95214

SUPERVISORY AGREEMENT

This Written Agreement entered into with the Office of Thrift Supervision ("Agreement") is made and is effective this 18th day of November, 1991, by and between Charter Federal Savings Bank, FSB, Bristol, Virginia, OTS No. 0360, for itself and its wholly owned service corporations and subsidiaries ("Charter" or "Institution") and the Office of Thrift Supervision ("OTS"), acting through its Southeast Regional Director or his designee ("Regional Director").

WHEREAS, the OTS is of the opinion that 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 & Supp. I 1989); and

WHEREAS, the OTS further is of the opinion that the above-referenced grounds to initiate administrative proceedings against the Institution do not in any way relate to the Institution's continued use of supervisory goodwill; and

WHEREAS, the OTS is of the opinion that its offer to permit the Institution an opportunity to consent to this Agreement, whose terms mandate compliance with the above-referenced federal statutes and regulations, as well as basic tenents of safety and soundness, with respect to the day to day operation of the Institution, by the management and Board of the Institution, does not impose a substantial burden on the Institution or its operations; and

WHEREAS, the Institution, without admitting or denying that grounds exist to initiate administrative proceedings against the Institution and 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 the Institution to require the actions referred to in this Agreement, for so long as the Institution is in compliance with the provisions of the 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 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. Within 60 days of the effective date of this Agreement, the Institution shall develop, and the Board shall adopt and implement a written plan to reduce the level of adversely classified and Special Mention assets ("Criticized Assets"). The plan shall include specific targets and quarterly time frames for the reduction of the level of Criticized Assets at the Institution. The plan shall also include separate action plans detailing the efforts to be taken to correct, strengthen, or otherwise minimize the risk of loss to the Institution from any Criticized Asset with a book value in excess of $500,000. At a minimum, the Board shall review management's progress in meeting the targets set forth in each action plan on a quarterly basis. Further, the plan shall be updated quarterly to include action plans for Criticized Assets that meet the criteria in this Paragraph 1, subsequent to the effective date of this Agreement.

2. The Institution shall immediately establish GVAs and specific valuation allowances, pursuant to the requirements of 12 C.F.R. § 563.160(c) and as specifically set forth in the June 17, 1991 OTS Examination Report ("1991 Examination").

3. Within 45 days of the effective date of this Agreement, the Institution shall develop and the Board shall adopt and implement a revised written GVA policy that includes a revised methodology for the establishment of adequate GVAs. In establishing such policy, and the GVAs themselves, the Board shall consider, at a minimum:

(A) the results of the internal loan review and classifications;

(B) the loan loss experience of the Institution;

(C) an estimate of the potential loss exposure on each significant credit;

(D) concentrations of credit in the Institution; and

(E) present and prospective economic conditions.

4. The Board shall review the sufficiency of the GVAs and specific valuation allowances established by management of the Institution at least once each calendar quarter. Any deficiency in the allowances shall be cured prior to the Institution filing its quarterly TFR, for the quarter in which the deficiency occurred, with the OTS. The Board shall document in its meeting minutes the factors considered and conclusions reached by the Board in determining the adequacy of GVAs and specific valuation allowances.

5. Within 60 days of the effective date of this Agreement, the Institution shall develop, adopt and implement a plan for the reduction of interest rate risk at the Institution. Such plan shall be consistent with the guidance provided in OTS Thrift Bulletins 13, 13-1 and 13-2. The plan shall include specific targets for the reduction of interest rate risk relating to the Institution's asset/liability GAP position and changes in the market value of portfolio equity. The Board shall review and document in its meeting minutes the Institution's progress in meeting the targets of the plan at least quarterly.

6. Within 45 days of the effective date of this Agreement, the Institution shall amend its existing Interest Rate Risk Management Policy to include revised exposure limits, consistent with the provisions of OTS Thrift Bulletin 13-1, with respect to the market value of the Institution's portfolio equity. In amending said policy, the Board shall address each of the concerns expressed in the 1991 Examination.

7. The Institution shall immediately submit an amended June 30, 1991 TFR to accurately reflect criticized and classified assets, GVAs and specific valuation allowances. In amending said TFR, the Institution shall address the concerns and considerations set forth in the 1991 Examination. Further, the Board shall direct management of the Institution to correct each of the TFR reporting deficiencies noted in the 1991 Examination, and to develop procedures to be adopted by the Board, which when properly implemented, will ensure that the Institution will, from and after the effective date of this Agreement, prepare and submit accurate TFRs, as required by 12 U.S.C. § 1464(v) and 12 C.F.R. § 563.180(a).

8. Within 30 days of the effective date of this Agreement, the Board shall develop and implement adequate internal control policies and procedures. These policies and procedures shall include, at a minimum, revised corrective measures to ensure that employee defalcations, such as those

reported in the 1991 Examination will not recur. The Board shall provide adequate oversight and appropriately monitor efforts by Institution management to comply with such policies and procedures on at least a quarterly basis.

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, and 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. For purposes of this Agreement, references to regulations, bulletins, memoranda and publications shall include any successor regulations, bulletins, memoranda and publications.

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).

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. Any time limitations in this Agreement shall begin with the effective date hereof and may be extended by the Regional Director.

This Agreement shall remain in effect until terminated, modified or suspended by mutual agreement of the OTS, acting through the Regional Director, and the Institution. The Regional Director or his designee may suspend, in his sole discretion, any or all of the requirements of Paragraphs 1 through 8 of this Agreement.

IN WITNESS WHEREOF, the OTS, acting through the Regional Director, and the Institution, by its duly elected directors, have executed this Agreement.

By: /S/
Director

By: /S/
Director

By: /S/
Director

By: /S/
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By: /S/
Director

By: ______________________
Director

By: /S/
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By: ______________________
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By: /S/
Director

OFFICE OF THRIFT SUPERVISION

By: /S/
John E. Ryan
Regional Director