FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

and

TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

In the Matter of SANDERSON STATE BANK SANDERSON, TEXAS (Insured State Nonmember Bank)	ORDER TO CEASE AND DESIST FDIC-08-124b STATE NUMBER-2008-024

Sanderson State Bank, Sanderson, Texas ("Bank") through its board of directors, having been advised of its right to the issuance and service of a NOTICE OF CHARGES AND OF HEARING detailing the unsafe or unsound banking practices and violations of law and/or regulations alleged to have been committed by the Bank and of its right to a hearing on the alleged charges under section 8(b) of the Federal Deposit Insurance Act ("Act"), 12 U.S.C. § 1818(b) and Title 3, Subtitle A, Texas Finance Code § 35.002 et. seq. and having waived those rights, entered into a STIPULATION AND CONSENT TO THE ISSUANCE OF AN ORDER TO CEASE AND DESIST ("CONSENT AGREEMENT") with counsel for the Federal Deposit Insurance Corporation ("FDIC") and a representative of the Texas Department of Banking (the "State") dated October 10, 2008, whereby, solely for the purpose of this proceeding and without admitting or denying the alleged charges of unsafe or unsound banking practices and violations of law and/or regulations, the Bank consented to the issuance of an ORDER TO CEASE AND DESIST ("ORDER") by the FDIC and the State.

The FDIC and the State considered the matter and determined that they had reason to believe that the Bank had engaged in unsafe or unsound banking practices and had violated laws and/or regulations. The FDIC and the State, therefore, accepted the CONSENT AGREEMENT and issued the following:

ORDER TO CEASE AND DESIST

IT IS ORDERED, that the Bank, institution-affiliated parties, as that term is defined in section 3(u) of the Act, 12 U.S.C. § 1813(u), of the Bank and its successors and assigns, cease and desist from the following unsafe or unsound banking practices and violations of laws and/or regulations:

(a) Operating the Bank with an inadequate level of capital protection for the kind and quality of assets held by the Bank;

(b) Operating the Bank with inadequate earnings to fund growth and augment capital;

(c) Operating the Bank with an excessive level of adversely classified loans or assets;

(d) Operating the Bank with an inadequate allowance for loan and lease losses for the volume, kind and quality of loans and leases held or failing to make provision for an adequate reserve for possible loan losses;

(e) Engaging in hazardous lending practices, including, but not limited to:

(1) Failure to obtain proper loan documentation;

(2) Failure to obtain current and complete financial information; and

(3) Poor credit administration practices.

(f) Creating concentrations of credit;

(g) Operating the Bank with inadequate policies to monitor and control asset growth;

(h) Operating the Bank with management whose policies and practices are detrimental to the Bank and jeopardize the safety of its deposits;

(i) Operating the Bank without adequate supervision and direction by the Bank's board of directors over the management of the Bank to prevent unsafe and unsound banking practices and violations of applicable Federal and State laws and regulations;

(j) Operating the Bank with inadequate internal review policies or procedures or internal routines and controls;

(k) Operating the Bank with an inadequate audit program;

(l) Failing to maintain accurate books and records;

(m) Operating the Bank with a heavy reliance on short-term potentially volatile deposits as a source for funding longer-term investments;

(n) Operating the Bank without adequate liquidity or proper regard for funds management in light of the Bank's asset and liability mix;

(o) Operating the Bank with an inadequate interest rate risk policy;

(p) Operating the Bank with an inadequate strategic plan;

(q) Operating the Bank in violation of the Currency and Foreign Transactions Reporting Act (31 U.S.C. § 5311 *et seq.)* (the Bank Secrecy Act) ("BSA"), the rules and regulations implementing the BSA issued by the U. S. Department of the Treasury (31 C.F.R. Part 103) ("Financial Recordkeeping"), the FDIC's BSA Rules and Procedures Regulations, 12 C.F.R. Part 326, and the FDIC's Suspicious Activity Reports ("SARs") regulations, 12 C.F.R. Part 353 (all the rules referred to in this paragraph are referred to hereinafter, collectively, as "BSA Rules");

(r) Operating the Bank without adequate supervision and direction by the Bank's board of directors and senior management of the Bank to prevent unsafe and unsound banking practices and violations of Federal and State laws or regulations particularly in regard to compliance with Sections 23A and 23B of the Federal Reserve Act, the Federal Reserve Board's Regulation O, BSA Rules, and state branch banking laws;

(s) Operating the Bank with an ineffective BSA/Anti-Money Laundering ("AML") Compliance Program;

(t) Operating the Bank with an ineffective system of internal controls to ensure compliance with the BSA Rules;

(u) Operating the Bank with an ineffective BSA/AML training program to ensure compliance with the BSA Rules;

(v) Operating the Bank with an ineffective BSA officer to properly direct, administer, and oversee the BSA program; and

(w) Operating the Bank with an ineffective Customer Due Diligence Program ("CDD") to ensure compliance with the BSA Rules.

IT IS FURTHER ORDERED, that the Bank, its institution-affiliated parties and its successors and assigns take affirmative action as follows:

1. (a) Within 120 days after the effective date of this ORDER, and for so long thereafter as this ORDER is outstanding, the Bank shall achieve and maintain, after establishing an allowance for loan and lease losses as required herein: Tier 1 Capital equal to or greater than 10 percent of its average Total Assets ("Tier I Capital Ratio"); Tier 1 Risk-Based Capital equal to or greater than 12 percent of Total Risk-Weighted Assets ("Tier 1 Risk-Based Capital Ratio"); and Total Risk-Based Capital equal to or greater than 14 percent of Total Risk-Weighted Assets ("Total Risk-Based Capital Ratio").

(b) If the Tier 1 Capital Ratio is less than 10 percent, or the Tier 1 Risk-Based Capital

Ratio is less than 12 percent, or the Total risk-Based Capital Ratio is less than 14 percent, as determined (i) at an examination or visitation by the FDIC or the State, (ii) upon filing of a quarterly Report of Condition, or (iii) Internal bank calculations, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director, FDIC, Dallas Regional Office ("Regional Director") or the Commissioner, Texas Department of Banking ("Commissioner"), present to the Regional Director and the Commissioner a plan to increase the respective ratio above the minimums required in paragraph 1(a). After the Regional Director and the Commissioner respond to the plan, the board of directors of the Bank shall adopt the plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the plan, to increase its Tier 1 Capital Ratio, or Tier 1 Risk-Based Capital Ratio, or Total Risk-Based Capital Ratio, by an amount sufficient to bring the ratio to 10, or 12, or 14 percent, respectively, within 30 days after the Regional Director and the Commissioner respond to the plan. Such increase in capital and any increase in capital necessary to meet the ratio 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 February 11, 2008 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 February 11, 2008 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.

(c) If all or part of the increase in capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's board of directors 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 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.

(d) 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.

(e) In addition to the requirements of subparagraphs (a) and (b), 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 Rules and Regulations, 12 C.F.R. Part 325, App. A.

(f) For the purposes of this ORDER, the terms "Allowance for Loan and Lease Losses", "Risk-Weighted Assets", "Tier 1 Capital", "Tier 1 Risk-Based Capital Ratio", "Total Assets", and "Total Risk-Based Capital Ratio" shall be as defined in Part 325 of the FDIC's Rules and Regulations, respectively Sections 325.2(a), (v), and (x), 12 C.F.R. §§ 325.2(a), (s), (v), (w), (x), and (y). "Average Total Assets" shall be calculated according to the methodology set forth in the Report of Examination.

2. As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

3. (a) Within 30 days after the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's practices to ensure compliance with the Bank's loan policy and procedures.

(b) The Bank's practices, at a minimum, shall include:

(i) Ensuring that the Bank is lending in its normal trade area;

(ii) Establishing review and monitoring procedures to ensure that all lending personnel are adhering to established lending procedures and that the directorate is receiving timely and fully documented reports on loan activity, including any deviations from established policy;

(iii) Requiring that all extensions of credit originated or renewed by the Bank be supported by current credit information and collateral documentation, including lien searches and the perfection of security interests; have a defined and stated purpose; and have a predetermined and realistic repayment source and schedule. Credit information and collateral documentation shall include current financial information, profit and loss statements or copies of tax returns, and cash flow projections, and shall be maintained throughout the term of the loan;

(iv) Requiring the Bank's board of directors to review and monitor the status of repayment and collection of overdue and maturing loans, as well as all loans classified "Substandard" and/or "Doubtful" in the Report of Examination;

(v) Requiring the maintenance of an acceptable loan grading system and internal loan watch list;

(vi) Requiring a written plan to lessen the risk position in each line of credit identified as a problem credit on the Bank's internal loan watch list;

(vii) Prohibiting the capitalization of interest or loan-related expenses unless the Bank's board of directors formally approves such extensions of credit as being in the best interest of the Bank and provides detailed written support of its position in the board minutes;

(viii) Requiring that extensions of credit to any of the Bank's executive officers, directors, or principal shareholder, or to any related interest of such person, be thoroughly reviewed for compliance with all provisions of Regulation O, 12 C.F.R. § 337.3 and 12 C.F.R. Part 215;

(ix) Requiring prior written approval by the Bank's board of directors for any extension of credit, renewal, or disbursement in an amount which, when aggregated with all other extensions of credit to that person and Related Interests of that person, exceeds $100,000. For the purpose of this paragraph "Related Interest" is defined as in Section 215.2(n) of Regulation O, 12 C.F.R. § 215.2(n);

(x) Requiring accurate reporting of past due loans and contributed notes receivables to the Bank's board of directors on at least a monthly basis;

(xi) Addressing concentrations of credit and diversification of risk, including goals for portfolio mix, establishment of limits within loan and other asset categories, and development of a tracking and monitoring system for the economic and financial condition of specific geographic locations, industries, and groups of borrowers;

(xii) Requiring guidelines and review of out-of-territory loans which, at a minimum, shall include complete credit documentation, approval by a majority of the board of directors prior to disbursement of funds, and a detailed written explanation of why such a loan is in the best interest of the Bank;

(xiii) Incorporating collateral valuation requirements, including: (a) a requirement that the valuation be completed prior to a commitment to lend funds; (b) a requirement for periodic updating of valuations; and (c) a requirement that the source of valuations be documented in Bank records;

(xiv) Establishing guidelines for timely recognition of loss through charge-off;

(xv) Prohibiting the extension of a maturity date, advancement of additional credit or renewal of a loan to a borrower whose obligations to the Bank were classified “Substandard,” “Doubtful,” or “Loss,” whether in whole or in part, as of February 11, 2008, or by the FDIC or State in a subsequent Report of Examination, without the full collection in cash of accrued and unpaid interest, unless the loans are well secured and/or are supported by current and complete financial information, and the renewal or extension has first been approved in writing by a majority of the Bank’s board of directors;

(xvi) Establishing officer lending limits and limitations on the aggregate level of credit to any one borrower which can be granted without the prior approval of the Bank’s loan committee;

(xvii) Requiring that collateral appraisals be completed prior to the making of secured extensions of credit, and that periodic collateral valuations be performed for all secured loans listed on the Bank’s internal watch list, criticized in any internal or outside audit report of the Bank, or criticized in any regulatory report of examination of the Bank;

(xviii) Prohibiting the issuance of standby letters of credit unless the letters of credit are well secured and/or are supported by current and complete financial information; and

(xix) Establishing limitations on the maximum volume of loans in relation to total assets.

4. (a) Within 30 days after the effective date of this ORDER, the Bank's board of directors 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 of directors at each board meeting. This report shall include the following information:

(i) The overall quality of the loan portfolio;

(ii) The identification, by type and amount, of each problem or delinquent loan;

(iii) The identification of all loans not in conformance with the Bank's lending policy; and

(iv) The identification of all loans to officers, directors, principal shareholders or their related interests.

(b) At least 80 percent of the members of the loan review committee shall be Independent Directors. For purposes of this ORDER, a person who is an Independent Director shall be any individual: (a) who is not an officer of the Bank, any subsidiary of the Bank or any of its affiliated organizations; (b) who does not own more than 5 percent of the outstanding shares of the Bank; (c) who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, and who does not otherwise share a common financial interest with such officer, director or shareholder; and (d) who is not indebted to the Bank directly or indirectly by blood, marriage or common financial interest, including the indebtedness of any entity in which the individual has a substantial financial interest in an amount exceeding 5 percent of the Bank's total Tier 1 Capital and Allowance for Loan and Lease Losses; or (e) who is deemed to be an Independent Director for purposes of this ORDER by the Regional Director and the Commissioner.

5. (a) Within 60 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 plan to reduce each of the industry concentrations of credit identified in the Report of Examination dated February 11, 2008 to not more than 200 percent of the Bank's total Tier 1 Capital. Such plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

(i) Dollar levels to which the Bank shall reduce each concentration; and

(ii) Provisions for the submission of monthly written progress reports to the Bank's board of directors for review and notation in minutes of the meetings of the board of directors.

(b) For purposes of the plan, "reduce" means to:

(i) Charge-off;

(ii) Collect; or

(iii) Increase Tier 1 Capital.

(c) After the Regional Director and the Commissioner have responded to the plan, the Bank's board of directors shall adopt the plan as amended or modified by the Regional Director and the Commissioner. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

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 and one-half of the assets classified Doubtful by the

FDIC or the State as a result of its examination of the Bank dated February 11, 2008. The Bank shall not rebook such loans without the prior written consent of the Regional Director and the Commissioner. 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 60 days after the effective date of this ORDER, the Bank shall submit a written plan to the Regional Director and the Commissioner to reduce the remaining assets classified Doubtful and Substandard in the Report of Examination dated February 11, 2008. The plan shall address each asset so classified with a balance of $100,000 or greater and provide the following:

(i) The name under which the asset is carried on the books of the Bank;

(ii) Type of asset;

(iii) Actions to be taken in order to reduce the classified asset; and

(iv) Timeframes for accomplishing the proposed actions.

The plan shall also require, at a minimum,

(i) A review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources; and

(ii) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank's collateral position.

The plan shall be formulated so that, within 120 days after the effective date of this ORDER, the Bank shall achieve a reduction in the volume of the adversely classified assets reflected in the February 11, 2008 Report of Examination, to a level not to exceed 50 percent of

Tier 1 Capital plus the Allowance for Loan and Lease Losses as determined at the end of the 120 day period. The plan may include a provision for increasing capital where necessary to achieve the prescribed ratio.

(c) The Bank shall present the plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director's and the Commissioner's response, the plan, including any requested modifications or amendments shall be adopted by the Bank's board of directors. The Bank shall then immediately initiate measures detailed in the plan to the extent such measures have not been initiated.

(d) For purposes of the plan, the reduction of the level of adversely classified assets as of February 11, 2008, to a specified percentage of Tier 1 Capital plus the Allowance for Loan and Lease Losses may be accomplished by:

(i) Charge-off;

(ii) Collection;

(iii) 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

(iv) Increase of 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.

7. (a) While this ORDER is in effect, the Bank shall not increase its Total Assets by more than 10 percent during any consecutive six-month period without providing, at least 30 days prior to its implementation, a growth plan to the Regional Director and the Commissioner.

Such growth plan, at a minimum, shall include the funding source to support the projected growth, as well as the anticipated use of funds. This growth plan shall not be implemented without the prior written consent of the Regional Director and the Commissioner. In no event shall the Bank increase its Total Assets by more than 20 percent annually.

8. (a) Within 60 days after the effective date of this ORDER, the Bank shall add to its board of directors at least two new members who are Independent Directors and who have previous banking experience. For purposes of this ORDER, a person who is an Independent Director shall be any individual: (a) who is not an officer of the Bank any subsidiary of the Bank or any of its affiliated organizations; (b) who does not own more than 5 percent of the outstanding shares of the Bank; (c) who is not related by blood or marriage to an officer or director of the Bank or to any shareholder owning more than 5 percent of the Bank's outstanding shares, and who does not otherwise share a common financial interest with such officer, director or shareholder; and (d) who is not indebted to the Bank directly or indirectly by blood, marriage or common financial interest, including the indebtedness of any entity in which the individual has a substantial financial interest in an amount exceeding 5 percent of the Bank's total Tier 1 Capital and Allowance for Loan and Lease Losses; or (e) who is deemed to be an Independent Director for purposes of this ORDER by the Regional Director and the Commissioner. The addition of any new Bank directors required by this paragraph may be accomplished, to the extent permissible by state statute or the Bank's bylaws, by means of appointment or election at a regular or special meeting of the Bank's shareholders.

9. (a) Within 60 days after the effective date of this ORDER, the Bank shall retain a bank consultant acceptable to the Regional Director and the Commissioner. The consultant shall develop a written analysis and assessment of the Bank's management and staffing needs

("Management Plan") for the purpose of providing qualified management for the Bank.

(b) The Bank shall provide the Regional Director and the Commissioner with a copy of the proposed engagement letter or contract with the consultant for review before it is executed. The contract or engagement letter, at a minimum, should include:

(i) A description of the work to be performed under the contract or engagement letter;

(ii) The responsibilities of the consultant;

(iii) An identification of the professional standards covering the work to be performed;

(iv) Identification of the specific procedures to be used when carrying out the work to be performed;

(v) The qualifications of the employee(s) who are to perform the work;

(vi) The time frame for completion of the work;

(vii) Any restrictions on the use of the reported findings; and

(viii) A provision for unrestricted examiner access to work papers.

(c) The Management Plan shall be developed within 90 days after the effective date of this ORDER. The Management Plan shall include, at a minimum:

(i) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank;

(ii) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;

(iii) Evaluation of all Bank officers and staff members to determine whether these individuals possess the ability, experience and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, and restoration and maintenance of the Bank in a safe and sound condition; and

(iv) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience and other qualifications to fill those officer or staff member positions identified in the Management Plan.

(d) The Management Plan shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion. Within 30 days from the receipt of any comments from the Regional Director and the Commissioner, and after the adoption of any recommended changes, the Bank shall approve the Management Plan, and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, its directors, officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

10. (a) Within 120 days after the effective date of this ORDER, the Bank shall formulate and adopt a comprehensive strategic plan. The 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:

(i) Strategies for pricing policies and asset/liability management;

(ii) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

(iii) Goals for reducing problem loans;

(iv) Plans for attracting and retaining qualified individuals to fill vacancies in the lending and accounting functions;

(v) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;

(vi) 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 and the Commissioner for review and comment. After consideration all such comments, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the strategic plan.

(d) Within 30 days from the end of each calendar quarter following the effective date of this ORDER, the Bank's board of directors 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 board of directors' 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 of 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 plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

11. (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 60 days after the effective date of this ORDER, the Bank shall address any contraventions of policy noted in the Report of Examination.

12. (a) Within 120 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 and a realistic, comprehensive budget for all categories of income and expense for calendar year(s) 2008, 2009 and 2010. The plan(s) 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 net interest income, and shall contain a description of the operating assumptions that form the basis for major protected income and expense components.

(b) The written profit plan shall address, at a minimum:

(i) Strategies for pricing policies and asset/liability management;

(ii) Plans for sustaining adequate liquidity, including back-up lines of credit to meet any unanticipated deposit withdrawals;

(iii) Goals for reducing interest rate risk exposure and volatile liability dependence;

(iv) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(v) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) Within 30 days from the end of each calendar quarter following completion of the profit plan(s) and budget(s) required by this paragraph, the Bank's board of directors shall evaluate the Bank's actual performance in relation to the plan and budget, record the results of the evaluation, and note any actions taken by the Bank in the minutes of the board of directors' meeting at which 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 of the end of each year. Within 30 days of receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the plan, which approval shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement and follow the plan.

13. (a) Within 60 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 addressing liquidity, the Bank's relationship of volatile liabilities to temporary investments, rate sensitivity objectives and asset/liability management. Annually thereafter, while this ORDER is in effect, the Bank shall review this plan for adequacy and, based upon such review, shall make necessary revisions to the plan to strengthen funds management procedures and maintain adequate provisions to meet the Bank's liquidity needs. The initial plan shall include, at a minimum, provisions:

(i) Increasing the Bank's ratio of short term investments to total assets to at least 10 percent within 90 days after the effective date of this ORDER;

(ii) Establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report; and which ratio shall, within 180 days from the effective date of this ORDER, be reduced to not more than 45 percent.

(iii) Identifying the source and use of borrowed and/or volatile funds;

(iv) 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;

(v) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;

(vi) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;

(vii) Addressing the use of borrowings (i.e., match funding mortgage loans) 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., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and

(viii) Establishing procedures for managing the Bank's sensitivity to interest rate risk which comply with the Joint Agency Statement of Policy on Interest Rate Risk (June 26, 1996), and the Supervisory Policy Statement on Investment Securities and End-user Derivative Activities (April 23, 1998).

(ix) Requiring monthly measurement and reporting to the board on the bank's liquidity position, including the liquidity ratio, non core funding position, and sources and uses of funds for a twelve-month period from the measurement date.

(b) The term "short term investments", as used in this provision, shall include the following assets: the sum of interest bearing bank balances, federal funds sold and securities purchased under agreements to resell, debt securities with a remaining maturity of one year or less, and acceptances of other banks prior to March 31, 2001 (this definition is in accord with the definition set forth in the Uniform Bank Performance Report User's Guide).

(c) Within 30 days from the receipt of all such comments from the Regional Director and the Commissioner, and after revising the plan as necessary, the Bank shall adopt the plan, which adoption shall be recorded in the minutes of a board of directors' meeting. Thereafter, the Bank shall implement the plan.

14. (a) Within 30 days after the effective date of the ORDER, the Bank shall develop, adopt, and implement an interest rate risk policy and procedures that shall include, at a minimum:

(i) Measures designed to control the nature and amount of interest rate risk the Bank takes including those that specify risk limits and defines lines of responsibilities and authority for managing risk;

(ii) A system for identifying and measuring interest rate risk;

(iii) A system for monitoring and reporting risk exposures; and

(iv) A system of internal controls, review, and audit to ensure the integrity of the overall risk management process.

15. (a) Within 60 days after the effective date of this ORDER, the Bank shall amend and submit to the Regional Director and the Commissioner for review and comment its written BSA/AML policy to address all BSA recommendations detailed in the FDIC's February 11, 2008 safety and soundness Report of Examination and amend the written BSA/AML Compliance Program ("BSA Compliance Program") as necessary to comply with the BSA Rules.

(b) At a minimum, the Compliance Program, as appropriate for the Bank's size, complexity, and risk profile, shall:

(i) Establish ongoing CDD procedures;

(ii) Provide for an effective system of internal controls to ensure compliance with the BSA Rules;

(iii) Provide for the continued administration of the BSA Compliance Program to ensure and monitor ongoing compliance with the BSA Rules; and

(iv) Provide for the development and maintenance of policies and procedures with respect to wire transfer recordkeeping, including requirements for complete information on beneficiaries and senders, as required by 31 C.F.R. § 103.33.

(c) After the Regional Director and the Commissioner have responded to the plan, the Bank's board of directors shall adopt the plan as amended or modified by the Regional Director and the Commissioner. The plan shall be implemented immediately to the extent that the provisions of the plan are not already in effect at the Bank.

16. (a) Within 60 days after the effective date of this ORDER, Bank personnel shall be evaluated to determine whether these individuals possess the ability, experience, training and

other necessary qualifications required to perform present and anticipated duties in all areas related to the BSA Rules, including adherence to the Bank's BSA Compliance Program, the requirements of the BSA Rules, and the provisions of this ORDER.

(b) The evaluation shall be conducted by a qualified party with the requisite ability to perform such an analysis, and a written report shall be presented to the Bank's board of directors. A copy of the written report shall be submitted to the Regional Director and the Commissioner for review and comment.

(c) After receipt of the comments of the Regional Director and the Commissioner, the Bank shall incorporate results and recommendations from the written report into its BSA Compliance Program within 30 days from the receipt of all such comments from the Regional Director and the Commissioner.

17. (a) The Bank shall provide an effective training program for management and staff on all relevant aspects of laws, regulations, and Bank policies and procedures relating to the BSA compliance ("Training Program"). This training shall ensure that all appropriate personnel are aware of, and can comply with, the requirements of the BSA including the currency and monetary instruments reporting requirements and the reporting requirements associated with SARs.

(b) The Training Program shall also cover:

(i) The Bank's BSA/AML policies and procedures, as well as new rules, regulations, and requirements as they arise; and

(ii) A requirement that the Board will fully document the training of all appropriate employees, including the designated BSA compliance officer.

(c) The Bank shall also identify the method of training and source of training materials. The initial training shall be completed within 120 days after the effective date of this ORDER**.** Thereafter, the Bank shall conduct additional training on a regular basis, but not less than annually.

(d) Employees receiving the initial and subsequent training shall include, but are not limited to, the designated BSA officer, all current or new tellers, new accounts personnel, lending personnel, bookkeeping personnel, wire transfer personnel, senior management and the entire Board.

18. (a) Within 30 days after the effective date of this ORDER, the Bank shall develop a policy that specifies and documents the duties and responsibilities of a qualified individual, or individuals, who will function on a daily basis as the designated BSA Officer. The BSA Officer will be charged with coordinating and monitoring the day-to-day compliance with the BSA Rules.

(b) The BSA Officer shall:

(i) Have sufficient executive authority to establish BSA compliance procedures, including procedures to monitor ongoing compliance with the BSA;

(ii) Be responsible for determining the adequacy of the Bank’s BSA/AML staffing, given its size and risk profile (based upon the Risk Assessment) and for supervising such staff;

(iii) Report directly to the Board and/or the Board’s Compliance Committee;

(iv) Report to the Bank’s board of directors on a regular basis, but not less than quarterly, with respect to BSA/AML matters;

(v) Be responsible for assuring the proper and timely filing of Currency Transaction Reports, SARs, and any other BSA required reports; and

(vi) File reports to the Bank’s board of directors that provide information regarding the timely filing of Currency Transaction Reports, SARs and any other BSA required reports.

19. (a) Within 180 days after the effective date of this ORDER, the Bank shall establish independent testing programs for compliance with the BSA and Office of Foreign Assets Control (“OFAC”) provisions, to be performed on no less than an annual basis. The scope of the testing procedures to be performed and testing results shall be documented in writing and approved by the Board or its designee.

(b) The testing programs, at a minimum, should include the following:

(i) An evaluation of the overall integrity and effectiveness of the BSA/AML compliance program, including policies, procedures, and processes.

(ii) A review of the bank's risk assessment for reasonableness given the bank's risk profile (products, services, customers, entities, and geographic locations).

(iii) Appropriate risk-based transaction testing to verify the bank's adherence to the BSA recordkeeping and reporting requirements (e.g., CIP, SARs, CTRs and CTR exemptions, and information sharing requests).

(iv) An evaluation of management's efforts to resolve violations and deficiencies noted in previous audits and regulatory examinations, including progress in addressing outstanding supervisory actions, if applicable.

(v) A review of staff training for adequacy, accuracy, and completeness.

(vi) A review of the effectiveness of the suspicious activity monitoring systems (manual, automated, or a combination) used for BSA/AML compliance. Related reports may include, but are not limited to:

a. Suspicious activity monitoring reports.
b. Large currency aggregation reports.
c. Monetary instrument records.
d. Funds transfer records.
e. Nonsufficient funds (NSF) reports.
f. Large balance fluctuation reports.
g. Account relationship reports.

(vii) An assessment of the overall process for identifying and reporting suspicious activity, including a review of filed or prepared SARs to determine their accuracy, timeliness, completeness, and effectiveness of the bank's policy.

(viii) An assessment of the integrity and accuracy of management information systems (MIS) used in the BSA/AML compliance program. MIS includes reports used to identify large currency transactions, aggregate daily currency transactions, funds transfer transactions, monetary instrument sales transactions, and analytical and trend reports.

(c) The results of each independent test, as well as any apparent exceptions noted during the testing, shall be presented to the Bank's board of directors. The Bank's board of directors shall record the steps taken to correct any exceptions noted, address any recommendations made during each independent test, and record its actions in the minutes of the meetings.

20. (a) Within 90 days after the effective date of this ORDER, the Bank shall establish policies and procedures reasonably designed to identify and report suspicious activities ("SAR Policies"). At a minimum, the SAR Policies shall satisfy the requirements of Part 353 of the FDIC Rules and Regulations, 12 C.F.R. Part 353, and shall be reasonably designed to identify misconduct from both internal and external sources.

(b) The Bank shall submit the SAR Policies to the Regional Director and the Commissioner for review and comment. Within 30 days of the receipt of all such comments from the Regional Director and the Commissioner, and after consideration of such comments, the Bank shall approve the SAR Polices, which approval shall be recorded in the Bank's board minutes. Thereafter, the Bank shall implement and fully comply with the SAR Policies. The SAR Policies shall be reviewed, revised as appropriate, and approved by the Bank's board of directors on an annual basis or more frequently as appropriate.

21. (a) Within 120 days after the effective date of this ORDER, the Bank shall develop, adopt, and implement an enhanced system of internal controls to ensure compliance with the BSA, including, but not limited to, filing currency transaction reports; approving exemptions; aggregating related customer's transactions; monitoring high risk and suspicious activities for all types of accounts, customers, products, services, and geographic areas.

(b) At a minimum, such enhanced system of internal controls shall include:

(i) Procedures for conducting a risk-based assessment of the Bank's customer base to identify the categories of customers whose transactions and banking activities are routine and usual, and for determining the appropriate level of enhanced due diligence necessary for those categories of customers whose transactions and banking activities are not routine and/or usual ("high-risk accounts");

(ii) Procedures with respect to high-risk accounts and customers identified through the risk assessment including the adoption of adequate methods for conducting enhanced due diligence on high-risk accounts and customers at account opening and on an ongoing basis, and for monitoring high-risk client relationships on a transaction basis, as well as by account and customer;

(iii) Procedures and systems for identifying, evaluating, monitoring, investigating, and reporting suspicious activity in the Bank's products, accounts, customers, services, and geographic areas, including:

a. The establishment of meaningful thresholds for identifying accounts and customers for further monitoring, review, and analyses;

b. The periodic testing and monitoring of such thresholds for their appropriateness to the Bank's products, customers, accounts, services, and geographic areas;

c. Procedures and/or systems for each business area of the Bank to produce periodic reports designed to identify unusual or suspicious activity, to monitor and evaluate unusual or suspicious activity, and to maintain accurate information needed to produce these reports.

d. The review of existing systems to ensure adequate referral of information about potentially suspicious activity through appropriate levels of management, including a policy for determining action to be taken in the event of multiple filings of SARs on the same customer, or in the event a correspondent or other customer fails to provide due diligence information. Such procedures shall describe the circumstances under which an account should be closed and the processes and procedures to be followed in doing so;

e. Documentation of management's decisions to file or not to file a SAR;

f. Systems to ensure the timely, accurate, and complete filing of required SARs and any other similar or related reports required by law.

22. (a) Within 60 days from the effective date of this ORDER, the Bank shall engage a qualified independent firm ("Consultant"), acceptable to the Regional Director and the

Commissioner, to conduct a review of account and transaction activity, for the time period beginning January 1, 2006, and ending on the effective date of this ORDER, to determine whether suspicious activity involving any accounts of, or transactions within or through, the Bank were properly identified and reported in accordance with the applicable suspicious activity reporting requirements ("Look Back Review").

(b) Within 10 days of the engagement of the Consultant, but prior to the commencement of the Look Back Review, the Bank shall submit to the Regional Director and the Commissioner for approval an engagement letter that sets forth:

(i) The scope of the Look Back Review, including the types of accounts and transactions to be reviewed which shall, at a minimum, include, but not be limited to, the transactions or accounts related to or believed associated with principal shareholder Annette Apergis;

(ii) The methodology for conducting the Look Back Review, including any sampling procedures to be followed;

(iii) The expertise and resources to be dedicated to the Look Back Review; and

(iv) The anticipated date of the completion of the Look Back Review.

(c) Upon completion of the Look Back Review, the Consultant shall provide a copy of the report detailing its findings to the Regional Director and the Commissioner at the same time the report is provided to the Bank.

(d) Within 30 days of its receipt of the Look Back Review report, the Bank shall ensure that all matters or transactions required to be reported, for which appropriate action has not previously been taken, are addressed in accordance with applicable laws and regulations.

23. (a) Within 30 days after the effective date of this ORDER, the Bank's board of directors 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 board of directors of the Bank 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 of directors' meeting. Nothing contained herein shall diminish the responsibility of the entire board of directors of the Bank to ensure compliance with the provisions of this ORDER.

24**.** After the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER, (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, Accountant and Securities Disclosure Section, Washington, D.C. 20429, and the Commissioner for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC or the State shall be made prior to dissemination of the description, communication, notice, or statement.

25. Within 30 days after the end of the first calendar quarter following the effective date of this ORDER, and within 30 days after the end of each successive calendar quarter, the Bank shall furnish written progress reports to the Regional Director and the Commissioner detailing the form and manner of any actions taken to secure compliance with this 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 the Bank in writing from making additional reports.

26. This ORDER shall be binding upon the Bank and all institution-affiliated parties of the Bank. The provisions of this ORDER shall remain effective and enforceable except to the extent that, and until such time as, any provision of this ORDER shall have been modified, terminated, suspended, or set aside by the FDIC and the Commissioner pursuant to authority delegated to the Regional Director and the authority of the Commissioner.

This ORDER will become effective upon its issuance by the FDIC.

Pursuant to delegated authority.

Dated at Dallas, Texas, this 16th day of October, 2008.

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Thomas J. Dujenski
Regional Director
Division of Supervision and Consumer Protection

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Robert L. Bacon
Interim Banking Commissioner
Texas Department of Banking