GUARANTY FINANCIAL CORP /VA/
Form 10QSB
November 14, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-QSB

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended September 30, 2002

Commission File No. 0-25905

GUARANTY FINANCIAL CORPORATION

Virginia	54-1786496
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1658 State Farm Blvd., Charlottesville, VA 22911
(Address of Principal Executive Offices)

(434) 970-1100
(Issuer's Telephone Number, Including Area Code)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes _X_ No___

As of November 1, 2002, 1,962,777 shares of Common Stock, par value $1.25 per share, were outstanding.

GUARANTY FINANCIAL CORPORATION

QUARTERLY REPORT ON FORM 10-QSB

INDEX

Part I. Financial Information

Item 1 Financial Statements

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	September 30, 2002	December 3 2001

ASSETS	(Unaudited)	
Cash and cash equivalents	$ 14,485	$ 12,4
Investment securities		
Held-to-maturity	870	9
Available for sale	7,199	20,5
Investment in FHLB and other stocks	1,972	1,9
Loans receivable, net	165,351	177,5
Accrued interest receivable	1,027	1,2
Real estate owned	441	7
Office properties and equipment, net	8,066	8,1
Other assets	4,323	1,5
Total assets	$ 203,734	$ 225,1
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Interest bearing demand	$ 29,188	$ 25,4
Non-interest bearing demand	25,996	22,1
Money market accounts	27,698	22,3
Savings accounts	12,766	12,9
Certificates of deposit	76,766	117,6
	172,414	200,6
Bonds payable	365	5
Advances from Federal Home Loan Bank	6,000	1,0
Accrued interest payable	51	1
Payments by borrowers for taxes and insurance	309	1
Other liabilities	536	5
Total liabilities	179,675	203,0
Convertible preferred securities	6,012	6,0
STOCKHOLDERS' EQUITY		
Preferred stock, par value $1 per share, 500,000 shares authorized, none issued	-	
Common stock, par value $1.25 per share, 4,000,000 shares authorized, 1,962,777 issued and outstanding (1,961,727 in 2001)	2,453	2,4
Additional paid-in capital	8,960	8,9
Accumulated other comprehensive loss	(32)	(6
Retained earnings	6,666	5,3
Total stockholders' equity	18,047	16,0
Total liabilities and stockholders' equity	$ 203,734	$ 225,1

See accompanying notes to consolidated financial statements

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except Per Share Amounts)

	Three Months Ended September 30,		Nine Mont Septem
	2002	2001	2002
	(unaudited)		(una
Interest income			
Loans	$ 2,891	$ 3,629	$ 8,866
Investment securities	260	575	1,070
Total interest income	3,151	4,204	9,936
Interest expense			
Deposits	727	2,167	2,858
Borrowings	174	161	552
Total interest expense	901	2,328	3,410
Net interest income	2,250	1,876	6,526
Provision for loan losses	25	75	75
Net interest income after provision for loan losses	2,225	1,801	6,451
Non-interest income			
Deposit account fees	181	184	553
Mortgage banking income	259	330	726
Investment sales commissions	40	53	104
Gain on sale of Investments	4	3	20
Other	154	43	418
Total noninterest income	638	613	1,821
Non-interest expense			
Personnel	1,158	1,226	3,444
Occupancy	282	336	853
Information services	275	302	853
Marketing	59	49	102
Deposit insurance premiums	8	27	56
Other	406	415	1,065
Total noninterest expense	2,188	2,355	6,373
Income before income taxes	675	59	1,899
Provision for income taxes	212	20	602

Net income	$ 463	$ 39	$ 1,297
Earnings per common share:			
Basic	$ 0.24	$ 0.02	$ 0.66
Diluted	$ 0.23	$ 0.02	$ 0.65

See accompanying notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Three Months Ended September 30,	
	2002	2001
	(unaudited)	
Net income	$ 463	$ 39
Other comprehensive income:		
Unrealized gain on securities available for sale	389	232
Other comprehensive income, before tax	389	232
Income tax expense related to items of other comprehensive income	(132)	(79)
Other comprehensive income, net of tax	257	153
Comprehensive income	$ 720	$ 192

See accompanying notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	Nine Mon Septem 2002 (unau
Operating Activities	
Net Income	$ 1,297
Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:	
Provision for loan losses	75
Provision for loss on sale of other real estate owned	40
Depreciation and amortization	437
Deferred loan fees	(45)
Net amortization of premiums and accretion of discounts	361
Gain on sale of loans	(726)
Gain on sale of securities available for sale	(20)
Originations of loans held for sale	(32,566)
Proceeds from sale of loans	43,416
Gain on sale of other real estate owned	(18)
Gain on Branch	-
Changes in:	
Accrued interest receivable	218
Other assets	(30)
Accrued interest payable	(86)
Prepayments by borrowers for taxes and insurance	144
Other liabilities	(10)
Net cash provided by operating activities	12,487
Investing activities	
Net decrease in loans	1,821
Mortgage-backed securities principal repayments	250
Purchase of securities held to maturity	(406)
Proceeds from maturity of securities held to maturity	250
Purchase of securities available for sale	-
Proceeds from sale of securities available for sale	14,162
Proceeds from sale of real estate owned	500
Net increase (decrease) in cash from sale of branch:	
Proceeds from sale of loans	-
Sale of Deposits	-
Proceeds from sale of office properties, equipment, and land	-
Purchase of bank-owned life insurance	(3,000)
Increase in bank-owned life insurance	(106)
Origination of servicing rights	-
Proceeds from sale of servicing rights	-
Proceeds from sale of office properties and equipment	22
Purchase of office properties and equipment	(423)
Net cash provided by investing activities	13,070
Financing activities	
Net increase (decrease) in deposits	(28,218)
Proceeds from FHLB advances	48,000
Repayment of FHLB advances	(43,000)
Proceeds from issuance of common stock	8
Principal payments on bonds payable, including unapplied payments	(299)
Net cash absorbed by financing activities	(23,509)

Increase in cash and cash equivalents	2,048
Cash and cash equivalents, beginning of period	12,437
Cash and cash equivalents, end of period	$ 14,485

See accompanying notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2002 and 2001
(unaudited)

Note 1 Principles of Presentation

The accompanying consolidated financial statements of Guaranty Financial Corporation ("Guaranty") have not been audited by independent accountants, except for the balance sheet at December 31, 2001. These financial statements have been prepared in accordance with the regulations of the Securities and Exchange Commission in regard to quarterly (interim) reporting. In management's opinion, the financial information presented reflects all adjustments, comprised only of normal recurring accruals that are necessary for a fair presentation of the results for the interim periods. Significant accounting policies and accounting principles have been consistently applied in both the interim and annual consolidated financial statements. Certain notes and the related information have been condensed or omitted from the interim financial statements presented in this Quarterly Report on Form 10-QSB. Therefore, these financial statements should be read in conjunction with Guaranty's Annual Report on Form 10-KSB for the year ended December 31, 2001. The results for the three and nine months ended September 30, 2002, are not necessarily indicative of future financial results.

The accompanying consolidated financial statements include Guaranty's accounts and its wholly-owned subsidiaries, Guaranty Capital Trust I and Guaranty Bank, and Guaranty Bank's wholly-owned subsidiaries, GMSC, Inc., which was organized as a financing subsidiary, and Guaranty Investments Corporation, which was organized to sell non-deposit investment products. All material intercompany accounts and transactions have been eliminated in consolidation.

Amounts in the year 2001 financial statements have been reclassified to conform to the year 2002 presentation. These reclassifications had no effect on previously reported net income.

Note 2 Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 3 Earnings Per Share

Basic earnings per share is based on net income divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share shows the dilutive effect of additional common shares issuable under stock option plans. The basic and diluted earnings per share for the three and nine months ended September 30, 2002 and 2001, have been determined by dividing net income by the weighted average number of shares of common stock outstanding during these periods. The following table indicates the weighted average shares outstanding for each period.

	Three Months Ended		Nine Months End	
	September 30, 2002	September 30, 2001	September 30, 2002	Se
Basic shares	1,962,777	1,961,727	1,962,777	
Diluted shares	1,985,501	1,961,727	1,984,254	

7

Note 4 Loans

The loan portfolio is comprised of the following:

	September 30, 2002	December 31, 2001
	(In thousands)	
Mortgage loans:		
Residential	$ 24,086	$ 39,864
Commercial	9,474	16,277
Construction and land loans	37,447	36,307
Total real estate loans	71,007	92,448
Commercial business loans	72,927	66,603
Consumer loans	23,872	20,973
Total loans receivable	167,806	180,024
Adjustments:		
Allowance for losses	(2,533)	(2,512)
Deferred costs	78	67
Total loans receivable, net	$ 165,351	$ 177,579

Note 5 Allowance for Loan Loss

The following is a summary of transactions in the allowance for loan loss:

	September 30, 2002	December 31, 2001
	(In thousands)	

Balance at January 1	$ 2,512	$ 2,396
Provision charged to operating expense	75	333
Recoveries added to the reserve	3	9
Loans charged off	(57)	(226)
Balance at the end of the period	$ 2,533	$ 2,512

Note 6 Investments

The investment portfolio was comprised of the following:

	September 30, 2002	December 31, 2001
	(In thousands)	
Held to maturity:		
Mortgage-backed securities	$ 470	$ 720
U.S. Government obligations	400	250
Available for sale:		
Corporate Bonds	3,191	12,597
U.S. Government obligations	4,008	7,970
Other:		
Federal Home Loan Bank stock	1,550	1,550
Federal Reserve Bank & other stocks	422	422
	$ 10,041	$ 23,509

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Guaranty Financial Corporation ("Guaranty") is a single bank holding company organized under Virginia law that provides financial services through its primary operating subsidiary, Guaranty Bank (the "Bank"). The Bank is a full service commercial bank offering a wide range of banking and related financial services, including time and demand deposits, as well as commercial, industrial, residential construction, residential and commercial mortgage and consumer loans. Guaranty Investments Corporation, a subsidiary of the Bank, provides a full range of investment services and, through a contractual arrangement with a third party, sells mutual funds, stocks, bonds and annuities.

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Guaranty. The analysis focuses on the consolidated financial statements, the footnotes thereto, and the other financial data herein. Highlighted in the discussion are material changes from prior reporting periods and any identifiable trends affecting Guaranty. Amounts are rounded for presentation purposes, while the percentages presented are computed based on unrounded amounts.

Analysis of Financial Condition

Total assets decreased 9.5% to $203.7 million at September 30, 2002, from $225.2 million at December 31, 2001. Cash and cash equivalents increased $2.1 million or 16.5%, to $14.5 million at September 30, 2002, from $12.4 million at December 31, 2001. Net loans were $165.4 million at September 30, 2002, a decrease of $12.2 million, or 6.9%, from net loans of $177.6 million at December 31, 2001. Total deposits at September 30, 2002, were $172.4 million compared to $200.6 million at December 31, 2001. FHLB borrowings were $6.0 million at September 30, 2002, compared to $1.0 million at December 31, 2001. Total stockholders' equity at September 30, 2002, increased by $1.9 million to $18.0 million from $16.1 million at December 31, 2001.

The factors causing the fluctuations in the major balance sheet categories are further discussed in the following sections.

Loans

During the first nine months of 2002, Guaranty continued to strategically reposition its loan portfolio. Net loans receivable decreased by 6.9% to $165.4 million at September 30, 2002, from $177.6 million at December 31, 2001. This change was primarily attributable to a $15.8 million reduction in residential mortgage loans and a $6.8 million reduction in commercial mortgage loans which offset a $6.3 million increase in commercial business loans. During the nine months ended September 30, 2002, Guaranty originated $32.6 million in residential mortgage loans and sold $42.7 million in residential mortgage loans in the secondary market. Residential mortgage loans held for sale were $1.7 million at September 30, 2002, down from $14.3 million at December 31, 2001. Other segments of the loan portfolio were relatively constant during the first nine months of 2002.

Investments

Total investments declined by 57.3% to $10.0 million at September 30, 2002, compared to $23.5 million at December 31, 2001. The majority of this change was due to the sale of long term corporate bonds which reduced the Company's interest rate and credit risk.

10

Real Estate Owned

Real estate owned decreased to $441,000 at September 30, 2002, from $764,000 at December 31, 2001. The decline was primarily due to the sale of a residential property during the period. The remainder of real estate owned consists of one residential house and developed lots listed for sale. No material losses are anticipated on the ultimate sale of these properties.

Office Properties and Equipment

Guaranty's investment in office properties and equipment remained constant at $8.1 million for September 30, 2002, and December 31, 2001.

Other Assets

Other assets increased to $4.3 million at September 30, 2002, primarily due to the purchase of $3.0 million of bank owned life insurance.

Deposits

The Company's continued emphasis on attracting low cost deposits and providing full service banking relationships to its customer base resulted in demand accounts increasing by 16.0% to $55.2 million from $47.6 million at December 31, 2001. For the same time periods, money market accounts increased by 23.7% to $27.7 million from $22.4 million. Deposits were $172.4 million at September 30, 2002, a decrease of $28.2 million, or 14.1%, from total deposits of $200.6 million at December 31, 2001. Certificates of deposit comprise 44.5% of total deposits at September 30, 2002, compared to 58.7% at December 31, 2001.

FHLB Borrowings

Guaranty's borrowings from the Federal Home Loan Bank ("FHLB") at September 30, 2002 increased to $6.0 million from $1.0 million at December 31, 2001. Guaranty was able to reduce its overall cost of funds by increasing its borrowings from the FHLB. At September 30, 2002, Guaranty's available but unused borrowings with the FHLB were approximately $14.7 million.

Stockholders' Equity

Stockholders' equity at September 30, 2002, increased by 12.2% to $18.0 million from $16.1 million at December 31, 2001. The primary factors for the increase were the year to date net income of $1.3 million and $8,000 related to the issuance of 1,050 shares for the 2002 annual retainer for outside directors, and an increase in the market value of Guaranty's available for sale investments by approximately $663,000.

Results of Operations

Net Income

Guaranty reported net income of $463,000 ($.23 per diluted share) for the three months ended September 30, 2002, compared with a net income of $39,000 ($.02 per diluted share) for the three months ended September 30, 2001. The increase in the net income was primarily due to the combination of increased net interest income, reduced operating expenses and a lower provision for loan loss. Net Income of $1.3 million for the nine months ended September 30, 2002 was an improvement over the $214,000 reported for the same period a year ago.

Net Interest Income

Net interest income increased to $2.3 million for the three months ended September 30, 2002, from the $1.8 million reported during the same period in 2001. The primary cause for the increase in net interest income was a decline in the average cost of interest bearing liabilities which more than offset a decline in the average balance and average yield of interest earning assets for the most recent quarter. For these same periods, the cost of interest bearing liabilities declined by 239 basis points to 2.20%. The primary cause of this decline was a 258 basis point decline in the cost of certificates of deposit which reflected the downward trend in interest rates during this time period. For the same time periods, the yield on loans decreased by 100 basis points to 6.94%, primarily due to the impact of prime rate reductions throughout 2001 on adjustable rate loans. The net interest margin increased to 4.82% for the most recent quarter from 3.39% for the same period a year ago. Average earning assets for the three months ended September 30, 2002, were $185.2 million compared to $219.9 million for the same period in 2001. Average loans outstanding declined by $16.1 million to $165.3 million and average investment securities declined by

$13.5 million to $15.0 million. For the same periods, average certificates of deposit decreased by $55.9 million to $80.9 million. The following table summarizes the factors determining net interest income (dollars in thousands).

	Three Months Ended September 30, 2002	Three Months Ended September 30, 2001	Nine Months Ended September 30, 2002
Avg. Interest Earning Assets	$185,196	$219,909	$193,438
Average Yield	6.75%	7.58%	6.87%
Avg. Interest Bearing Liabilities	$162,136	$201,203	$171,702
Average Cost	2.20%	4.59%	2.66%
Net Interest Spread	4.55%	3.00%	4.21%
Net Interest Margin	4.82%	3.39%	4.51%

Provision for Loan Losses

Guaranty recorded a provision of $25,000 and $75,000 for the three months ended September 30, 2002 and 2001, respectively. The decrease in the provision for the current year resulted from the decrease in the size of the loan portfolio and the increased level of the allowance for loan losses as a percentage of total loans. The allowance for loan losses is maintained at a level considered by management to be adequate to absorb future loan losses currently inherent in the loan portfolio. Management's assessment of the adequacy of the allowance is based upon type and volume of the loan portfolio, past loan loss experience, existing and anticipated economic conditions, and other factors that deserve current recognition in estimating future loan losses. Management's assessment of the adequacy of the allowance is subject to evaluation and adjustment by Guaranty's regulators.

There were loan charge-offs for the three months ended September 30, 2002 of $10,000, compared to $87,000 for the same period a year ago. At September 30, 2002, Guaranty had $119,000 of loans that were 90 days or more past due, while loans totaling $1.9 million were considered to be non-accrual. At September 30, 2002, the allowance for loan losses was $2.5 million or 1.51% of total loans. Management believes that the allowance for loan losses is adequate to cover loan losses inherent in the loan portfolio at September 30, 2002, and that loans classified as special mention, substandard, doubtful and loss have been adequately reserved. Although management believes that it uses the best information available to make such determinations, future adjustments to the allowance for loan losses may be necessary, and net income could be significantly affected, if circumstances differ substantially from assumptions used in making the initial determinations.

Non-interest Income

Non-interest income was $638,000 for the three months ended September 30, 2002, compared with $613,000 for the same period a year ago. This change was primarily due to a decrease in mortgage banking income to $259,000 for the most recent quarter compared to $330,000 for the same period a year ago. During 2001 Guaranty changed its mortgage banking business model to sell all residential fixed rate mortgage loans on a servicing released basis. In addition, Guaranty sold its mortgage loan servicing rights related to mortgage loans serviced for others. The revised mortgage banking business model eliminates the secondary market interest rate risk through simultaneously locking a mortgage loan rate with the borrower and a correspondent investor at the same time. The 2001 sale of existing mortgage servicing rights and the continued sale of mortgage loans on a servicing released basis eliminated the valuation volatility associated with retained servicing rights.

Fees on deposit accounts decreased by 1.6% to $181,000 for the most recent quarter compared to $184,000 for the same period a year ago. The decline was due to the price reduction of certain consumer and small business account fees in order to increase the competitiveness of those accounts. Investment sales commissions decreased to $40,000 for the three months ended September 30, 2002, compared to $53,000 for the same period a year ago due to reduced sales volume. The current quarter included a $53,000 increase in the cash surrender value of bank owned life insurance related to policies purchased in the first quarter of 2002.

13

Non-interest Expense

Non-interest expense was $2.2 million for the quarter ended September 30, 2002, a $167,000 decrease over the amount reported for the same period last year. The decrease is primarily attributable to the right sizing of administrative functions and the elimination of personnel and occupancy expenses due to the sale of a retail banking office in the suburban Richmond market in July 2001. The expenses related to the suburban Richmond retail banking office were included in the 2001 financial statements until July 2001 when the sale transaction was consummated. The most recent quarter included a $30,000 charge related to impaired assets in the relocation of the Company's Downtown Charlottesville branch.

Income Tax Expense

Guaranty recognized income tax expense of $212,000 for the three months ended September 30, 2002, compared to income tax expense of $20,000 for the same period in 2001. The effective tax rate for the most recent quarter was 31.4% compared to 33.9% for the same period a year ago. The lower effective tax rate for the most recent quarter was due to an increase in non-taxable income from bank owned insurance. The net increase in income tax expense between periods was a result of increases in the level of taxable income.

Liquidity and Capital Resources

Liquidity is the ability to meet present and future financial obligations either through the sale of existing assets or through the acquisition of additional funds through asset and liability management. Guaranty's primary sources of funds are deposits, borrowings and amortization, prepayments and maturities of outstanding loans and securities. While scheduled payments from the amortization of loans and securities are relatively predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions and competition. Excess funds are invested in overnight deposits to fund cash requirements experienced in the normal course of business. Guaranty has been able to generate sufficient cash through its deposits as well as through its borrowings.

Guaranty uses its sources of funds primarily to meet its on-going operating expenses, to pay deposit withdrawals and to fund loan commitments. During the most recent quarter, total loans declined by approximately $2.5 million and certificates of deposit declined by approximately $12.9 million. These decreases were a result of strategic decisions. Guaranty has been very targeted in its lending approach and has desired to reduce its funding reliance on certificates of deposit. At September 30, 2002, total approved loan commitments outstanding were approximately $5.0 million. At the same date, commitments under unused lines of credit were approximately $56.6 million. Certificates of deposit scheduled to mature in one year or less at September 30, 2002, were $65.3 million. Management believes that a significant portion of maturing deposits will remain with Guaranty. If these certificates of deposit do not remain with Guaranty, it will have to seek other sources of funding that may be at higher rates or reduce assets.

14

The reduction in total assets has positively impacted Guaranty's regulatory capital ratios. At September 30, 2002, regulatory capital was in excess of amounts required by Federal Reserve regulations to be considered well capitalized as shown in the following table (dollars in thousands):

	Actual Amount	Actual Percentage	Amount Required	Percent Require
Leverage Ratio	$ 24,093	11.75%	$ 8,204	4.00
Tier 1 Risk Based Capital	24,093	14.29%		4.00
Total Risk Based Capital	26,205	15.54%	13,486	8.00

Regulatory Issues

In October 2000, Guaranty and the Bank entered into a written agreement with the Federal Reserve Bank of Richmond and the Bureau of Financial Institutions of the Commonwealth of Virginia with respect to various operating policies and procedures. Under the terms of the agreement, Guaranty was restricted from paying future dividends or incurring any debt at the parent company level without prior regulatory approval. In addition, the Bank was prohibited from paying intercompany dividends to Guaranty without prior regulatory approval. This agreement was terminated, and as a result the restriction and the prohibition described above were lifted, effective October 18, 2002.

Forward Looking Statements

Certain statements in this quarterly report on Form 10-QSB may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are generally identified by the use of words such as "believe", "expect", "anticipate", "should", "planned", "estimated", and "potential". These statements are based on Guaranty's current expectations. A variety of factors could cause Guaranty's actual results to differ materially from the anticipated results or other expectations expressed in such forward-looking statements. The risks and uncertainties that may affect the operations, performance, development, and results of Guaranty's business include interest rate movements, competition from both financial and non-financial institutions, the timing and occurrence (or nonoccurrence) of transactions and events that may be subject to circumstances beyond Guaranty's control, and general economic conditions.

ITEM 3. Controls and Procedures

Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to provide assurance that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission. Within the 90 day period prior to the filing of this report, an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures was carried out under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer. Based on and as of the date of such evaluation, the aforementioned officers concluded that the Company's disclosure controls and procedures were effective.

Internal Controls

The Company maintains internal accounting controls that are designed to provide reasonable assurance that assets are safeguarded and that transactions are executed in accordance with management's authorization and properly recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements. There were no significant changes to the Company's internal controls or in other factors that could significantly affect those controls subsequent to the date of the most recent evaluation by the Chief Executive Officer and Chief Financial Officer.

Part II. Other Information

Item 1 Legal Proceedings
Not Applicable

Item 2 Changes in Securities
Not Applicable

Item 3 Defaults Upon Senior Securities
Not Applicable

Item 4 Submission of Matters to a Vote of Security Holders

Not Applicable

Item 5 Other Information

Not Applicable

Item 6 Exhibits and Reports on Form 8-K

(a) Exhibits

99.1 Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. ss. 1350

(b) Reports on Form 8-K - None

17

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GUARANTY FINANCIAL CORPORATION

Date: November 14, 2002 By: /s/ William E. Doyle, Jr.

William E. Doyle, Jr.
President and Chief Executive Officer

Date: November 14, 2002 By: /s/ Thomas F. Crump

Thomas F. Crump
Senior Vice President and Chief
Financial Officer

18

CERTIFICATIONS

I, William E. Doyle, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Guaranty Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for

establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ William E. Doyle, Jr.
William E. Doyle, Jr.
President and Chief Executive Officer

CERTIFICATIONS

I, Thomas F. Crump, certify that:

1. I have reviewed this quarterly report on Form 10-QSB of Guaranty Financial Corporation;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this

quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

21

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ Thomas F. Crump
Thomas F. Crump
Senior Vice President and
Chief Financial Officer

Exhibit Index

Exhibit No.

99.1	Certification Statement of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
99.2	Certification Statement of Chief Financial Officer pursuant to 18 U.S.C. Section 1350