

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.
and
TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

_____)	
In the Matter of)	
)	ORDER TO CEASE AND DESIST
)	
CITIZENS STATE BANK)	
WOODVILLE, TEXAS)	FDIC-08-379b
)	
)	STATE NUMBER 2009-001
(Insured State Nonmember Bank))	
_____)	

Citizens State Bank, Woodville, 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 (“State”), dated January 30th, 2009, 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 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:

1. Operating the Bank with an inadequate level of capital protection for the kind and quality of assets held by the Bank.
2. Operating the Bank with inadequate earnings to fund growth, support dividend payments and augment capital.
3. Operating the Bank with an excessive level of adversely classified loans or assets.
4. Failing to make provision for an adequate reserve for possible loan losses.
5. Creating concentrations of credit.
6. Failing to accurately reflect the condition of the Bank in published statements and Consolidated Reports of Condition and Income.
7. Engaging in speculative or hazardous investment practices.
8. 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 laws or regulations.

9. Operating the Bank in violation of applicable Federal and State laws and regulations.

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

BANK MANAGEMENT

1. (a) Within 60 days after the effective date of this ORDER, the Bank shall assess the Bank's management and staffing needs in order to develop a written management plan for the purpose of providing qualified management for the Bank.

(b) The management plan shall be developed within 90 days after the effective date of this ORDER. The management plan shall include, at a minimum:

- (1) Identification of officer positions needed to properly manage and supervise the affairs of the Bank;
- (2) Identification and establishment of such Bank committees as are needed to provide guidance and oversight to active management;
- (3) 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

(4) 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.

(c) The management plan shall be submitted to the Regional Director, FDIC, Dallas Regional Office (“Regional Director”) and the Commissioner of the Texas Department of Banking (“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.

BOARD PARTICIPATION

2. Within 90 days from the effective date of this ORDER, the Bank’s Board of Directors shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank’s activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. The Bank’s Board

minutes shall document these reviews and approvals, including the nature of any dissenting directors.

STRATEGIC PLAN

3. (a) Within 90 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:

- (1) Goals for reducing problem assets;
- (2) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and
- (3) Operational goals, including plans for funding operations of the subsidiary, Citizens Mortgage Corporation.

(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 the Bank's 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 Bank's 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 the Bank's board of directors' meeting. Thereafter, the Bank shall implement the revised plan.

BUDGET AND PROFIT PLAN

4. (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 and a realistic, comprehensive budget for all categories of income and expense for calendar years 2009-2010. The plans 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 shall contain a description of the operating assumptions that form the basis for major protected income and expense components.

(b) Within 30 days from the end of each calendar quarter following completion of the profit plan and budget 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.

(c) 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.

CAPITAL MAINTENANCE

5. (a) Within 90 days after the effective date of this ORDER, the Bank shall achieve and maintain Tier I Capital equal to or greater than 7 percent of its average Total Assets after establishing an Allowance for Loan and Lease Losses as required herein. Within 180 days after the effective date of this ORDER, and for so long thereafter as this ORDER is outstanding, the Bank shall achieve and maintain Tier I Capital equal to or greater than 8 percent of its average Total Assets after establishing an Allowance for Loan and Lease Losses as required herein.

(b) If such ratio is less than 8 percent as determined 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 Tier I Capital of the Bank or to take other measures to bring the ratio to 8 percent. 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.

(c) After the Regional Director and the Commissioner respond to the plan, to the extent such measures have not previously been initiated, the Bank shall immediately initiate

measures detailed in the plan, to increase its Tier I Capital by an amount sufficient to bring the ratio to 8 percent. Such increase in Tier I Capital and any increase in Tier I 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 August 27, 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 August 27, 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.

(d) If all or part of the increase in Tier I 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 Tier I 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) 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 Rules and Regulations, 12 C.F.R. Part 325, App. A.

(g) 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.

ALLOWANCE FOR LOAN AND LEASE LOSSES
AND
AMENDED CALL REPORTS

6. (a) Within 90 days after the effective date of this ORDER, the Bank shall maintain a reasonable ALLL. Prior to the end of each calendar quarter, the Bank's board of directors shall review the adequacy of the Bank's Allowance for Loan and Lease Losses ("ALLL"). Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-accrual loans and prevailing and prospective economic conditions. The minutes of the Bank's board of directors' meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL.

(b) Within 90 days after the effective date of this ORDER, the Bank shall review Consolidated Reports of Condition and Income filed with the FDIC on or after June 30, 2008, and amend said reports if necessary to accurately reflect the financial condition of the Bank as of the date of each such report. In particular, such reports shall contain a reasonable ALLL. Reports filed after the effective date of this ORDER shall also accurately reflect the financial condition of the Bank as of the reporting date.

(c) Within 90 days after the effective date of this ORDER, the Bank must use Financial Accounting Standards Board Statements Numbers 5 and 114 for determining the Bank's allowance for loan and lease losses reserve adequacy. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The directorate must document with written reasons any decision not to require provisions for loan losses in the board minutes.

LOAN REVIEW REQUIREMENTS

7. (a) Within 90 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:

- (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.

CHARGE-OFF AND PLAN FOR REDUCTION OF CLASSIFIED ASSETS

8. (a) Within 90 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 as of August 27, 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 90 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 as of August 27, 2008. The plan shall 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) Timeframes for accomplishing the proposed actions.

The 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.

The plan shall be formulated so that, within 90 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 August 27, 2008 Report of Examination.

(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 August 27, 2008, 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.

(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.

REDUCTION OF CONCENTRATIONS

9. Within 90 days after the effective date of this ORDER, the Bank shall formulate a written plan to monitor each of the loan concentrations of credit identified in the Report of Examination as of August 27, 2008. The plan should address methods for measuring and monitoring the risks in the Bank's portfolio of Commercial Real Estate Loans. At a minimum, the plan shall include:

- (a) Dollar levels and percent of capital to which the Bank shall limit each concentration.
- (b) Timeframes for achieving the ratios identified in (a) above.
- (c) Procedures for monitoring the Bank's compliance with the plan.

(d) 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 respond, 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.

CORRECTION OF VIOLATIONS

10. (a) Within 90 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 90 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 90 days after the effective date of this ORDER, the Bank shall address any contraventions of policy noted in the Report of Examination.

DIVIDEND RESTRICTION

11. 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.

COMPLIANCE COMMITTEE

12. Within 90 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.

PROGRESS REPORTS

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.

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 the ORDER have been accomplished and the Regional Director and the Commissioner has/have released the Bank in writing from making additional reports.

This ORDER shall be binding upon the Bank, its successors and assigns, 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, superseded, or set aside by the FDIC and the Commissioner.

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

Pursuant to delegated authority.

Dated this 30th day of January 2009.

Thomas J. Dujenski
Regional Director
Dallas Region
Division of Supervision and Consumer Protection
Federal Deposit Insurance Corporation

Charles G. Cooper
Commissioner
Texas Department of Banking
Austin, Texas