exceeds the level of any activity contemplated in the Business Plan or fails to meet target amounts established in the Business Plan by more than 10%, unless the activity involves assets risk-weighted 50% or less, in which case a variance of more than 25% shall be deemed to be a material deviation; or
- (iii) Greater Atlantic's disposition or resolution of classified/criticized assets does not meet the targets established in accordance with Paragraph 17 below.

10. The Business Plan required by Paragraph 8 of this Agreement shall be reviewed and approved by the Board. The Institution shall retain in the minutes of the Board a copy of the Board's approval of each Business Plan, the quarterly variance reports prepared by the Institution and the Board's review of the

variance reports. The Institution shall submit a copy of each quarterly variance report to the Regional Director within 10 days after its presentation to the Board.

11. The Institution shall comply with the requirements and provisions of RB 3a-1. Without the prior written approval of the Regional Director, the Institution shall not increase its total assets during any quarter in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph shall be expressly incorporated in the Business Plan required by Paragraph 8.

#### RECORDKEEPING AND REPORTING

12. Within 60 days of the Effective Date of this Agreement, the Board shall develop, adopt and adhere to policies and procedures for recordkeeping in accordance with 12 C.F.R. § 563.170. The Board shall direct Management to perform account reconciliations on a monthly basis and shall ensure the accurate and timely submission of Thrift Financial Reports ("TFRs") to the OTS. The Board shall ensure that all criticized and/or classified assets are accurately reported on the TFRs and that each TFR filed with the OTS is signed by not less than 3 directors attesting to its accuracy. The Board shall ensure that all actions and deliberations undertaken by the Board are completely and accurately reflected and recorded in the minutes of the committee meetings and meetings of the Board.

#### MORTGAGE BANKING ACTIVITIES

13. The Board shall direct Management to establish an accurate, documented allocation of all significant revenues and expenses related to the Institution's mortgage banking activities. Within 10 days after the close of each month, Greater Atlantic shall submit to the Regional Director for review a report detailing the operations and profitability of the Institution's mortgage banking activities. Each report shall quantify the prior month's originations, closings, gains, margins and end of the month pipeline. Each report shall be approved by the Board at the next regular Board meeting with the Board's discussion and approval included in the Board minutes.

#### LENDING

14. Within 60 days after the Effective Date of this Agreement, the Board shall review its existing loan policies and shall revise and amend such policies to: (i) include specific guidelines for consumer loans; (ii) eliminate references to non-existent appendices or committees; (iii) remove references to government agencies that do not regulate the Institution; (iv) establish internal control procedures designating responsibility for ensuring compliance with the loans to one borrower limits to persons uninvolved in the loan underwriting, approval and funding functions; (v) require Management to maintain adequate records, properly monitor the Institution's loan portfolio and adhere to and enforce, on a timely basis, all loan agreement terms and

provisions; (vi) require updated financial statements and tax returns to be obtained for loan monitoring purposes, particularly with respect to problem borrowers, large or speculative construction loans and loans secured by income producing properties; and (vii) ensure that all lending policies are specifically tailored to the needs and capabilities of the Institution.

15. The Institution shall not increase its outstanding balances in the Unsold (speculative construction), Lots Personal Residence, Land and Development, and Commercial Land loan categories in amounts greater than the dollar amounts existing on the Institution's books in each category as of September 30, 1995. If the Institution fails to meet all minimum capital requirements, the Institution shall not grant, fund or otherwise make any new loans in these loan categories. The Board shall monitor monthly the Institution's activities in these loan categories, including inventory levels. Within 10 days after the close of each month, Greater Atlantic shall submit to the Regional Director for review a report detailing lending activity in these loan categories, including inventory levels. Each report shall be approved by the Board at the next regular Board meeting with the Board's discussion and approval included in the Board minutes.

#### SELF-CLASSIFICATION OF ASSETS

16. Within 60 days of the Effective Date of this Agreement, the Board shall review and amend its Loan Risk Rating Classifications Policy ("Classification Policy") consistent with the requirements of 12 C.F.R. § 563.160. The revised Classification Policy shall specifically require that real estate owned ("REO") be classified and that appropriate allowances be established for all REO. The revised Classification Policy shall be adopted by the Board within the preceding 60 day timeframe. The Board shall ensure that assets are being adequately classified and accurately reported on the TFR and that accurate minutes of all loan committee meetings are being kept.

#### CLASSIFIED/CRITICIZED ASSETS

17. Within 60 days after the Effective Date of this Agreement, the Board shall develop, adopt and implement detailed written individual action plans ("Disposition Plans") with quarterly time frames and goals for addressing the resolution and/or disposal of each asset criticized or classified during the 1994 and 1995 safety and soundness examinations. With regard to mortgage loans, Disposition Plans shall be prepared for each mortgage loan with a book value in excess of \$200,000. In addition, the Board shall develop, adopt and implement detailed written Disposition Plans with quarterly time frames and goals for addressing the resolution and/or disposal of each asset subsequently criticized or classified by the Institution or the OTS. With regard to mortgage loans that are subsequently criticized or classified, Disposition Plans shall be prepared for each mortgage loan with a book value in excess of \$200,000. The Disposition Plans required

by this Paragraph shall fully discuss the proposed course of action, including the impact of such action on the Institution's capital and earnings. At least once each calendar quarter, the Board shall review Management's progress in meeting the quarterly target goals and time frames contained in each Disposition Plan and update or revise such plans as appropriate. The Board's review of each Disposition Plan shall be documented in the Board minutes, undertaken in conjunction with its determination of the adequacy of the allowance for loan and lease losses ("ALLL"), and shall become part of the supporting documentation for the ALLL.

#### LIQUIDITY-ASSET/LIABILITY

18. Greater Atlantic shall comply with the liquidity requirements set forth in 12 C.F.R. Part 566. The Board shall ensure that liquidity calculations are accurately performed by Management in compliance with 12 C.F.R. § 566.2.

#### INTEREST RATE RISK

19. The Board shall develop and adopt a new Interest Rate Risk Policy (the "IRR Policy") consistent with the requirements of 12 C.F.R. § 563.176(b) and OTS TB 13, TB 13-1 and TB 13-2. The IRR Policy shall contain reasonable interest rate risk limitations as established by the Board and ensure proper management of interest rate risk. Interest rate risk reports shall be prepared by Management for the Board in accordance with the requirements of the IRR Policy, Section 563.176(b) and OTS TB 13, TB 13-1 and TB 13-2. The Board shall review the Institution's interest rate risk position and the reports prepared by Management not less than quarterly.

#### COMPLIANCE PROGRAM

20. The Board shall fully implement and thereafter comply with the Compliance Program to improve the Institution's compliance with all applicable consumer laws and regulations developed and adopted in accordance with the 1994 Agreement. At a minimum, the Compliance Program shall require that the Board designate a Compliance Officer who has the responsibility of developing operating policies and procedures, internal controls, monitoring systems, and training programs to ensure compliance with applicable consumer laws and regulations. The Compliance Officer also shall be responsible for preparing and presenting, on at least a quarterly basis, reports to the Board that set forth the Compliance Officer's findings, conclusions, and recommendations concerning the Institution's compliance with all applicable consumer laws and regulations. The Board shall discuss the findings and recommendations of the Compliance Officer, and its discussion and any ensuing actions shall be documented in the Board minutes.

21. The Compliance Officer designated by the Board in accordance with Paragraph 20 of this Agreement shall have sufficient authority, responsibility, and autonomy to monitor the operations of the Institution and to effect, as needed, corrections to

ensure the Institution's compliance with all applicable consumer laws and regulations.

**BANK SECRECY ACT**

22. The Institution shall comply with all requirements of the Bank Secrecy Act, 31 U.S.C. § 5311, et seq. and of 31 C.F.R. Part 103.

**TRUTH IN LENDING ACT**

23. The Board shall comply with the policies and procedures that were developed and adopted in accordance with the 1994 Agreement to ensure that all mortgage loans made by the Institution comply with the requirements of the Truth in Lending Act, 15 U.S.C. § 1601 et seq., as implemented by Regulation Z, 12 C.F.R. Part 226. Specifically, the Institution shall comply with the disclosure requirements of 12 C.F.R. § 226.18(d) ("Finance charge"), and the accuracy of annual percentage rate requirements of 12 C.F.R. § 226.22(a).

**EQUAL CREDIT OPPORTUNITY ACT**

24. The Board shall comply with the policies and procedures that were developed and adopted in accordance with the 1994 Agreement to correct the deficiencies in the Institution's adverse action notices issued in connection with denied mortgage loan applications, as described in Section 3.2 of the 1994 Compliance Exam, and to ensure that the Institution thereafter complies with all requirements of Regulation B, 12 C.F.R. Part 202.

**COMPLIANCE WITH AGREEMENT**

25. The Board shall take immediate action to cause the Institution to comply with the terms of this Agreement and shall take all action necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Agreement. The Board shall promptly respond to any request from the OTS for documents to demonstrate compliance with this Agreement.

26. The Board shall review the Institution's compliance with the Agreement monthly and shall prepare and submit reports of the Board's review to the OTS within 10 days after the date of each monthly review conducted by the Board. The Board's review shall: (i) identify in detail all instances where full compliance was found not to exist; (ii) indicate those areas of non-compliance that were permitted by an exemption issued by the Regional Director; (iii) address the reasons behind the Institution's non-compliance; and (iv) discuss those steps being taken to correct the areas of non-compliance and thereafter ensure full compliance with the Agreement.

### DEFINITIONS

27. 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, HOLA, FDIA or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

### SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

28. 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 Effective Date and references to successor provisions as they become applicable.

### NOTICES

29. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with:

- a. The OTS by the Institution, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree St., N.E., Atlanta, Georgia 30309 or telecopied to (404)888-5634 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- b. The Institution by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Institution at 8230 OLD COURTHOUSE ROAD, SUITE 520  
VIENNA, VIRGINIA 22182 or telecopied to (703) 917 - 8305 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- c. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Agreement, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was

received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

**DURATION, TERMINATION OR SUSPENSION OF AGREEMENT**

30. 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).

31. The Regional Director in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

**TIME LIMITS**

32. Any time limitations imposed by this Agreement shall begin to run from the Effective Date of the Agreement, unless otherwise provided for in the Agreement. Such time limitations may be extended by the Regional Director in his sole discretion upon written application by the Institution.

**EFFECT OF HEADINGS**

33. The Section headings herein are for convenience only and shall not affect the construction hereof.

**DIRECTOR RESPONSIBILITY**

34. Although the Board is by this Agreement required to submit certain proposed actions and programs for the review or approval of the Regional Director, the Board has the ultimate responsibility for proper and sound management of the Institution.

**SEPARABILITY CLAUSE**

35. 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.

**NO VIOLATIONS OF LAW, RULE, REGULATION OR POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED; RELATION TO STATE LAW**

36. Nothing in this Agreement shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

SUCCESSORS IN INTEREST/BENEFIT

37. 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 Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Agreement.

IN WITNESS WHEREOF, the OTS, acting by and through the Regional Director and the Institution, in accordance with a duly adopted resolution of its Board (copy attached hereto), hereby execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

BY:

151  
Richard M. Riccebano  
Acting Regional Director

GREATER ATLANTIC, FSB  
Rockville, Maryland

BY:

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Name: ROBERT H. EINHAUS  
Title: PRESIDENT

DIRECTORS OF THE INSTITUTION

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Director

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DIRECTORS' WAIVER OF NOTICE

I hereby waive notice of the meeting of the Board of Directors of Greater Atlantic Savings Bank, FSB, Rockville, Maryland, OTS No. 8491 ("Greater Atlantic" or "Institution") held on the 14TH day of DECEMBER, 1995, at which the Board of Directors considered and adopted the attached resolution concerning a Supervisory Agreement between the Institution and the Office of Thrift Supervision.

By: <u>ISI</u> Director	By: <u>ISI</u> Director
By: <u>ISI</u> Director	By: <u>ISI</u> Director
By: <u>ISI</u> Director	By: _____ Director
By: <u>ISI</u> Director	By: _____ Director

CERTIFIED COPY OF  
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Greater Atlantic Savings Bank, FSB, Rockville, Maryland, OTS No. 8491 ("Greater Atlantic" or "Institution"), hereby certify that the following is a true copy of a resolution duly adopted by its Board of Directors at a meeting duly called and held on DECEMBER 14, 1995, and at said meeting a quorum was present and voting throughout, and that said resolution has not been rescinded or modified and is now in full force and effect:

**WHEREAS**, based upon the Institution's OTS Safety and Soundness Examination, dated July 24, 1995 (the "1995 Examination"), the officers and directors of the Institution have been advised that OTS is of the opinion that the grounds exist to initiate administrative proceedings against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act, 12 U.S.C. 1818(b), as amended; and

**WHEREAS**, said officers and directors have been informed that the OTS will forbear from the initiation of such administrative proceedings in connection with the matters referred to in the attached Supervisory Agreement ("Agreement") if the Agreement is executed by the Institution and if its terms are thereafter complied with by the Institution; and

**WHEREAS**, the directors of the Institution have read and considered the proposed Agreement and after due consideration, and in the interest of regulatory compliance and cooperation, have determined to enter into the proposed Agreement:

**NOW, THEREFORE, BE IT RESOLVED**, that the proposed Agreement, a copy of which is attached hereto and the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Institution. The officers and employees of the Institution are directed and authorized to take all necessary steps to implement immediately the terms of the Agreement.

**IN WITNESS WHEREOF**, I have hereto subscribed my name and affixed the seal of GREATER ATLANTIC SAVINGS BANK, F.S.B. this 14TH day of DECEMBER, 1995.

*IS/*  
Secretary