

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.

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In the Matter of )  
TEXAS SAVINGS BANK ) CONSENT ORDER  
SNYDER, TEXAS ) FDIC 11-120b  
(Insured State Savings Bank) )  
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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for TEXAS SAVINGS BANK, SNYDER, TEXAS (“Bank”), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting board of directors (“Board”), has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated April 5, 2011, that is accepted by the FDIC. With the STIPULATION, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices relating to asset quality, capital weakness, information technology, and Bank Secrecy Act (“BSA”) compliance and/or any violations of law or regulation to the issuance of this CONSENT ORDER (“ORDER”) by the FDIC. A representative of the Texas Department of Savings and Mortgage Lending (“State”) concurred in the issuance of the ORDER.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) has been satisfied, the FDIC hereby orders that:

## **STRATEGIC PLAN**

1. (a) Within 90 days after the effective date of this ORDER, the Bank shall prepare and adopt a comprehensive strategic plan (“Strategic Plan”). The Strategic Plan required by this paragraph shall contain an assessment of the Bank’s current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written Strategic Plan shall address, at a minimum:

- (1) Strategies for pricing policies and asset/liability management;
- (2) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;
- (3) Goals for reducing problem loans;
- (4) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;
- (5) Financial goals, including pro forma statements for asset growth and capital adequacy;
- (6) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) The Bank shall submit the Strategic Plan to the Regional Director of the FDIC Dallas Regional Office (“Regional Director”) and the Texas Department of Savings and Mortgage Lending Commissioner (“Commissioner”) for review and comment. After consideration of all such comments, the Bank shall approve the Strategic Plan, which approval shall be recorded in the minutes of the Bank’s Board meeting. Thereafter, the Bank shall implement and follow the Strategic Plan.

(d) Within 30 days after the end of each calendar quarter following the effective date of this ORDER, the Bank's Board shall evaluate the Bank's performance in relation to the Strategic Plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Bank's Board meeting at which such evaluation is undertaken.

(e) The Strategic Plan required by this ORDER shall be revised and submitted to the Regional Director and the Commissioner for review and comment 30 days after the end of each calendar year for which this ORDER is in effect. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner, and after consideration of all such comments, the Bank shall approve the revised Strategic Plan, which approval shall be recorded in the minutes of the Bank's Board meeting. Thereafter, the Bank shall implement the revised Strategic Plan.

### **BUDGET AND PROFIT PLAN**

2. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written profit plan ("Profit Plan") and a realistic, comprehensive budget for all categories of income and expense for calendar years 2011 and 2012. The Profit Plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, reduce discretionary expenses, improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) The written Profit Plan shall address, at a minimum:

- (1) An analysis of the Bank's pricing structure; and
- (2) A recommendation for reducing the Bank's cost of funds.

(c) Within 30 days after the end of each calendar quarter following completion of the Profit Plan and budget required by this paragraph, the Bank's Board shall evaluate the Bank's actual performance in relation to the written Profit Plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the Board meeting when such evaluation is undertaken.

(d) A written Profit Plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the Commissioner for review and comment within 30 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the written Profit Plan and budget, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow the Profit Plan.

### **CAPITAL MAINTENANCE**

3. (a) Within 90 days after the effective date of this ORDER and while this ORDER is in effect, the Bank, after establishing an Allowance for Loan and Lease Losses ("ALLL"), shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 9 percent of the Bank's Average Total Assets; shall maintain its Tier 1 Risk-Based Capital ratio equal to or greater than 11 percent of the Bank's Total Risk-Weighted Assets; and shall maintain its Total

Risk-Based Capital ratio equal to or greater than 13 percent of the Bank's Total Risk Weighted Assets.

(b) If any such capital ratios are less than required by the ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the State, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director or the Commissioner, present to the Regional Director and the Commissioner a plan to increase the Bank's Tier 1 Capital or to take such other measures to bring all the capital ratios to the percentages required by this ORDER ("Capital Plan"). After the Regional Director and the Commissioner respond to the Capital Plan, the Bank's Board shall adopt the Capital Plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(c) Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the Capital Plan, to increase its Tier 1 Capital by an amount sufficient to bring all the Bank's capital ratios to the percentages required by this ORDER within 90 days after the Regional Director and the Commissioner respond to the Capital Plan. Such increase in Tier 1 Capital and any increase in Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or
- (2) The direct contribution of cash subsequent to October 25, 2010, by the directors and/or shareholders of the Bank or by the Bank's holding company; or

- (3) Receipt of an income tax refund or the capitalization subsequent to October 25, 2010, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(d) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's Board shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned or controlled by them in favor of the plan. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with Federal securities laws. Prior to the implementation of the plan, and in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If the increase in Tier 1 Capital is to be provided by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented to the Regional Director and the Commissioner for prior approval.

(e) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser

of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

(f) The Capital Plan must include a contingency plan ("Contingency Plan") that shall include a plan to sell or merge the Bank in the event that the Bank:

- (1) Fails to maintain the minimum capital ratios required by the ORDER,
- (2) Fails to submit an acceptable Capital Plan or
- (3) Fails to implement or adhere to a Capital Plan to which no written objection was provided by the Regional Director and the Commissioner.

The Bank shall be required to implement the Contingency Plan only upon written notice from the Regional Director and the Commissioner.

(g) In addition, the Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(h) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

## **MANAGEMENT – BOARD SUPERVISION**

4. Within 30 days after the effective date of this ORDER, the Bank's Board shall increase its participation in the affairs of the Bank by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities. The Board's participation in the Bank's affairs shall include, at a minimum, monthly meetings in which the following areas shall be reviewed and approved by the Board: reports of income and expenses; new, overdue, renewed, insider, charged-off, delinquent, nonaccrued, and recovered loans; investment activities; operating policies; and individual committee actions. The Bank's Board minutes shall document the Board's reviews and approvals, including the names of any dissenting directors.

## **MANAGEMENT**

5. (a) The Bank shall have and retain qualified management including a qualified senior executive management team. The senior executive management team shall possess qualifications and experience commensurate with their duties and responsibilities given the size and complexity of the Bank. The qualifications of management personnel shall be evaluated on their ability to:

- (1) Comply with the requirements of the ORDER;
- (2) Operate the Bank in a safe and sound manner;
- (3) Comply with applicable laws and regulations; and
- (4) Restore all aspects of the Bank to a safe and sound condition, including improving the Bank's asset quality, capital adequacy,

earnings, management effectiveness, liquidity, and its sensitivity to market risk.

(b) While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner in writing of any changes in management. The notification must include the name(s) and background(s) of any replacement personnel and must be provided 30 days prior to the individual(s) assuming the new position(s).

#### **CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

6. (a) Within 30 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the State as a result of its examination of the Bank as of October 25, 2010. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered “collection” for the purpose of this paragraph.

(b) Within 30 days after the effective date of this ORDER, the Bank shall submit a written plan (“Classified Asset Plan”) to the Regional Director and the Commissioner to reduce the remaining assets classified Doubtful and Substandard as of October 25, 2010. The Classified Asset Plan shall address each asset so classified with a balance of \$250,000 or greater as well as any additional assets of \$250,000 or greater subsequently identified as Doubtful or Substandard by the FDIC, the State, or the Bank and provide the following:

- (1) The name under which the asset is carried on the Bank’s books;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and

- (4) Time frames for accomplishing the proposed actions.

The Classified Asset Plan shall also include, at a minimum:

- (1) Review the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and
- (2) Evaluate the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

In addition, the Bank's Classified Asset Plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the Classified Asset Plan shall contain a provision requiring the submission of monthly progress reports to the Bank's Board and a provision mandating a review by the Bank's Board.

(c) The Bank shall present the Classified Asset Plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the Classified Asset Plan, including any requested modifications or amendments shall be adopted by the Bank's Board, which approval shall be recorded in the meeting minutes of the Bank's Board. The Bank shall then immediately initiate measures detailed in the Classified Asset Plan to the extent such measures have not been initiated.

(d) For purposes of the Classified Asset Plan, the reduction of adversely classified assets shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL and may be accomplished by:

- (1) Charge-off;
- (2) Collection;

- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the State; or
  - (4) Increase in the Bank's Tier 1 Capital.
- (e) While this ORDER is in effect, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss as determined at any future examination conducted by the FDIC or the State.

#### **LOAN REVIEW COMMITTEE AND IDENTIFICATION OF PROBLEM ASSETS**

7. (a) Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a loan review committee to periodically review the Bank's loan portfolio and identify and categorize problem credits. The committee shall file a report with the Bank's Board at each Board meeting. This report shall include the following information:
- (1) The overall quality of the loan portfolio;
  - (2) The identification, by type and amount, of each problem or delinquent loan;
  - (3) The identification of all loans not in conformance with the Bank's lending policy; and
  - (4) The identification of all loans to officers, directors, principal shareholders or their related interests.
- (b) At least 50 percent of the members of the loan review committee shall be directors not employed in any capacity by the Bank other than as a director.

(c) The Board will develop policies and procedures to accurately identify on the Bank's Internal Watch List adversely classified loans and potential problem loans with credit weaknesses.

**RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

8. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified Loss by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the State as the result of its examination of the Bank, either in whole or in part, and is uncollected, unless the Bank's Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Bank's Board meeting.

## **CORRECTION OF VIOLATIONS**

9. (a) Within 30 days after the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation noted in the Report of Examination.
- (b) Within 30 days after the effective date of this ORDER, the Bank shall implement procedures to ensure future compliance with all applicable laws and regulations.
- (c) Within 30 days after the effective date of this ORDER, the Bank shall address any contraventions of policy noted in the Report of Examination.

## **INTERNAL AUDIT CONTROL PROGRAM**

10. Within 90 days after the effective date of this ORDER, the Bank's Board shall revise its internal control program to address the internal control deficiencies detailed in the Report of Examination. The audit program shall provide procedures to test the validity and reliability of operating systems, procedural controls, and resulting records, and shall comply with the Interagency Policy Statement on the Internal Audit Function and its Outsourcing. The internal auditor shall report quarterly to the Bank's Board. The report and any comments made by the directors regarding the internal auditor's report shall be noted in the minutes of the Bank's Board meeting.

## **LIQUIDITY/ASSET/LIABILITY MANAGEMENT**

11. (a) Within 90 days after the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner for review and comment a written plan ("Liquidity Plan") addressing liquidity objectives and establishing a contingency plan that provides for stress testing of funding strategies. Annually thereafter, while this

ORDER is in effect, the Bank shall review the Liquidity Plan for adequacy and, based upon such review, shall make necessary revisions to the Liquidity Plan to strengthen funds management procedures. The initial Liquidity Plan shall include, at a minimum, provisions:

- (1) Meeting the State's minimum liquidity requirement pursuant to the State Finance Code;
- (2) Establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;
- (3) Identifying the source and use of borrowed and/or volatile funds;
- (4) Establishing lines of credit at correspondent banks, including the Federal Reserve Bank or the Federal Home Loan Bank Board, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate;
- (5) Requiring the retention of securities and/or other identified categories of investments that can be liquidated within one day in amounts sufficient (as a percentage of the Bank's total assets) to ensure the maintenance of the Bank's liquidity posture at a level consistent with short- and long-term liquidity objectives;
- (6) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (7) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;

- (8) Addressing the use of borrowings (i.e., seasonal credit needs, match funding mortgage loans, etc.) and providing for reasonable maturities commensurate with the use of the borrowed funds; addressing concentration of funding sources; and addressing pricing and collateral requirements with specific allowable funding channels (i.e., internet deposits, Fed funds purchased and other correspondent borrowings); and
- (9) Establishing procedures for managing the Bank's sensitivity to interest rate risk.

(b) Within 30 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the Liquidity Plan as necessary, the Bank shall adopt the Liquidity Plan, which adoption shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement the Liquidity Plan.

#### **DIVIDEND RESTRICTION**

12. As of the effective date of this ORDER, the Bank shall pay no cash dividends without the prior written consent of the Regional Director and the Commissioner.

#### **APPOINT QUALIFIED BSA OFFICER**

13. Within 30 days from the effective date of this ORDER, the Bank shall provide for the designation of a qualified individual or individuals ("BSA Officer") responsible for coordinating and monitoring day-to-day compliance with the BSA pursuant to Section 326.8 of the FDIC's Rules and Regulations, 12 C.F.R. § 326.8. The BSA Officer shall:

- (a) Have sufficient executive authority to monitor and ensure compliance with the BSA and its implementing rules and regulations;
- (b) Be responsible for determining the adequacy of BSA/Anti-Money Laundering (“AML”) staffing and for supervising such staff in complying with the BSA and its implementing rules and regulations;
- (c) Be responsible for ensuring an effective training program is developed and implemented to instruct Bank management and staff on all relevant BSA laws and regulations, as well as the Bank’s BSA-related policies and procedures.
- (d) Report directly to the Bank’s Board or the Bank’s Chief Executive Officer;
- (e) Report to the Bank’s Audit Committee on a regular basis, not less than quarterly, with respect to any BSA/AML matters; and
  - (d) Be responsible for assuring the proper filing of Currency Transaction Reports (“CTRs”), Reports of International Transportation of Currency or Monetary Instruments, and Suspicious Activity Reports (“SARs”) relating to the BSA. The BSA Officer shall provide monthly comprehensive written reports to the Bank’s Board regarding the Bank’s adherence to the Bank’s BSA compliance plan and this ORDER.

## **INFORMATION TECHNOLOGY**

- 14. (a) Within 60 days after the effective date of this ORDER, the Bank shall retain an independent firm acceptable to the Regional Director and the Commissioner to perform annual IT audits, including penetration test, vulnerability assessment, and compliance testing of applicable rules, regulations and guidelines. A copy of the IT audit shall be provided to the

Regional Director and the Commissioner.

(b) Within 90 days after the effective date of this ORDER, the Bank shall develop adequate written policies and procedures covering all facets of electronic funds transfer activity. Topics to be addressed shall include proper controls, formal agreements, and annual independent ACH audits. Policies shall be communicated to appropriate personnel with their acknowledgement recorded stating that they will abide by all policies. Annually, these policies shall be reviewed by management for necessary modifications and presented to the Bank's Board for approval.

(c) Within 90 days after the effective date of this ORDER, the Bank shall improve the Disaster Recovery and Business Continuity Plans following the format detailed in the Federal Financial Institutions Examination Council's Business Continuity Planning Information Technology Examination Handbook. The Bank's Board shall approve the plans and ensure that they are communicated to appropriate personnel. A full and complete test of the plans shall be conducted with the testing scope and results documented and reported to the Bank's Board. The plan shall be tested annually thereafter.

(d) Within 90 days after the effective date of this ORDER, the Bank's Board shall ensure that all other deficiencies cited in the IT Examination Report are corrected, or document its best efforts to ensure that such deficiencies are corrected.

### **COMPLIANCE COMMITTEE**

15. Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a subcommittee of the board of directors charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. The subcommittee shall report

monthly to the entire Bank's Board, and a copy of the report and any discussion related to the report or the ORDER shall be included in the minutes of the Bank's Board meeting. Nothing contained herein shall diminish the responsibility of the entire Bank's Board to ensure compliance with the provisions of this ORDER.

### **PROGRESS REPORTS**

16. Within 45 days after the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Commissioner written progress reports signed by each member of the Bank's Board detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Commissioner have released, in writing, the Bank from making further reports.

### **BUSINESS PLAN**

17. From the date of this ORDER the Bank shall not enter into any new line of business without the prior written consent of the Regional Director and the Commissioner.

### **SHAREHOLDER NOTIFICATION**

18. After the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying

communication, statement, or notice shall be sent to the FDIC Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the State.

Issued pursuant to delegated authority this 5th day of April, 2011.

/s/  
Kristie K. Elmquist  
Acting Regional Director  
Dallas Region  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation