



Comptroller of the Currency
Administrator of National Banks

New England Field Office
20 Winthrop Square, Suite 200
Boston, MA 02110-1229

**Conditional Approval #603
September 2003**

August 7, 2003

Linda R. Paisley
President and Chief Executive Officer
FBR National Bank & Trust
4922 Fairmont Avenue
Bethesda, MD 20814-6076

Re: Request from FBR National Bank & Trust, Bethesda, Maryland to implement a material deviation from the operating plan and limit its operations solely to fiduciary activities by divesting of its non-fiduciary assets and deposit liabilities, thereby operating as a limited purpose national trust bank.

Application Control Number: 2003-NE-12-0160

Dear Ms. Paisley:

The Office of the Comptroller of the Currency (OCC) has reviewed FBR National Bank & Trust's (Bank), a full service national bank with fiduciary powers, request to implement a material deviation from the Bank's operating plan, submitted to the OCC in connection with the initial conversion, by divesting of certain assets and deposit liabilities, and operating as a limited purpose insured national trust bank.

You have represented that the proposed deviation is being implemented in order to accommodate a corporate restructuring by Friedman, Billings, Ramsey Group, Inc., (FBR), a financial holding company pursuant to the Bank Holding Company Act (BHCA). On March 31, 2003, FBR and FBR Asset Investment Corporation, a publicly traded real estate investment trust, merged with and into Forest Merger Corporation, with the latter as the surviving corporation and with the title of Friedman, Billings, Ramsey Group, Inc., (new FBRG). This merger received the prior approval of the Federal Reserve on March 14, 2003, and as a part of the approval process, FBR committed that within six months of the merger date, the Bank would no longer be deemed a "bank" for purposes of the BHCA. A BHCA exemption from the definition of the term "bank" is for an institution that functions solely in a trust or fiduciary capacity. To satisfy and implement this condition to the Federal Reserve, the Bank has entered into a written agreement to sell approximately \$33 million in non-fiduciary deposit liabilities and \$14.9 million in non-fiduciary assets, consisting primarily of mortgage loans, to Chevy Chase Bank, F.S.B., McLean, Virginia. We understand that the Office of Thrift Supervision,

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Chevy Chase's primary federal regulator, approved this transaction and it is expected to close on August 15, 2003.

Based upon a review of your application materials, including the representations and commitments made in the application and by the proposed Bank's representative, we have no objection to your request as submitted.

Our no objection is subject to the following conditions:

1. The Bank shall maintain, at a minimum, its current level of \$7.4 million in Tier 1 capital at all times.
2. The Bank and new FBRG must enter into a written binding agreement, prior to the conversion from a full service bank to a limited purpose trust bank, setting forth the new FBRG's obligations to provide capital maintenance and liquidity support to the Bank, if and when necessary. The terms and provisions of this capital and liquidity maintenance agreement must be acceptable to the Bank and the OCC, and shall include a provision for collateral to support those obligations, if required by the OCC.
3. The Bank shall retain insured deposit(s) of at least \$500,000 in order to maintain its Federal Deposit Insurance Corporation insured institution status.
4. The Bank shall develop a comprehensive business plan that reflects the business objectives included in the application. Items to be included, but not limited to, are plans to build personal trust and employee benefit relationships including pro-formas that estimate the anticipated new business lines and a description of how they plan to approach new business development.
5. All other applicable conditions remain in force as contained in the OCC letter (dated March 15, 2001) approving the request to convert to a national banking association.

Please be advised that the above conditions of our no objection are deemed to be conditions "imposed in writing by the agency in connection with the granting of any application or other request" within the meaning of 12 USC § 1818. These conditions are enforceable under 12 USC § 1818.

Please be advised that the OCC is currently reviewing its capital and liquidity policy with respect to national trust banks. Should there be a change to our policy as a result of the review, we will advise you accordingly.

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All correspondence regarding this application should reference the application control number. If you have any questions concerning this letter, please contact Portfolio Manager Roberta Ouimette or me at (617) 482-1643.

Sincerely,

/s/ Kathleen M. Cahill

Kathleen M. Cahill
Assistant Deputy Comptroller

Enclosures: OCC Bulletin 2000- 26

CC: Lawrence D. Kaplan, Esq., Sidley Austin Brown & Wood LLP
Board of Directors