

SUPERVISORY AGREEMENT

This Supervisory Agreement ("Agreement") is made and is effective this 2nd day of December, 1998 (the "Effective Date"), by and between **Gilmer Savings Bank, FSB** (the "Association"), a stock chartered bank, having its main office located at **Gilmer, Texas**, and the Office of Thrift Supervision ("OTS"), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C. 20552, acting through its Midwest Regional Director or his/her designee ("Regional Director").

WHEREAS, the OTS is the primary federal regulator of the Association; and

WHEREAS, based on the Report of Examination for the examination dated August 3, 1998 ("ROE"), the OTS is of the opinion that the Association has engaged in acts and practices that: (i) have resulted in violations of certain laws or Regulations to which the Association is subject and/or (ii) are considered to be unsafe and unsound; and

WHEREAS, the OTS is of the opinion that grounds exist for the initiation of administrative proceedings against the Association; and

WHEREAS, the OTS is of the view that it is appropriate to take measures intended to ensure that the Association will: (i) comply with all applicable laws and Regulations and (ii) engage in safe and sound practices; and

WHEREAS, the Association, acting through its Board of Directors (the "Board"), without admitting or denying any violations of laws or Regulations and/or unsafe and unsound practices, wishes to cooperate with the OTS and to evidence the intent to: (i) comply with all applicable laws and Regulations and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises, the mutual undertakings set forth herein, the parties hereto agree as follows:

COMPLIANCE WITH LAWS, REGULATIONS & SAFE AND SOUND PRACTICES

1. Compliance with Regulations

The Association shall take all necessary and appropriate actions to achieve compliance with the following:

- A. Section 560.101 of the OTS Regulations, 12 C.F.R. § 560.101 (regarding real estate lending standards);

- B. Section 560.160 of the OTS Regulations, 12 C.F.R. § 560.160 (regarding asset classification);
- C. Section 560.170 of the OTS Regulations, 12 C.F.R. § 560.170 (regarding records for lending transactions);
- D. Section 563.161 of the OTS Regulations, 12 C.F.R. § 563.161 (regarding management and financial policies);
- E. Section 564.8 of the OTS Regulations, 12 C.F.R. § 564.8 (regarding appraisal policies and practices of savings associations and subsidiaries);
- F. Section 11 of the Home Owners' Loan Act ("HOLA"), 12 U.S.C. § 1468; Section 215 of the Federal Reserve Board's Regulation O, 12 C.F.R. § 215; and Section 563.43 of the OTS Regulations, 12 C.F.R. § 563.43 (regarding loans by savings associations to their executive officers, directors, and principal shareholders).

CORRECTIVE PROVISIONS

2. Real Estate Lending Standards

- A. By December 31, 1998, the Association shall establish a formal training program for officers and directors to enhance their knowledge of real estate and commercial lending and of the applicable laws and Regulations.
- B. By December 31, 1998, the Association and its Board shall establish a system of records to track loans with LTV ratios in excess of 80 percent without mortgage insurance to ensure that the association does not exceed the regulatory limit.
- C. By December 31, 1998, the Association and its Board shall ensure that a review of all approved appraisers is conducted with conclusions documented, including the reasonableness of values presented and compliance with the existing appraisal policy.

3. Asset Classification

- A. By December 31, 1998, the Board of Directors ("Board") of the Association shall establish a committee composed of members independent of the loan approval process to approve all asset classifications.

- B. By December 31, 1998, the Association shall develop and implement written asset classification policies and a system to monitor and ensure compliance with such policies. At a minimum, the policy shall require a formal loan memorandum for all loans over \$50,000 which describes the amount, purpose, collateral, value, and repayment terms and sources as well as a brief summary of financial data for the borrower for prior approval and such formal memorandum should be updated during internal loan reviews.
- C. By December 31, 1998, the association shall (a) correct all outstanding loan documentation exceptions and expand the internal listing to include those exceptions identified during the August 3, 1998, examination; (b) improve the existing procedures to ensure that exceptions are identified in the future.
 - (1) By November 30, 1998, the Association shall establish losses for the charge off of \$90,000 and additional loan loss provisions of at least \$162,000.
 - (2) The Association shall expand the allowance for loan and lease losses to include categories for special mention, land and construction loans.

4. Loans to Executive Officers, Directors, and Principal Shareholders

By December 31, 1998, the Association and its Board shall submit a plan to the Regional Director that specifies how the Association will correct the violations relating to loans to its executive officers, directors, and principal shareholders as noted in the August 3, 1998, report of examination, and provides how loans to such insiders will be made to avoid future violations including the making of loans on preferential terms to any such insider of the Association.

MISCELLANEOUS

5. Director Responsibility

Notwithstanding the requirements of this Agreement that the Board submit various matters to the Regional Director, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Agreement.

6. Compliance With Agreement

- A. The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Agreement and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Agreement.
- B. The Board, on a quarterly basis, shall adopt a Board resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Association has complied with each provision of this Agreement currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption or non-objection issued by the Regional Director that were outstanding as of the date of its adoption.
- C. The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption; and (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such director's reasoning for opposing or abstaining.
- D. No later than the 25th Calendar Day of the month following the end of each calendar quarter, beginning with the first calendar quarter following the Effective Date, the Association shall, unless otherwise directed in writing, provide to the Regional Director a certified true copy of the Compliance Resolution adopted at the Board meeting. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the minutes of the Association.

7. Definitions

- A. 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, Federal Deposit Insurance Act ("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.

- B. For purposes of Sections 2, 3, and 4 hereof, OTS Assistant Directors of the Midwest Region are deemed to be designees of the Regional Director such that the actions of such Assistant Directors shall be deemed to constitute the actions of the Regional Director. However, nothing herein shall be construed to prevent the Regional Director from making other designations for purposes of the above-referenced sections of this Agreement or otherwise.

8. Successor Statutes, Regulations, Guidance and Amendments

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.

9. Duration, Termination or Suspension of Agreement

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

10. Time Limits

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

11. Effect of Headings

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

12. Separability Clause

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.

13. No Violations of Law, Rule, Regulations or Policy Statement Authorized; OTS Not Restricted

Nothing in this Agreement shall be construed as: (i) allowing the Association to violate any law, rule, Regulations, or policy statement to which it is subject or (ii) restricting the OTS from taking such action(s) that are appropriate in fulfilling the responsibilities placed upon it by law, including, without limitation, any type of supervisory enforcement or resolution action that the OTS determines to be appropriate.

14. Successors In Interest/Benefit

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

15. Signature of Directors

Each Director signing this Agreement attests, by such act, that she or he, as the case may be, voted in favor of the resolution, in the form attached to this Agreement, authorizing the execution of this Agreement by the Association.

16. Integration Clause

This Agreement represents the final written agreement of the parties with respect to the subject matter hereof and constitutes the sole agreement of the parties, as of the Effective Date, with respect to such subject matter.

17. Enforceability of Agreement

The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, in accordance with its terms, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with the OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. § 1818.

IN WITNESS WHEREOF, THE OTS, acting by and through the Regional Director and the Association, 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

**GILMER SAVINGS BANK, FSB
GILMER, TEXAS**

By: 151
DAVID E. BRADLEY
Regional Deputy Director
For the Regional Director

By: 151
President & Chief Executive Officer

DIRECTORS OF THE ASSOCIATION

151
Director

Director

**CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly appointed and qualified Secretary of **Gilmer Savings Bank, FSB Gilmer, Texas**, (the "Association") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on November 30, 1998, 1998;
2. At said meeting, a quorum was present and voting throughout;
3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have the intent to: (1) comply with all applicable laws and Regulations and (2) engage in safe and sound practices; and

WHEREAS, the Directors of the Association have read and considered the proposed Supervisory Agreement ("Agreement") which shall be attached to the minutes of this meeting; and

WHEREAS, after due consideration, the Directors of the Association have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the provisions of the Agreement be, and they hereby are, authorized and approved,

FURTHER RESOLVED, that the Directors and Officers of the Association be, and they hereby are, authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the terms of the Agreement and to cause the Association to comply in all respects with the terms of the Agreement.

4. All members of the Board of Directors were present and voted at the meeting (except Royce Hudgins) and all members of the Board of Directors (except Royce Hudgins) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereby subscribed my name and affixed the seal of the Association on this 30th of November, 1998.

151

Name:
Secretary, Gilmer Savings Bank, Gilmer, TX

(Seal)