GUARANTY FINANCIAL CORP /VA/
Form 10QSB
November 14, 2003

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, 2003 — 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 October 31, 2003, 1,991,477 shares of Common Stock, par value $1.25 per share, were outstanding.

GUARANTY FINANCIAL CORPORATION

QUARTERLY REPORT ON FORM 10-QSB

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Part I. Financial Information

Item 1 Financial Statements

GUARANTY FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	September 30, 2003	December 31 2002
ASSETS	(Unaudited)	
Cash and cash equivalents	$ 30,419	$ 15,3

Investment securities		
Held-to-maturity	2,795	8
Available for sale	1,471	3,2
Investment in FHLB	532	9
Loans receivable, net	149,933	163,2
Accrued interest receivable	677	9
Real estate owned	-	3
Office properties and equipment, net	6,338	7,4
Other assets	4,910	4,7
Total assets	$ 197,075	$ 197,1
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits:		
Interest bearing demand	$ 33,168	$ 28,7
Non-interest bearing demand	29,528	24,7
Money market accounts	43,995	34,4
Savings accounts	13,407	12,8
Certificates of deposit	55,465	70,5
	175,563	171,2
Bonds payable	-	3
Advances from Federal Home Loan Bank	-	
Accrued interest payable	11	
Payments by borrowers for taxes and insurance	127	1
Other liabilities	1,566	7
Total liabilities	177,267	172,5
Convertible preferred securities	-	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, 1,991,377 issued and outstanding (1,970,677 in 2002)	2,489	2,4
Additional paid-in capital	9,206	9,0
Accumulated comprehensive loss	(17)	(
Retained earnings	8,130	7,1
Total stockholders' equity	19,808	18,6
Total liabilities and stockholders' equity	$ 197,075	$ 197,1

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 Septemb
	2003	2002	2003
	(unaudited)		(un
Interest income			
Loans	$ 2,430	$ 2,891	$ 7,527
Investment securities	68	260	219
Total interest income	2,498	3,151	7,746
Interest expense			
Deposits	362	727	1,222
Borrowings	54	174	456
Total interest expense	416	901	1,678
Net interest income	2,082	2,250	6,068
Provision (credit) for loan losses	(198)	25	811
Net interest income after provision for loan losses	2,280	2,225	5,257
Non-interest income			
Mortgage banking income	504	259	1,264
Deposit account fees	180	181	513
Net gain on sale of branches	1	-	939
Increase in cash surrender value of life insurance	54	53	163
Investment sales commissions	3	40	3
Other	168	105	418
Total non-interest income	910	638	3,300
Non-interest expense			
Personnel	1,267	1,158	3,560
Occupancy	271	282	839
Information services	282	275	848
Marketing	40	59	102
Deposit insurance premiums	6	8	20
Other	412	406	1,084
Total non-interest expense	2,278	2,188	6,453
Income before income taxes	912	675	2,104
Provision for income taxes	293	212	661
Net income	$ 619	$ 463	$ 1,443
Basic earnings per common share	$ 0.31	$ 0.24	$ 0.73

Diluted earnings per common share	$ 0.31	$ 0.23	$ 0.72

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2003	2002
	(unaudited)	
Net income	$ 619	$ 463
Other comprehensive income:		
Unrealized gain (loss) on securities available for sale	(25)	389
Other comprehensive income (loss) , before tax	(25)	389
Income tax expense related to items of other comprehensive income	8	(132)
Other comprehensive income (loss), net of tax	(17)	257
Comprehensive income	$ 602	$ 720

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2003	2002
Operating Activities	(unaudited)	
Net Income	$ 1,443	$ 1,29

Adjustments to reconcile net income to net cash provided (absorbed) by operating activities:		
Provision for loan losses	811	7
Provision for loss on sale of other real estate owned	-	4
Depreciation and amortization	390	43
Deferred loan fees	(84)	(4
Net amortization of premiums and accretion of discounts	96	36
Gain on sale of loans	(1,264)	(72
Gain on sale of securities available for sale	(12)	(2
Originations of loans held for sale	(54,845)	(32,56
Proceeds from sale of loans	56,553	43,41
Gain on sale of other real estate owned	(2)	(1
Increase in value of bank owned life insurance	(163)	(10
Gain on sale of Harrisonburg branch	(986)	
Changes in:		
Accrued interest receivable	233	21
Other assets	120	(3
Accrued interest payable	(46)	(8
Prepayments by borrowers for taxes and insurance	-	14
Other liabilities	844	(1
Net cash provided by operating activities	3,088	12,38
Investing activities		
Net decrease in loans	6,634	1,82
Mortgage-backed securities principal repayments	137	25
Purchase of securities held to maturity	(2,500)	(40
Proceeds from maturity of securities held to maturity	400	25
Purchase of securities available for sale	(1,635)	
Proceeds from sale of securities available for sale	3,261	14,16
Proceeds from redemption of FHLB stock	415	
Proceeds from sale of real estate owned	400	50
Purchase of bank-owned life insurance	-	(3,00
Net decrease in cash from sale of branch		
Proceeds from sale of loans	5,446	
Sale of deposits	(9,984)	
Proceeds from sale of office properties, equipment and land	1,653	
Proceeds from sale of office properties and equipment	30	2
Purchase of office properties and equipment	(687)	(42
Net cash provided (absorbed) by investing activities	3,570	13,17
Financing activities		
Net increase (decrease) in deposits	15,056	(28,21
Proceeds from FHLB advances	16,000	48,00
Repayment of FHLB advances	(16,000)	(43,00
Redemption of Trust Preferred Securities	(6,013)	
Proceeds from issuance of common stock	197	
Cash dividend paid on common stock	(446)	
Principal payments on bonds payable, including unapplied payments	(425)	(29
Net cash provided (absorbed) by financing activities	8,369	(23,50
Increase in cash and cash equivalents	15,027	2,04
Cash and cash equivalents, beginning of period	15,392	12,43
Cash and cash equivalents, end of period	$ 30,419	$ 14,48

See accompanying notes to consolidated financial statements.

GUARANTY FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Three and Nine Months Ended September 30, 2003 and 2002
(unaudited)

Note 1 Principles of Presentation

The accompanying consolidated financial statements of Guaranty Financial Corporation ("Guaranty" or the "Company") have not been audited by independent accountants, except for the balance sheet at December 31, 2002. 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, 2002. The results for the three and nine months ended September 30, 2003, 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 2002 financial statements have been reclassified to conform to the year 2003 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, 2003 and 2002, 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 September 30, 2003	September 30, 2002	Nine September 30 2003
Basic shares	1,989,092	1,962,777	1,983,965
Dilutive effect of stock options	20,464	22,724	18,547
Dilutive shares	2,009,556	1,985,501	2,002,512

Note 4 Loans

The loan portfolio is comprised of the following:

	September 30, 2003	December 31, 2002
	(In thousands)	
Mortgage loans:		
Residential	$ 32,872	$ 20,119
Commercial	6,527	7,894
Construction and land loans	33,839	38,480
Total real estate loans	73,238	66,493
Commercial business loans	60,677	76,651
Consumer loans	17,875	22,238
Total loans receivable	151,790	165,382
Adjustments:		
Allowance for losses	(1,985)	(2,242)
Deferred costs	128	110
Total loans receivable, net	$ 149,933	$ 163,250

Note 5 Allowance for Loan Loss

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

	September 30, 2003	December 31, 2002
	(In thousands)	
Balance at January 1	$ 2,242	$ 2,512
Provision charged to expense	811	100
Recoveries added to the reserve	235	3
Loans charged-off	(1,303)	(373)
Balance at the end of the period	$ 1,985	$ 2,242

Note 6 Investments

The investment portfolio was comprised of the following:

	September 30, 2003	December 31, 2002
	(In thousands)	
Held to maturity:		
Mortgage-backed securities	$ 295	$ 433
U.S. Government obligations	2,500	403
Available for sale:		
Corporate Bonds	1,471	3,212
Other:		
Federal Home Loan Bank stock	532	947
Federal Reserve Bank & other stocks	557	422
	$ 5,355	$ 5,417

Note 7 Trust Preferred Securities

On May 19, 2003, the Company redeemed 100% of Guaranty Capital Trust's 7% preferred securities, resulting in a reduction in liabilities of $6.0 million and annualized savings of $420,000 in interest expense in future periods. Subsequent to the redemption of the preferred securities, the Bank and the holding company remain well capitalized.

Note 8 Stock Option Plan

Guaranty has a non-compensatory stock option plan (the "Plan") designed to provide long-term incentives to key employees. All options are exercisable upon date of vesting.

The following table summarizes options outstanding:

	Nine Months Ended September 30, 2003		Ye Decemb
	Shares	Weighted - average exercise price	Shares

Options outstanding at beginning of period	76,012	$10.02	57,912
Granted	17,500	13.47	47,500
Forfeited	(5,662)	8.30	(21,500
Exercised	(20,700)	9.53	(7,900
Options outstanding at end of period	67,150	10.66	76,012
Options exercisable at end of period	67,150		76,012

The weighted average fair value of options granted during the nine months ended September 30, 2003 was $3.48.

Guaranty applies Accounting Principals Board Opinion No. 25 in accounting for stock options granted to employees. Had compensation expense been determined based upon the fair value of the awards at the grant date and consistent with the method under Statement of Financial Accounting Standards No. 123, Guaranty's net earnings and net earnings per share would have been decreased to the pro forma amounts indicated in the following table:

	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2003
Net income		
As reported	$ 618,909	$ 1,443,316
Pro forma	618,909	1,403,139
Net income per share (basic)		
As reported	$ 0.31	$ 0.73
Pro forma	0.31	0.71
Net income per share (diluted)		
As reported	$ 0.31	$ 0.72
Pro forma	0.31	0.70

The fair value of each option granted is estimated on the date of grant using the Black-Sholes option pricing model with the following assumptions used for grants: a risk free interest rate range of 2.69% - 2.95%, depending on the date of grant, for grants issued during the nine months ended September 30, 2003; dividend yield of 2%; expected weighted average term of 5 years; and a volatility of 30% for each of the period presented.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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 BI Investments Group, LLC, 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 slightly to $197.1 million at September 30, 2003, only $70,000 less than the balance at December 31, 2002. Cash and cash equivalents increased $15.0 million or 97.6%, to $30.4 million at September 30, 2003, from $15.4 million at December 31, 2002. Net loans were $149.9 million at September 30, 2003, a decrease of $13.3 million, or 8.2%, from net loans of $163.3 million at December 31, 2002. Total deposits at September 30, 2003, were $175.6 million compared to $171.3 million at December 31, 2002, an increase of $4.3 million. Guaranty held no Federal Home Loan Bank (the "FHLB") borrowings at September 30, 2003 or December 31, 2002. Total stockholders' equity at September 30, 2003, increased by over $1.2 million to $19.8 million from $18.6 million at December 31, 2002.

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

Loans

Net loans receivable decreased 8.2% to $149.9 million at September 30, 2003, from $163.3 million at December 31, 2002. Real estate loans, excluding construction and land loans, increased $11.4 million, as the result of increased activity in the mortgage refinance market. A $4.8 million decrease in consumer loans, resulting from the sale of loans associated with the Harrisonburg branch, was offset by originations and increased outstanding balances on consumer loans, netting a $4.4 million reduction in consumer loans. Commercial business loans decreased $16.0 million, as the result of the continued repositioning of the loan portfolio, along with one significant charge-off during the second quarter. During the most recent quarter, Guaranty originated and sold $21.4 million in residential mortgage loans in the secondary market, bringing the total sold for the year to $56.6 million. Residential mortgage loans held for sale were $287,000 at September 30, 2003, compared to $332,000 at December 31, 2002.

Investments

Total investments declined $62,000, to $5.4 million at September 30, 2003, only a 1.1% decrease from the investments balance at December 31, 2002. In the first half of the year, management significantly reduced the balance in corporate securities in order to improve liquidity without incurring investment losses. The Company is in the process of rebuilding the portfolio with an improved focus on liquidity, earnings and interest rate risk.

Real Estate Owned

Real estate owned decreased to zero at September 30, 2003, from $397,000 at December 31, 2002. During the first half of 2003, Guaranty liquidated all of its other real estate holdings, without incurring losses on the sales of the properties.

Office Properties and Equipment

Guaranty's investment in office properties and equipment decreased to $6.3 million at September 30, 2003, from $7.4 million at December 31, 2002. This decrease was primarily due to the sale of the Harrisonburg branch in January 2003.

Other Assets

Other assets increased to $4.9 million at September 30, 2003 from $4.8 million at December 31, 2002. The primary reason for the increase in other assets was the increase in prepaid taxes, relating to first quarter net income.

Deposits

Balances in deposit accounts were $175.6 million at September 30, 2003, an increase of $4.3 million, or 2.5%, from total deposits of $171.3 million at December 31, 2002. The sale of the deposits associated with the Harrisonburg branch resulted in a decline of $10 million in deposits. Offsetting the decrease associated with the sale, Guaranty has been successful in attracting low cost deposits and money market accounts and in retaining existing relationships. Certificates of deposit comprise 31.6% of total deposits at September 30, 2003, compared to 41.2% at December 31, 2002.

FHLB Borrowings

Guaranty had no borrowings outstanding from the FHLB at September 30, 2003 or December 31, 2002. At September 30, 2003, Guaranty's available but unused borrowings with the FHLB were approximately $26 million.

Stockholders' Equity

Stockholders' equity at September 30, 2003, increased by 6.5% to $19.8 million from $18.6 million at December 31, 2002. The primary factors for the increase were the nine months net income of $1.4 million and the issuance of shares in connection with open market purchases and employees exercising their stock options, which increased capital by $197,000, offset by cash dividend payments to shareholders of $446,000.

Results of Operations

Net Income

Guaranty reported net income of $619,000 ($.31 per diluted share) for the three months ended September 30, 2003, compared with a net income of $463,000 ($.23 per diluted share) for the three months ended September 30, 2002. Guaranty reported net income of $1.4 million ($.72 per diluted share) for the nine months ended September 30, 2003, compared with a net income of $1.3 million ($.65 per diluted share) for the nine months ended September 30, 2002.

Net Interest Income

Net interest income decreased to $2.1 million for the three months ended September 30, 2003, from the $2.2 million reported during the same period the prior year. The primary cause for the decline in net interest income was due to the decline in average earning assets and lower interest rates earned on loan balances for the most recent quarter. Average earning assets for the three months ended September 30, 2003, were $172.0 million compared to $185.2 million for the same period in 2002. Average loans outstanding decreased to $157.0 million from $165.2 million and average investments outstanding declined to $3.6 million from $15.0 million when comparing the three month period ended September 30, 2003 to the three month period ended September 30, 2002. For these same periods, average certificates of deposit balances decreased by $24.1 million to $56.8 million. The cost of interest bearing deposits declined by 104 basis points primarily due to change in the composition of deposits as well as the lower interest rates being paid on certificates of deposit. The following table summarizes the factors determining net interest income (dollars in thousands).

	Three Months Ended September 30, 2003	Three Months Ended September 30, 2002	Nine Mo Ende Septembe 2003
Average Interest Earning Assets	$ 172,003	$ 185,196	$ 172,
Average Yield	5.76%	6.75%	6.01
Average Interest Bearing Liabilities	$ 142,359	$ 162,136	$ 145,
Average Cost	1.16%	2.20%	1.55
Interest Spread	4.60%	4.55%	4.46
Interest Margin	4.80%	4.82%	4.71

Provision for Loan Losses

Guaranty recorded a credit of $198,000 to its loan loss provision for the three months ended September 30, 2003 and an expense of $25,000 for the three months ended September 30, 2002. During the second quarter of 2003, a $1.025 million charge-off was realized as the consequence of substantial fraudulent activity by one commercial borrower. The loss was due to fraudulent activities related to cash and financial management by the borrower which caused the borrower to be insolvent. The loan held by Guaranty was secured by equipment, inventory, receivables and marketable securities. During the third quarter of 2003, Guaranty received a partial recovery relating to this loan. Management recorded the recovery through the allowance for loan losses. The Company's allowance for loan losses currently equals 1.30% of the loan portfolio. 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 believes that the allowance for loan losses is adequate to cover loan losses inherent in the loan portfolio at September 30, 2003, 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.

Guaranty charged-off $264,000 in loans during the third quarter of 2003. At September 30, 2003, the Company had $410,000 of loans that were 90 days or more past due and still accruing interest, compared to $119,000 at September 30, 2002. The Bank held no loans that were considered to be non-accrual as of September 30, 2003, compared to $1.9 million as of September 30, 2002.

Non-interest Income

Non-interest income was $910,000 for the three months ended September 30, 2003, compared to $638,000 for the same period a year ago. This change was primarily due to increased mortgage banking income, which amounted to $504,000 for the quarter ended September 30, 2003, compared to $259,000 for the same period a year ago.

Fees on deposit accounts remained approximately the same at $180,000 for the most recent quarter compared to $181,000 for the same period a year ago. Guaranty realized $3,000 of investment sales commissions for the quarter ended September 30, 2003, compared to $40,000 for the quarter ended September 30, 2002, due to reduced sales volume, as the investment sales function was undergoing a management realignment during the first nine months of 2003.

Non-interest Expense

Non-interest expense was $2.3 million for the quarter ended September 30, 2003, a $90,000 increase over the amount reported for the same period last year. Personnel expense increased $109,000 as the result of increased commissions relating to mortgage banking activity. This increase was offset by lower occupancy and marketing expenses.

Income Tax Expense

Guaranty recorded income tax expense of $293,000 for the three months ended September 30, 2003, compared to $212,000 for the same period in 2002. The net increase in income tax expense between periods was a result of fluctuations in the level of taxable income. Guaranty's effective tax rate is lower than the standard corporate tax rate of 34% due to non-taxable income from bank owned insurance.

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. While scheduled payments from the amortization of loans 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, net loans decreased by approximately $8.5 million and certificates of deposit declined by approximately $2.3 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, 2003, total approved loan commitments outstanding were approximately $7.2 million. At the same date, commitments under unused lines of credit were approximately $49.5 million. Certificates of deposit scheduled to mature in one year or less at September 30, 2003, were $47.5 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 may have to reduce assets or seek other sources of funding that may be at higher rates.

At September 30, 2003, regulatory capital was in excess of amounts required by Federal Reserve regulations to be considered well capitalized as shown in the following table for Guaranty Bank:

	Actual Percentage	Percent Required	Excess Percentage
Leverage Ratio	10.27%	4.00%	6.27%
Tier 1 Risk Based Capital	12.56%	4.00%	8.56%
Total Risk Based Capital	13.81%	8.00%	5.81%

Contractual Obligations

The following summarizes Guaranty's contractual cash obligations and commercial commitments, including maturing certificates of deposit, as of September 30, 2003 and the effect such obligations may have on liquidity and cash flows in future periods.

	Contractual Obligations			
	Less Than One Year	1-3 Years	4-5 Years	Over 5 Years
(Dollars in thousands)				
Certificate of deposit maturities (1)	$ 47,542	$ 6,545	$ 1,369	$ 9
Undisbursed credit lines	49,464	-	-	-
Commitments to extend credit	7,185	-	-	-
Standby letters of credit	4,148	-	-	-
Total obligations	$108,339	$ 6,545	$ 1,369	$ 9

(1) Guaranty expects to retain maturing deposits or replace maturing amounts with comparable deposits based on current market interest rates.

Regulatory Issues

The Written Agreement with the Federal Reserve Bank and the Bureau of Financial Institutions of the Commonwealth of Virginia related to various operating policies and procedures dated October 26, 2000, was terminated effective October 18, 2002.

Critical Accounting Policies, Estimates and Judgments

Guaranty's financial statements are prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, as well as the disclosure of contingent liabilities. Management continually evaluates its estimates and judgments, including those related to the allowance for loan losses and income taxes. Management bases its estimates and judgments on historical experience and other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions. Management believes that, of its significant accounting policies, the most critical accounting policies we apply are those related to the valuation of the loan portfolio.

A variety of factors impact carrying value of the loan portfolio, including the calculation of the allowance for loan losses, valuation of amortization of loan fees, and deferred origination costs. The allowance for loan losses is the most difficult and subjective judgment. The allowance is established and maintained at a level that management believes is adequate to cover losses resulting from the inability of borrowers to make required payments on loans. Estimates for loan losses determined by analyzing risks associated with specific loans and the loan portfolio, current trends in delinquencies and charge-offs, the views of regulators, changes in the size and composition of loan portfolio and peer comparisons. The analysis also requires consideration of the economic climate and directions, changes in the interest rate environment, which may impact a borrower's ability to pay, legislation impacting the banking industry and economic conditions specific to our service area. Because the calculation of the allowance for loan losses relies on estimates and judgments relating to inherently uncertain events, results may differ from our estimates.

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. As of the end of the period covered by 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.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting. There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of it that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

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

31.1 Rule 13a-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a) Certification of Chief Financial Officer.

32 Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

(b) Reports on Form 8-K -
The Company furnished a Current Report on Form 8-K with the Securities and Exchange Commission on July 28, 2003. The Form 8-K reported Items 7 and 12 and attached as an exhibit and incorporated by reference a press release that reported the Company's financial results for the quarter ended June 30, 2003.

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, 2003 By: /s/ William E. Doyle, Jr.

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

Date: November 14, 2003 By: /s/ Tara Y. Harrison

Tara Y. Harrison
Vice President and Chief Financial Officer

EXHIBIT INDEX

Number	Document
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.