

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 9th day of MAY, 1995 (the "Effective Date"), by and between Guaranty Savings and Loan, F.A., Charlottesville, Virginia, OTS No. 7818, for itself and its wholly owned service corporations and subsidiaries (hereinafter referred to as "Guaranty" 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 OTS safety and soundness Report of Examination, dated November 21, 1994 ("1994 Examination"), the OTS is of the opinion that the grounds exist to initiate an administrative proceeding against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b); and

WHEREAS, the Institution, 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 proceeding on the matters covered by this Agreement; and

WHEREAS, the OTS is willing to forebear from the initiation of such administrative proceeding against the Institution 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.

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

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

CAPITAL

1. Guaranty shall review and, as necessary, revise the capital augmentation strategies contained in its existing business plan ("Plan") consistent with this paragraph. All revisions shall be made in writing and approved by Guaranty's board of directors (the "Board") and, at a minimum, shall specifically: (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, purchased mortgage servicing rights ("PMSRs") portfolio, loss allowances, and the Institution's cost of funds and operations. A copy of the Plan, along with relevant, supporting information, shall be provided to the Regional Director within 20 days after the date of this Agreement. Guaranty shall immediately notify the Regional Director of any updates or changes to the Plan and shall promptly provide any documentation or supporting information.
2. Guaranty shall comply with the PMSR valuation requirements set forth in Thrift Bulletin 60 and 12 C.F.R. § 567.12. Within 60 days after the Effective Date of this Agreement, the Institution shall obtain an independent market appraisal of its PMSRs that complies with applicable regulatory valuation requirements. Further, Guaranty shall acquire the appropriate valuation software and initiate the requisite training needed to internally and accurately value PMSRs. Valuations shall be performed not less than quarterly.

INTEREST RATE RISK

3. Within sixty (60) calendar days after the Effective Date of this Agreement, the Board shall adopt and direct management to implement a plan with specific strategies to reduce the Institution's exposure and sensitivity to interest rate risk. The plan shall comply with Thrift Bulletin 13 and shall address loan and deposit pricing, index risk, and the impact of the rate shocks on prospective interest spreads. The Board shall review the Institution's compliance with the plan not less than quarterly and shall provide the OTS with copies of the minutes reflecting the Board's review.

INVESTMENT POLICIES AND PROCEDURES

4. Within 45 days after the effective date of this Agreement, the Board shall adopt and direct management to implement and comply with investment policies and procedures that establish internal controls and investment accounting requirements and that incorporate all applicable regulatory

investment limitations, including provisions that the Institution's use of financial futures shall comply with 12 C.F.R. § 563.174. The Institution's investment policies and procedures also shall, at a minimum, specifically detail the Institution's hedging strategies and activities, including but not limited to, the exact types of instruments to be used as hedges, the specific balance sheet items for which such instruments will be used to hedge, and the method, model, or means used to analyze the Institution's hedging strategies and activities and measure the effectiveness of such upon interest rate risk management. Investment transactions shall be reviewed by the Board and shall be accompanied in the board minutes by a statement of how each significant transaction benefits the Institution's interest rate risk position.

TRANSACTIONS WITH AFFILIATED PERSONS

5. Guaranty shall ensure that all loans to directors, officers, principal shareholders and their related interests (collectively, "Insiders") fully comply with Regulation O, 12 C.F.R. Part 215. The Institution shall maintain documentation sufficient to evidence that all loans to Insiders were made in compliance with the provisions of Regulation O.

ASSET QUALITY

6. Guaranty shall comply with Statement of Financial Accounting Standards ("SFAS") No. 114: "Accounting by Creditors for Impairment of a Loan" and Thrift Activities Handbook ("TAH") Section 260: "Classification of Assets." All internal valuation analyses for problem assets secured by real estate performed by Guaranty shall include estimated net discounted cash flows.

ASSET/LIABILITY MANAGEMENT

7. Guaranty shall comply with the provisions and requirements regarding liquidity maintenance set forth in 12 C.F.R. Part 566. Within 60 days of the Effective Date of this Agreement, the Board shall develop, adopt and implement modifications to the Institution's policies and procedures for asset/liability management that, at a minimum, address:

(a) The development and implementation of a strategy to continue to emphasize core earnings and the reduction of the Institution's cost of funds and interest expenses; and

(b) The development and implementation of a strategy to ensure a satisfactory liquidity ratio after consideration of the Institution's overall asset/liability structure, the condition of the economy, and the requirements of deposit and loan customers.

SUCCESSOR STATUTES, REGULATIONS, GUIDANCE, AMENDMENTS

8. Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda, bulletins and publications shall include references to all amendments to such provisions as have been made as of the Effective Date of this Agreement and references to successor provisions as they become applicable.

NOTICES

9. (a) 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:
- i. 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 for the Southeast Region, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree Street, 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.
 - ii. 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 1700 SEMINOLE TRAIL, CHARLOTTESVILLE VIRGINIA 22901 or telecopied to (804) 974 - 1157 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- (b) 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, 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 ORDER

10. The provisions of this Agreement shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through the Regional Director. The Regional Director in his sole discretion may, by written notice, terminate and/or suspend any or all provisions of this Agreement.

EFFECT OF HEADINGS

11. The section headings used in this Agreement are for convenience of reference only and are not to affect the construction of or be taken into consideration in the interpretation of this Agreement.

SEPARABILITY CLAUSE

12. In the event that 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 sole discretion determines otherwise.

NO VIOLATIONS OF LAW, RULE, REGULATION OR
POLICY STATEMENT AUTHORIZED; OTS NOT RESTRICTED

13. Nothing in this Agreement shall be construed as:
- (a) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject, or
 - (b) restricting, in any way, the OTS from taking any action that it believes is appropriate in fulfilling the responsibilities placed upon it by law.

SUCCESSORS IN INTEREST/BENEFIT

14. 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.

DIRECTOR RESPONSIBILITY

15. 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.

TIME LIMITS

16. 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.

DEFINITIONS

17. All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by the provisions of the Agreement shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations. Any such technical words or terms used in this Agreement and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

WRITTEN AGREEMENT WITH THE AGENCY

18. This Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Institution. It is understood and agreed that this Agreement is a "written agreement entered into with the agency" as that phrase is used in Section 8(b)(1) of the FDIA, 12 U.S.C. § 1818(b)(1).

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:

15/
Richard M. Riccobono
Acting Regional Director

GUARANTY S&LA, F.A.
Charlottesville, Virginia
BY:

15/
Name: THOMAS P. BAKER
Title: PRESIDENT / C.E.O.

DIRECTORS OF THE INSTITUTION

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Director

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Director

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CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly qualified Secretary of Guaranty Savings and Loan, F.A., Charlottesville, Virginia, OTS No. 7818 ("Guaranty" 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 5-4-95, 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 November 21, 1994 (the "1994 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 Guaranty Savings & Loan this 4th day of May, 1995

/s/
Secretary