

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 13th day of March, 1992, by and between Ameribanc Savings Bank, FSB, Annandale, Virginia, OTS No. 6762, for itself and its wholly owned service corporations ("Ameribanc" or "Institution"), and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director"). The Operating Agreement executed by Ameribanc and the Regional Director on September 26, 1990 is hereby terminated.

WHEREAS, the 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 ("FDIA"), 12 U.S.C. § 1818(b)(1988 and Supp. I 1989); and

WHEREAS, the Institution, in the interest of regulatory cooperation and compliance, and without admitting or denying that such grounds exist, 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 forbear from the initiation of such administrative proceedings 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; 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 to require actions not specifically covered by this Agreement which 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:

Major Loans and Real Estate Owned

1. With respect to any loan of an amount equal to or greater than \$2,000,000, and any investment in real estate owned ("REO") of an amount equal to or greater than \$1,000,000, the Institution shall not advance any additional funds, pay any expenses, or make any additional investments in such loans or REO that would cause the dollar amount of its investments in such projects to increase above the book value of such projects as reflected on Ameribanc's balance

sheet as of the effective date of this Agreement, or to exceed existing legally binding commitments which would include unadvanced loans in process that have been previously approved by the Institution's Board of Directors prior to the effective date of this Agreement, without the prior written approval of the Regional Director. Ameribanc shall upon request provide a list of all such legally binding commitments. For projects for which additional expenditures are anticipated that would exceed the limits set forth above, Ameribanc shall submit budgets for pre-approval by the Regional Director.

Classified and Criticized Assets

2. The board of directors shall direct management to develop and implement, within sixty (60) days after the effective date of this Agreement, written plans to address the levels of classified and criticized assets. Said plans shall include, at a minimum, individual strategies for each criticized and classified asset in excess of one million dollars and interim targets for reducing overall classifications as a percentage of capital. Said individual strategies shall be updated quarterly. Ameribanc shall submit a report to the Regional Director not later than thirty (30) days after the end of each calendar quarter, reflecting the overall level of classified and criticized assets and detailing the status of classified and criticized assets with balances in excess of one million dollars.

Interim Lending Restrictions

3. (a) Without the prior written approval of the Regional Director, on or after the effective date of this Agreement, until such time as total classified assets are less than fifty percent of total capital and Ameribanc meets its fully phased-in capital requirement, Ameribanc shall not make, purchase or invest in:

- (i) Any non-residential real estate acquisition loan, development loan, or construction loan; or
- (ii) Any residential real estate acquisition loan, development loan, or construction loan; or
- (iii) any loan of an amount greater than \$1,000,000.

(b) Ameribanc may:

- (i) Make individual loans on the security of 1-4 family dwellings, or lots to be used for such purpose, which do not exceed \$750,000, provided that loans to one borrower made under this exception shall not exceed Ameribanc's legal lending limit and provided

that Ameribanc shall not finance the acquisition, development or construction of more than twenty-five percent (25%) of the lots and dwellings in any one development not owned by Ameribanc or any subsidiary of Ameribanc; and that any construction loan for lots not owned by Ameribanc or any subsidiary of Ameribanc must have a pre-approved contract for sale and evidence of permanent loan qualification.

(ii) Honor legally binding commitments existing as of the effective date of this Agreement;

(iii) Advance new funds, or restructure or renew terms, in connection with bona fide work outs of any loan of an amount equal to or less than \$2,000,000, and any investment in real estate owned of an amount equal to or less than \$1,000,000, that are approved by the Board of Directors pursuant to a determination, in writing, that failure to so fund, restructure, or renew would be substantially detrimental to Ameribanc.

Interest Rate Risk

4. Within sixty (60) calendar days of the effective date of this Agreement, the board shall adopt and direct management to implement a plan to reduce the Institution's exposure to interest rate risk. Such plan shall include, at a minimum, strategies to reduce the Institution's interest rate risk exposure. At least quarterly, the board shall review the Institution's compliance with the plan. The plan shall comply with Thrift Bulletin 13.

Policies and Procedures

5. Within forty-five (45) days of the effective date of this Agreement, the Institution shall develop, implement and adhere to, written policies and procedures, and establish corresponding internal control systems, as necessary, to provide the following:

(a) Self Classification of Assets. Ameribanc shall implement its system of self-classification of assets established pursuant to 12 C.F.R. 563.160 and 571.26, which shall continue to provide for the monitoring of portfolio risk and for valuation allowances, and shall, at a minimum, incorporate the provisions of Thrift Bulletin #3, "Classification of Assets: Guidelines for Internal Loan Review Systems", (October 17, 1988).

(b) Loan Underwriting. Ameribanc shall review and revise, where appropriate, its loan underwriting policies and

procedures to require thorough analysis and documentation of borrower and guarantor financial information, specifically of corporate and general partnership borrowers, and to require consistent and periodic monitoring of outstanding credits.

(c) Appraisals. Within sixty (60) days of the effective date of this Agreement, the board shall revise the Institution's appraisal policies and procedures to ensure that they are consistent with the provisions of 12 C.F.R. Part 564 and that they correct the internal appraisal review deficiencies cited in the 1991 Report of Examination. The revised policies shall, at a minimum, require that management review the performance of all approved appraisers in accordance with the provisions of 12 C.F.R. § 564.8(c)(3). Ameribanc shall appoint a senior lending officer to perform a lending review function, independent of the loan account manager. Said officer shall have sufficient expertise to assure compliance with the Institution's written appraisal policies and procedures and with Part 564. Analysis and documents generated by the appraisal reviewer, including the appraisal review form, shall be included in the documents provided to the Loan Review Committee or senior management, as appropriate.

(d) Valuation Reserves. Ameribanc shall develop and implement a plan for increasing its general valuation allowance to an adequate level, considering the amount of criticized and classified assets, pursuant to 12 C.F.R. 563.160(c), and shall ensure the appropriate use of net realizable value and fair value calculations and appraisals in establishing specific reserves. A copy of the general valuation allowance policy and the plan for increasing the general valuation allowance shall be submitted to the Regional Director or his designee for approval.

Disaster Recovery Plan and Data Security

6. The Institution shall, within thirty (30) days of the effective date of this Agreement, revise its Disaster Recovery Plan to ensure that it complies with Thrift Bulletin 30. Revisions to the plan shall be implemented immediately. Within sixty (60) days of the effective date of this Agreement, the Institution shall correct deficiencies noted in the 1991 Report of Examination concerning its data processing system.

Fidelity Bond Deductible

7. Within thirty (30) days of the effective date of this Agreement, Ameribanc shall take steps necessary to reduce its fidelity bond deductible amount from \$500,000 to \$342,552. Thereafter, Ameribanc shall comply with 12 C.F.R.

563.190(b).

Holding Company Transactions

8. The Board of Directors of Ameribanc shall, within sixty (60) days of the effective date of this Agreement, conduct a written analysis of transactions engaged in with Ameribanc's holding company, Ameribanc Investors Group, and document whether Ameribanc is receiving comparable benefits from its holding company for services provided. Ameribanc shall establish, implement and adhere to policies and procedures governing transactions with its holding company. Such policies and procedures shall seek to ensure that there is a proper segregation of activities and that Ameribanc maintains a separate corporate existence. The Board of Directors shall also review the compensation arrangement involving the Institution and its Chairman of the Board who also serves as Ameribanc Investor Group's President to determine whether it is commensurate with the services rendered. Upon completion of such review and a determination that the arrangement is in the Institution's best interest, the Board shall formally approve the compensation arrangement.

Internal Controls

9. Ameribanc shall, within thirty (30) days of the effective date of this Agreement, establish written internal control policies governing its credit card and bank check operations. Such policies shall be specific and at a minimum designed to prevent incidents cited in the exam report from recurring.

Compliance Committee

10. Within thirty (30) days of the effective date of this Agreement, the board shall appoint a Compliance Committee of at least three (3) directors, the majority of whom shall not be executive officers of the Institution. Within forty-five (45) calendar days of the appointment of the Compliance Committee and quarterly thereafter, the Compliance Committee shall submit a written progress report to the board setting forth in detail: (a) actions taken to comply with each provision of this Agreement; (b) actions taken to comply with Ameribanc's existing policies and procedures; and (c) the results of those actions. The board shall forward to the Regional Director a copy of the Compliance Committee's report, with any additional comments by the Board.

Employment Contracts

By: 151 Director Date: March 13, 1992

By: 151 Director Date: March 13, 1992

By: 151 Director Date: March 13, 1992

B: 151 Director Date: March 13, 1992

By: _____ Director Date: _____

OFFICE OF THRIFT SUPERVISION

By: 151 John E. Ryan Director Date: 3/27/92
Regional Director