

WRITTEN AGREEMENT

This Written Agreement (Agreement) is made and is effective this 21st day of July, 2009 (Effective Date), by and between Harrington Bank, FSB, Chapel Hill, North Carolina, OTS Docket No. 17910 (Association), a federal stock savings bank, acting by and through its Board of Directors (Board), and the Office of Thrift Supervision (OTS), a bureau of the United States Department of the Treasury, acting by and through its Regional Director for the Southeast Region or his designee (Regional Director).

WHEREAS, the OTS is the primary Federal regulator of the Association pursuant to the Home Owners' Loan Act (HOLA), 12 U.S.C. §§ 1461 *et seq.*, and is the Association's appropriate Federal banking agency for purposes of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. §§ 1811 *et seq.*; and

WHEREAS, based on its January 20, 2009 examination of the Association (2009 Examination), the OTS finds that the Association has failed to comply with the requirements of laws and regulations to which the Association is subject, failed to adopt and implement appropriate and comprehensive operational and risk management practices and strategies, and failed to identify and correct other deficiencies and weaknesses in its operations; and

WHEREAS, the Association, which is subject to examination, regulation and supervision by the OTS, is taking steps to address the violations of law and regulation, strengthen operational and risk management programs, and correct the weaknesses and deficiencies identified by the OTS; and

WHEREAS, in furtherance of their common goal to ensure that the Association

continues to address the violations of law and regulation, inadequate risk management programs, and weaknesses and deficiencies identified by the OTS, the Association and the OTS have mutually agreed to enter into this Agreement.

NOW THEREFORE, in consideration of the above premises, it is agreed as follows:

Compliance with Laws and Regulations.

1. The Association shall comply with all applicable laws, regulations, and regulatory guidelines including, but not limited to, the following:

- (a) 31 C.F.R. § 103.27 (Currency Transaction Reports);
- (b) 12 C.F.R. § 563.180 (Suspicious Activity Reports); and
- (c) 12 C.F.R. Part 564 (Appraisals).

Capital.

2. On and after December 31, 2009, the Association shall have and maintain a Tier 1 capital ratio equal to or greater than eight (8) percent and a total risk-based capital ratio equal to or greater than twelve (12) percent.

3. On or before August 31, 2009, the Board shall prepare and submit for Regional Director review and comment a written plan to achieve and maintain the Association's capital at the levels prescribed in Paragraph 2 (Capital Plan). At a minimum, the Capital Plan shall:

- a. consider the requirements and restrictions imposed by this Order;
- b. consider and address different scenarios based on current asset quality trends and real estate market conditions;
- c. require the Senior Executive Officers (Management)¹ to continually assess the sufficiency of the Association's capital levels relative to the Association's risk profile, classified asset levels, allowance for loan and lease losses (ALLL), earnings, level of construction loans,

¹ The term Senior Executive Officer is defined at 12 C.F.R. § 563.555.

and trends in all of the above-listed areas;

d. detail capital preservation and enhancement strategies with specific narrative goals;

e. consider and address the amount of additional capital that would be necessary to meet the capital requirements of Paragraph 2 of this Order under different forward-looking scenarios involving progressively more challenging economic environments;

f. detail the method by which the additional capital will be raised to maintain at least a Tier 1 capital ratio of eight (8) percent and a total risk-based capital ratio of twelve (12) percent under the different scenarios established pursuant to Paragraph 3.e of this Order;

g. identify the specific sources of additional capital;

h. detail timeframes by which the additional capital will be raised and specific target month-end capital levels; and

i. require Management to prepare and submit for Board review at each regular monthly Board meeting, a written report on the Association's compliance with the Capital Plan and the Association's current capital levels (Capital Status Report).

The Board shall make any changes to the Capital Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Capital Plan to the Regional Director for review.

4. Upon receipt of non-objection to the revised Capital Plan from the Regional Director, the Board shall adopt the Capital Plan and the Capital Plan shall be incorporated herein by reference and become part of this Order and any violation of the Capital Plan shall be a violation of this Order. The Board shall ensure that the Association adheres to and implements the Capital Plan.

A copy of the Capital Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

5. Beginning with the calendar month of August, 2009, the Board shall: (a) review the Association's capital levels and the Capital Status Report at each regular monthly Board meeting; and (b) ensure that Management continually assesses the sufficiency of the Association's capital levels relative to the factors listed in Paragraph 3.c above. Management shall provide the Board with written updates on the status of its compliance with the Capital Plan. The Board's review of items (a) and (b) above at each regular monthly Board meeting shall be fully detailed in the Board meeting minutes. A copy of the Capital Status Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review, shall be provided to the Regional Director within ten (10) days after the Board meeting.

6. After implementation of the Capital Plan, Management shall prepare monthly variance reports on the Association's compliance with the Capital Plan within thirty (30) days after the close of each calendar month starting with the month ending August 31, 2009 (Capital Variance Report). The Capital Variance Reports shall: (a) detail actual operating versus projected results; (b) include detailed explanations of any material deviations; and (c) include a description of the specific corrective actions or measures that have been implemented or are proposed to address each material deviation. A deviation shall be considered material under this Paragraph of the Order when the Association: (i) engages in any material activity, line of business, or operation that is inconsistent with the Capital Plan; (ii) exceeds the level of any activity or growth contemplated in the Capital Plan by more than 10 percent; or (iii) falls below or fails to meet the target amounts established in the Capital Plan by more than 10 percent.

7. The Board's review of the monthly Capital Variance Reports and evaluation of Management and the Association's compliance with the elements of the Capital Plan shall be thoroughly documented in the Board meeting minutes. A copy of the Capital Variance Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review, shall be provided to the Regional Director within ten (10) days after the Board meeting.

8. Within fifteen (15) days after the date the Association does not meet the Tier 1 capital ratio of eight (8) percent and the total risk-based capital ratio of twelve (12) percent or the Association is not in compliance with the Capital Plan implemented pursuant to Paragraph 3 of this Order, or within fifteen (15) days from any request by the Regional Director for the submission of a Contingency Plan, the Board shall prepare and submit for Regional Director review and comment a written Contingency Plan. The Contingency Plan shall detail the actions to be taken, with specific time frames, to achieve one of the following results by the later of the date of receipt of all required regulatory approvals or sixty (60) days after the implementation of the Contingency Plan: (a) merger with, or acquisition by another federally insured depository institution or holding company thereof; or (b) voluntary liquidation by filing an appropriate application with OTS in conformity with federal laws and regulations. The Association also shall submit the Contingency Plan or an updated Contingency Plan within twenty (20) days of the date from any request by the Regional Director.

9. The Board shall make any changes to the Contingency Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Contingency Plan to the Regional Director for review. Upon receipt of non-objection to the revised Contingency Plan from the Regional Director, the Board shall adopt the revised

Contingency Plan and the revised Contingency Plan shall be incorporated herein by reference and become part of this Order and any violation of the revised Contingency Plan shall be a violation of this Order. The Board shall ensure that the Association adheres to and implements the revised Contingency Plan. A copy of the revised Contingency Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board Meeting.

10. The Association shall provide written status reports to the OTS detailing the Association's actions taken and progress in implementing the Contingency Plan by no later than the 1st and 15th of each calendar month following the implementation of the Contingency Plan and until such time as the Association has a Tier 1 capital ratio of at least eight (8) percent and a total risk-based capital ratio of at least twelve (12) percent and is in compliance with its Capital Plan. The bimonthly status reports shall detail: any contacts with investment bankers, any parties doing due diligence, any offers relating to an acquisition or a merger, the execution of binding letters of intent or purchase agreements, capital infusions from the Association's parent holding company, or any other capital raising activities. The Association shall provide the OTS a notification of the termination of negotiations with any party considering the acquisition of five (5) percent or more of the stock of the Association or a subordinated debt offering within one (1) business day of the termination of the negotiations.

Business Plan.

11. Within ninety (90) days, the Board shall prepare and submit to the Regional Director for review and comment a new comprehensive business plan that covers the fourth quarter of calendar year 2009, calendar years 2010 and 2011, and the first three quarters of calendar year 2012 (Business Plan). At a minimum, the Business Plan shall include: (a) a detailed and specific

discussion of the Board's plans and strategies to strengthen and improve the Association's operations, earnings, and profitability, including plans to reduce the Association's operating expenses; (b) a discussion of the Association's current financial position and resources and detail the Board's strategies for preserving and enhancing the Association's financial resources to meet the Association's needs under the Business Plan, adequately support the Association's risk profile, maintain compliance with applicable regulatory capital requirements, and satisfy the Association's liquidity needs; (c) quarterly pro forma financial projections (balance sheet and income statement) for each period covered by the Business Plan; and (d) identification of all relevant assumptions and projections made in formulating the Business Plan, as well as documentation supporting such assumptions and projections. The Board shall make any changes to the Business Plan required by the Regional Director within twenty (20) days after being notified of such changes and provide a copy of the revised Business Plan to the Regional Director for review.

12. Upon receipt of approval of or non-objection to the Business Plan from the Regional Director, the Board shall adopt the Business Plan and the Business Plan shall be incorporated herein by reference and become a part of this Agreement and any violation of the Business Plan shall be a violation of this Agreement. A copy of the Business Plan and the Board meeting minutes reflecting the Board's adoption thereof shall be provided to the Regional Director within ten (10) days after the Board meeting.

13. The Board shall ensure that the Association adheres to and implements the Business Plan. Any material modifications to the Business Plan shall be submitted to the Regional Director for review and written non-objection at least forty-five (45) days prior to implementation. A modification shall be considered material under this section of the Agreement if the Association

plans to: (a) engage in any activity that is inconsistent with the Business Plan; or (b) exceed the level of any activity contemplated in the Business Plan or fail 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 modification.

14. The Board shall require Management to prepare and submit to the Board quarterly variance reports on the Association's compliance with the Business Plan within thirty (30) days after the close of each calendar quarter (Quarterly Business Plan Variance Reports) beginning with the calendar quarter ending September 30, 2009. The Quarterly Business Plan Variance Reports shall: (a) identify material variances in the Association's actual performance during the preceding quarter as compared to the projections set forth in the Business Plan; (b) contain an analysis and explanation of the identified variances; and (c) detail the specific measures to be taken to address such variances, including adjustments to the underlying assumptions.

15. The Board shall review the Quarterly Business Plan Variance Reports and conduct a thorough review and assessment of the Association's compliance with the Business Plan and take corrective actions if necessary to ensure adherence to the Business Plan. The Board's review of the Quarterly Business Plan Variance Reports and assessment of the Association's compliance with the Business Plan shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Business Plan Variance Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review and corrective actions, if any, shall be provided to the Regional Director within ten (10) days after the Board meeting.

Lending.

16. Effective immediately, the Association shall not originate or purchase or commit to

originate or purchase any new construction², nonresidential real estate, and/or land loans (except as discussed in Paragraph 17 of this Agreement) or extend additional funds to existing borrowers on or relating to any construction, nonresidential real estate, and/or land loans. The Association may request the Regional Director's non-objection to resume origination activity on construction, nonresidential real estate, and land loans after all appraisal, internal asset review, and loan underwriting and credit administration deficiencies discussed in the 2009 Examination and addressed in this Agreement have been corrected. A list of all identified deficiencies and corrective measures, including process or policy changes, internal/external audit changes and the date such changes were made, shall be included with the Association's request to the Regional Director to resume nonresidential real estate and commercial loan origination activity.

17. The Association may fund legally binding commitments that were executed prior to June 8, 2009. Within thirty (30) days, the Association shall provide the Regional Director with a schedule of all outstanding legally binding commitments. Prior to funding any commitment under this Paragraph, the Board shall ensure that the Association has and maintains a statement or opinion from legal counsel that the commitment in question is a legally binding commitment under applicable state law.

Concentrations of Credit.

18. Within sixty (60) days, the Board shall revise the Association's written program for identifying, monitoring, and managing the risks associated with concentrations of credit to

² The term "construction loan" does not include contract construction loans that meet all of the following criteria: (a) the borrower on the mortgage loan must be the occupant of the home, it may not be the builder; (b) the borrower must be pre-qualified for a permanent mortgage loan or certify and document that the borrower has sufficient funds available at the time the contract construction loan is made to repay the contract construction loan; (c) the borrower must have at least a twenty (20) percent equity in the transaction calculated based upon the lower of appraised value of the completed home or the total construction contract amount including the value of the lot upon which the home will be constructed; (d) the borrower's funds must be disbursed to the builder prior to the disbursement of any Association loan proceeds; (e) contract construction loan disbursement checks must be made payable to both the borrower and the builder; and (f) Association Management must certify that they have reviewed the contract between the borrower and the builder prior to the approval of the contract construction loan.

address the deficiencies and weaknesses discussed in the 2009 Examination and ensure compliance with the requirements and guidelines contained in 12 C.F.R. § 560.101 and CEO Memorandum # 252 (Credit Concentration Program). At a minimum, the revised Credit Concentration Program shall:

- a. establish specific limitations on concentrations of credit for all major loan categories (expressed as a percentage of the Association's total assets and total capital) to be implemented and adhered to by the Association;
- b. provide for additional stratification of each major loan category into subcategories and the establishment of concentration sub-limits within each subcategory (such as per development, subdivision, geographic location, and builder);
- c. provide for enhanced monitoring and risk analysis of all concentrations of credit;
- d. require quarterly reviews of the Association's balance sheet to identify any new concentrations of credit requiring enhanced analysis and review consistent with the Credit Concentration Program;
- e. require a written analysis and quarterly reports to the Board of identified concentrations of credit assessing credit, liquidity, interest rate, or other risks associated with such concentrations of credit; and
- f. establish a written action plan, including specific time frames, for reducing the level of concentrations and reducing the risks associated with the Association's concentrations of credit described in the 2009 Examination.

The Board shall adopt the Credit Concentration Program and ensure that the Association adheres to and implements the Credit Concentration Program.

19. The Board shall require Management to prepare and submit for Board review a written report assessing the Association's compliance with the revised Credit Concentration Program within thirty (30) days after the close of each calendar quarter, beginning with the quarter ending September 30, 2009 (Concentration Report). The Board's review of the Concentration Report, including any corrective actions adopted by the Board, shall be fully documented in the appropriate Board meeting minutes. A copy of the Concentration Report and any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

Classified Assets.

20. Within sixty (60) days, the Board shall prepare detailed written asset resolution plans for each classified asset³ and delinquent loan of Five Hundred Thousand Dollars (\$500,000) or greater (Asset Resolution Plans). At the first regularly scheduled Board meeting following the end of each calendar quarter, beginning with the quarter ending September 30, 2009, Management shall prepare and submit to the Board for review a quarterly written asset status report (Quarterly Asset Report). The Quarterly Asset Report shall provide a summary of and update on the current status of all Asset Resolution Plans and a discussion of any other actions taken by Management during the preceding quarter to reduce the Association's level of classified assets and delinquent loans.

21. The Board's review of the Quarterly Asset Reports, and any corrective actions adopted by the Board, shall be fully documented in the appropriate Board meeting minutes. A copy of the Quarterly Asset Reports and supporting documents, reports, or other information reviewed by

³ The term "classified asset" shall mean any asset classified as Special Mention, Substandard, Doubtful or Loss in the 2009 Examination or by the Association's internal or external loan review and classification processes.

the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting.

Loan Review and Classification.

22. Within seventy-five (75) days, the Board shall revise the Association's internal loan review policies and procedures for identifying and classifying problem assets (Loan Review and Classification Program). The Board shall ensure that the revised Loan Review and Classification Program addresses the weaknesses and deficiencies and incorporates the changes discussed in the Association's 2009 Examination and accurately and timely identifies the risks in the Association's loan portfolio to ensure the appropriate classification and reporting of the Association's assets and maintenance of adequate ALLL levels. The Loan Review and Classification Program shall comply with 12 C.F.R. Part 560, Section II G of Appendix A to the Safety and Soundness Standards of 12 C.F.R. Part 570, Generally Accepted Accounting Principles (GAAP) and Statements of Financial Accounting Standards (SFAS). The Board shall adopt the Loan Review and Classification Program and ensure that Management adheres to and implements the Loan Review and Classification Program.

Loan Underwriting and Credit Administration.

23. Within sixty (60) days, the Board shall revise the Association's construction and commercial loan underwriting and credit administration, monitoring and oversight policies, practices, and controls to address all deficiencies and weaknesses discussed in the Association's 2009 Examination. At a minimum, the Board shall establish additional policies, practices, and controls to:

a. improve the Association's loan grading system and specify parameters for the identification of "problem loans" for each category of loans offered by the Association (prepared

in conjunction with the Loan Review and Classification Program required by Paragraph 22 above);

b. restrict the capitalization of interest, loan fees, late fees, loan costs, and collection costs of problem loans;

c. establish funding controls over hard and soft costs on construction projects and ensure that inspections are performed on construction projects to prevent over-disbursements of loan funds;

d. formalize and document the appraisal review process and ensure that annual reviews are conducted on all approved appraisers;

e. restrict additional advances to borrowers with problem loans;

f. establish credit qualification standards including, but not limited to, debt service to income ratios, and documentation requirements for all borrowers that demonstrate and support the borrower's ability to meet all contractual debt service obligations from current, verified net income and cash flow;

g. establish policies, procedures, and systems to obtain and analyze, on an annual basis, updated borrower financial information on all loans (other than those secured by owner occupied single family dwellings and consumer loans) with an outstanding or committed balance greater than \$500,000;

h. provide for the classification of loans, including designation as special mention, or placement of loans on a watch list, if there is a significant decline in a borrower's financial standing whereby the borrower would no longer qualify for the existing loan under the Association's loan underwriting standards or no longer demonstrates the ability to meet global debt service obligations;

- i. provide for an effective system for the retention, review, renewal, and updating by the Association of all required records, filings, and other credit related documents;
- j. establish prudent underwriting standards and an internal review and approval process for all loans granted as exceptions to the Association's general lending policies and require such loans to be reported to the Board for review on a monthly basis;
- k. include adversely classified and Special Mention ratios and delinquency ratios in reports to the Association's Board; and
- l. address all other underwriting and credit administration recommendations discussed in the 2009 Examination.

Allowance for Loan and Lease Losses.

24. Within forty-five (45) days, the Board shall revise the Association's policies, procedures, and methodology to ensure the timely establishment and maintenance of adequate ALLL levels in accordance with applicable laws, regulations, and regulatory guidance (ALLL Policy). The ALLL Policy shall, at a minimum: (a) address the deficiencies and weaknesses discussed, and adopt the recommendations contained, in the 2009 Examination; and (b) conform to the regulatory requirements and guidance contained in 12 C.F.R. § 560.160(b); Section 261 of the OTS Examination Handbook; the December 13, 2006 Interagency Policy Statement on ALLL (CEO Memorandum # 250); GAAP; and SFAS issuances.

25. Within fifteen (15) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009, Management shall analyze the adequacy of the Association's ALLL and prepare a written report containing Management's analysis of the Association's ALLL for the Board's review (Quarterly ALLL Report). The Board's review of the Quarterly ALLL Report shall be fully documented in the appropriate Board meeting minutes and shall include

specific details regarding any corrective actions adopted by the Board. The Board shall document the factors considered and conclusions reached by the Board in determining the adequacy of the Association's ALLL in the appropriate Board meeting minutes. In assessing, establishing, and maintaining an appropriate level of ALLL, the Board shall, at a minimum, consider the following:

- a. the results of all internal loan reviews and classifications;
- b. the historical loan loss rates of the Association covering an expanded segmentation of the Association's loan portfolio, updated quarterly with heavier weighting assigned to rates of the most recent quarters;
- c. an estimate of the potential loss exposure on each significant⁴ credit;
- d. concentrations of credit; and
- e. current and prospective markets and economic conditions.

A copy of the Quarterly ALLL Report, any supporting documents, reports, or other information reviewed by the Board, and the Board meeting minutes detailing the Board's review shall be provided to the Regional Director within ten (10) days after the Board meeting. Any deficiency in the ALLL shall be remedied in the quarter in which it is discovered and before the Association files its Thrift Financial Report (TFR) with the OTS.

Liquidity.

26. Within thirty (30) days, the Board shall prepare and adopt a liquidity plan to ensure that the Association maintains adequate short-term and long-term liquidity to withstand any anticipated or extraordinary demand against its funding base (Liquidity Plan). The Liquidity

⁴ A credit shall be considered significant for the purposes of assessing, establishing, and maintaining an appropriate level of ALLL if it is/was \$500,000 or greater at origination.

Plan shall comply with the guidelines set forth in Thrift Bulletin No. 77 and, at a minimum, include the following:

a. a cash flow analysis that includes reasonable assumptions, identifies all anticipated funding needs and the sources to meet those needs, considers the level and maturity of any brokered deposits, and addresses any contingent liabilities; and

b. identification of alternative funding sources in order to meet extraordinary demands or to provide liquidity in the event the sources identified in this Paragraph are insufficient. Such alternative funding sources must consider, at a minimum, the selling of assets, obtaining lines of credit from correspondent banks, recovering charged-off assets, and injecting additional equity capital.

Thereafter, the Board shall ensure that the Association complies with the Liquidity Plan.

27. Within thirty (30) days, the Board shall ensure that Management reviews and prepares a monthly analysis of the Association's liquidity that assesses the Association's compliance with its liquidity policies and procedures and the Liquidity Plan required by Paragraph 26 (Liquidity Review). The Liquidity Review shall evaluate and consider:

- a. a maturity schedule of certificates of deposit, including large uninsured deposits;
- b. the volatility of demand deposits including escrow deposits;
- c. the amount and type of loan commitments and standby letters of credit;
- d. an analysis of the continuing availability and volatility of present funding sources;
- e. an analysis of the impact of decreased cash flow from the Association's loan portfolio resulting from delinquent and non-performing loans; and
- f. an analysis of the impact of decreased cash flow from the sale of loans or loan participations.

28. The Liquidity Review for the immediately preceding calendar month shall be submitted to the Board prior to each monthly Board meeting, beginning with the August 2009 meeting. Management also shall prepare and submit for Board review a written report identifying any funding needs (to repay loans or advances from correspondent banks or to pay off brokered deposits) relating to liquidity issues identified for the immediately preceding month (Funding Report). The Board's review of the Liquidity Review, Funding Report, and any corrective actions adopted by the Board, shall be fully documented in the appropriate Board meeting minutes. The Board shall provide the Regional Director with quarterly updates on the Association's liquidity position and compliance with the Liquidity Plan within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009.

Appraisal Policy.

29. Within sixty (60) days, the Board shall revise the Association's appraisal and appraisal review policies and procedures (Appraisal Policy) to ensure that the Association obtains and reviews appraisals in compliance with applicable laws and regulations and to minimize the risks to the Association. The Board shall ensure that the revised Appraisal Policy addresses all violations of law, weaknesses, and deficiencies discussed in the Association's 2009 Examination.

30. The revised Appraisal Policy shall comply with OTS regulations and shall be consistent with regulatory guidance and standards governing appraisals including, at a minimum:

- a. OTS Thrift Bulletin Nos. 55a and 82a;
- b. OTS CEO Memoranda No. 184 (Oct. 27, 2003), No. 213 (March 22, 2005), and No. 240 (June 22, 2006); and
- c. The Uniform Standards of Professional Appraisal Practice (USPAP).

Suspicious Activity Reporting.

31. Within thirty (30) days, the Association shall implement procedures and processes to ensure that Suspicious Activity Reports (SAR) are promptly reported to the Board in accordance with 12 C.F.R. § 563.180 (d)(9). For purposes of this Agreement, “promptly” is defined as no later than thirty (30) days after the date a SAR is filed.

Independent Testing.

32. Within sixty (60) days, the Board shall review and revise the policies, procedures, and requirements for independent review and testing of the Association’s BSA Compliance Program to address the weaknesses and deficiencies discussed in the 2009 Examination and ensure the Association’s compliance with all applicable BSA Laws and Regulations, SAR Regulations, and OFAC Regulations (BSA Independent Testing).

33. At a minimum, the BSA Independent Testing shall include:

- a. an evaluation of the overall integrity and effectiveness of the Association’s BSA Compliance Program;
- b. a review of the Association’s risk assessment;
- c. appropriate risk-based transaction testing;
- d. an evaluation of the Association’s efforts to resolve prior noted deficiencies and/or violations;
- e. a review of the Association’s staff training for adequacy, accuracy, and completeness;
- f. a review of the Association’s currency transaction and suspicious activity monitoring and reporting systems;

- g. an assessment of the Association's overall process for identifying and reporting suspicious activity; and
- h. an assessment of the integrity and accuracy of the management information systems (MIS) used in the Association's BSA Compliance Program.

Risk Assessment.

34. Within sixty (60) days, the Association shall conduct a thorough assessment of the Association's BSA and anti-money laundering (AML) risk exposure (the BSA/AML Risk Assessment), based upon the specific products, services, customers, entities, and geographic locations unique to the Association that may expose it to money laundering, terrorism financing, or other illegal activities, taking into consideration information collected from the Association's customer identification policies, procedures, and processes (CIP Policy) and customer due diligence process (CDD) in accordance with the BSA/AML matrix set forth in Appendix J of the FinCEN BSA/AML Examination Manual. The BSA/AML Assessment shall identify the number of accounts that are both potentially medium or high risk and the basis for such determination. The Association shall conduct a BSA Risk Assessment consistent with the requirements of this Paragraph within sixty (60) days after the end of each calendar year, beginning with the year ending December 31, 2009. The BSA Risk Assessment findings and conclusions shall be submitted to the Board for review at the first regularly scheduled Board meeting following completion. The Board's review, and any corrective actions, shall be fully documented in the Board meeting minutes. A copy of the BSA/AML Risk Assessment and the Board meeting minutes detailing the Board's review of BSA/AML Risk Assessment findings and conclusions shall be provided to the Regional Director within ten (10) days after the date of the Board meeting.

Growth.

35. Effective immediately, the Association is subject to and shall comply with the requirements and provisions of OTS Regulatory Bulletin (RB) 3b. Without the prior written approval of the Regional Director, the Association shall not increase its total assets during any quarter, beginning with the quarter ending September 30, 2009, in excess of an amount equal to net interest credited on deposit liabilities during the quarter. The growth restrictions imposed by this Paragraph shall remain in effect until the OTS review and approval of the Association's Business Plan under Paragraph 11 of this Agreement.

Management Changes.

36. Effective immediately, the Association shall comply with the prior notification requirements for changes in directors and Senior Executive Officers set forth in 12 C.F.R. Part 563, Subpart H, 12 C.F.R. §§ 563.550 through 563.590.

Employment Contracts and Compensation Arrangements.

37. Effective immediately, the Association shall not enter into any new, or renew, extend, or revise any existing, contractual arrangement relating to compensation or benefits for any Senior Executive Officer or director of the Association, unless it first provides the OTS with not less than thirty (30) days prior written notice of the proposed transaction. The notice to the OTS shall include a copy of the proposed employment contract or compensation arrangement or a detailed, written description of the compensation arrangement to be offered to such officer or director, including all benefits and perquisites. The Board shall ensure that any contract, agreement, or arrangement submitted to the OTS fully complies with the requirements of 12 C.F.R. Part 359, 12 C.F.R. §§ 563.39 and 563.161(b), and 12 C.F.R. Part 570 – Appendix A.

Severance and Indemnification Payments.

38. Effective immediately, the Association shall not make any golden parachute payment⁵ or prohibited indemnification payment⁶ unless, with respect to each such payment, the Association has complied with the requirements of 12 C.F.R. Part 359 and, as to indemnification payments, 12 C.F.R. § 545.121.

Third Party Contracts.

39. Effective immediately, the Association shall not enter into any new arrangement or contract with a third party service provider that is significant⁷ to the overall operation or financial condition of the Association or outside the Association's normal course of business unless, with respect to each such contract, the Association has: (a) provided the OTS with a minimum of thirty (30) days prior written notice of such arrangement or contract; (b) determined that the arrangement or contract complies with the standards and guidelines set forth in Thrift Bulletin 82a (TB 82a); and (c) received written notice of non-objection from the Regional Director.

40. Effective immediately, the Association shall provide the OTS with written notice of all arrangements or contracts with third party service providers consistent with the requirements of 12 U.S.C. § 1464(d)(7)(D)(ii). Such notice shall be provided to the Regional Director not later than thirty (30) days after the earlier of: (a) the date on which the Association enters into the contract; or (b) the date on which the performance of the service is initiated. The Board shall review all arrangements or contracts with third party service providers covered by this Paragraph to ensure compliance with the standards and guidelines set forth in TB 82a.

⁵ The term "golden parachute payment" is defined at 12 C.F.R. § 359.1(f).

⁶ The term "prohibited indemnification payment" is defined at 12 C.F.R. § 359.1(l).

⁷ A contract shall be considered significant to the overall operation or financial condition of the Association where the annual contract amount equals or exceeds two (2) percent of the Association's total capital.

Brokered Deposits.

41. Effective immediately, the Association shall comply with the requirements of 12 C.F.R. § 337.6(b)(2) and shall not, without obtaining the prior written approval of the Federal Deposit Insurance Corporation pursuant to 12 C.F.R. § 337.6(c)(i): (a) accept, renew, or roll over any brokered deposit, as that term is defined at 12 C.F.R. § 337.6(a)(2); or (b) act as a deposit broker, as that term is defined at 12 C.F.R. § 337.6(a)(5).

42. Within forty-five (45) days after the end of each calendar quarter, beginning with the calendar quarter ending September 30, 2009, Management shall submit to the Board for review a written report detailing the level of brokered deposits for each month within the quarter (Brokered Deposit Report). The Board shall review the Brokered Deposit Report to ensure the Association's compliance with this Agreement. A copy of the Board meeting minutes detailing the Board's review, including any corrective actions, and a copy of the Brokered Deposit Report shall be provided to the Regional Director within ten (10) days after the Board meeting.

Dividends.

43. Effective immediately, the Association shall pay no dividends or make any other capital distributions, as that term is defined in 12 C.F.R. § 563.141, without receiving the prior written approval of the Regional Director. The Association's written request for written approval shall be submitted to the Regional Director at least thirty (30) days prior to the anticipated date of the proposed dividend payment or distribution of capital.

Affiliate and Insider Transactions.

44. Effective immediately, the Association shall not engage in any transaction with an Affiliate⁸ unless, with respect to each such transaction, the Association has complied with the notice requirements set forth in 12 C.F.R. § 563.41(c)(4), which notice also shall include the

⁸ 12 C.F.R. § 223.2

information set forth in 12 C.F.R. § 563.41(c)(3). The Board shall ensure that any transaction with an affiliate complies with the requirements of 12 C.F.R. § 563.41, 12 C.F.R. Part 223 (Regulation W), and the guidance contained in Section 310 of the OTS Examination Handbook. The Board shall ensure that documentation demonstrating such compliance is maintained in the Association's files and records.

45. Effective immediately, the Association shall not make any loans to or enter into any contracts or agreements with any Insiders except in compliance with all applicable laws, rules, and regulations including, but not limited to, 12 C.F.R. Part 215 and 12 C.F.R. § 564.43, and Section 310 of the OTS Examination Handbook. The Board shall ensure that the Association complies with the requirements of this Paragraph and that documentation demonstrating such compliance is maintained in the Association's files and records.

Violations of Law and/or Deficiencies and Weaknesses.

46. Within sixty (60) days, the Board shall ensure that all violations of law, rule, and/or regulation, noncompliance with applicable OTS and Interagency Guidelines, and other deficiencies and weaknesses discussed in the Association's 2009 Examination are corrected. Within ninety (90) days, the Board shall prepare, adopt, and thereafter ensure that the Association adheres to specific procedures to prevent future violations, noncompliance or deficiencies and weaknesses.

47. Within thirty (30) days of receipt of any subsequent Report of Examination, internal audit report, independent external audit report, or other report prepared by the Association's employees, agents, or independent contractors, which cites or discusses any weakness, deficiency, noncompliance with applicable OTS and Interagency Guidelines, or violation of law, rule, or regulation, the Board shall prepare, adopt, and thereafter ensure the Association adheres

to specific procedures to correct such weaknesses, deficiencies, and violations and prevent future weaknesses, deficiencies, and violations.

Board Compliance Committee.

48. Within thirty (30) days, the Board shall appoint a committee (Regulatory Compliance Committee) comprising three or more non-employee directors to monitor and coordinate the Association's compliance with the provisions of this Agreement and the completion of all corrective action required in the 2009 Examination.

49. Within thirty (30) days after the end of each calendar quarter, beginning with the quarter ending September 30, 2009, the Regulatory Compliance Committee shall submit a written progress report to the Board detailing the actions taken to comply with each provision of this Agreement, the corrective actions required by the 2009 Examination, and the results of all such actions. The Board shall review the Regulatory Compliance Committee's progress report and adopt a resolution: (a) certifying that each director has reviewed the progress report; (b) detailing the Association's compliance with the provisions of this Agreement and the corrective actions contained in the 2009 Examination; (c) identifying each instance of noncompliance; and (d) setting forth in detail additional corrective actions or steps adopted or required by the Board to address each instance of noncompliance.

50. Within forty-five (45) days after the end of each calendar quarter, the Board shall submit to the Regional Director: (a) a copy of the Regulatory Compliance Committee's quarterly progress report required by Paragraph 49 of this Agreement; and (b) a copy of the Board resolution required by Paragraph 49 of this Agreement, including the Board meeting minutes. Nothing contained herein shall diminish the responsibility of the entire Board to ensure the Association's compliance with the provisions of this Agreement.

Effective Date.

51. This Agreement is effective on the Effective Date as shown on the first page.

Duration.

52. This Agreement shall remain in effect until terminated, modified or suspended, by written notice of such action by OTS, acting by and through its authorized representatives.

Time Calculations.

53. Calculation of time limitations for compliance with the terms of this Agreement run from the Effective Date and shall be based on calendar days, unless otherwise noted.

54. The Regional Director or authorized representative of the OTS may extend any of the deadlines set forth in the provisions of this Agreement upon written request by the Association that includes reasons in support of any extension. Any OTS extension shall be made in writing.

Submissions and Notices.

55. All submissions, including progress reports, to OTS that are required by or contemplated by the Agreement shall be submitted within the specified timeframes.

56. Except as otherwise provided herein, all submissions, requests, communications, consents, or other documents relating to this Agreement shall be in writing and sent by first class U.S. mail (or by reputable overnight carrier, electronic facsimile transmission or hand delivery by messenger) addressed as follows:

- a. To the OTS:
Arthur W. Goodhand, Acting Regional Director
Office of Thrift Supervision
1475 Peachtree St., N.E.
Atlanta, Georgia 30309
404.897.1861 (Fax)

- b. To the Association:
Michael J. Giarla, Chairman
5925 Farrington Road
Chapel Hill, North Carolina 27517
919.945.7801 (Fax)

No Violations Authorized.

57. Nothing in this Agreement shall be construed as allowing the Association, its Board, officers or employees to violate any law, rule, or regulation.

OTS Authority Not Affected.

58. Nothing in this Agreement shall inhibit, estop, bar, or otherwise prevent OTS from taking any other action affecting the Association if at any time OTS deems it appropriate to do so to fulfill the responsibilities placed upon OTS by law.

Other Governmental Actions Not Affected.

59. The Association acknowledges and agrees that its execution of the Agreement is solely for the purpose of resolving the matters addressed herein and does not otherwise release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against, or liability of the Association that arise pursuant to this action or otherwise, and that may be or have been brought by any governmental entity other than OTS.

Miscellaneous.

60. The laws of the United States of America shall govern the construction and validity of this Agreement.

61. If 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 or her sole discretion determines otherwise.

62. All references to OTS in this Agreement shall also mean any of the OTS’s predecessors, successors, and assigns.

63. The section and paragraph headings in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

64. The terms of this Agreement represent the final agreement of the parties with respect to the subject matters thereof, and constitute the sole agreement of the parties with respect to such subject matters.

Enforceability of Agreement.

65. This Agreement is a “written agreement” entered into with an agency within the meaning and for the purposes of 12 U.S.C. §§ 1818(b)(1), 1818(e)(1), 1818(i)(2), and 1818(u)(1)(A).

Signature of Directors/Board Resolution.

66. Each Director signing this Agreement attests that he or she voted in favor of a Board Resolution authorizing the consent of the Association to the issuance and execution of the Agreement.

WHEREFORE, OTS, acting by and through its Regional Director, and the Board of the Association, hereby execute this Agreement.

**HARRINGTON BANK, FSB
Chapel Hill, North Carolina**

OFFICE OF THRIFT SUPERVISION

By: /s/
Michael J. Giarla
Chairman

By: /s/
Arthur W. Goodhand
Acting Southeast Regional Director

Date: See Effective Date on page 1

 /s/
Lawrence T. Loeser, Director

