

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

and

TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

_____)	
In the Matter of)	
)	CONSENT ORDER
)	
COMMUNITY STATE BANK)	
AUSTIN, TEXAS)	FDIC-10-494 b
)	
(Insured State Nonmember Bank))	COMMISSIONER ORDER No. 2010-041
_____)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Community State Bank, Austin, Texas (“Bank”), under 12 U.S.C. §1813(q).

The Texas Department of Banking (“Department”) is the appropriate state banking agency for the Bank, under Texas Finance Code, Title 3, Subtitle A, §§31.001 et. seq.

The Bank, by and through its duly elected and acting board of directors, has executed a “STIPULATION TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated September 9, 2010, that is accepted by the FDIC and the Banking Commissioner of Texas (“Commissioner”). With the STIPULATION, the Bank has consented, without admitting or denying any violations of law and/or regulations and any charges of unsafe or unsound banking practices relating to weaknesses in asset quality and liquidity, deterioration in capital protection and earnings, and deficiencies in management and oversight by the board of directors, to the issuance of this CONSENT ORDER (“ORDER”) by the Regional Director of the Dallas Regional Office (“Regional Director”) and the Commissioner.

Having determined that the requirements for issuance of an order under 12 U.S.C. §1818(b) and Texas Finance Code §§35.002, have been satisfied or waived, the FDIC and the Department hereby order that:

CAPITAL INCREASE AND MAINTENANCE

1. (a) Within 45 days after the effective date of this ORDER, the Bank shall achieve and maintain Tier 1 Capital of \$5,000,000 and no less than \$7,500,000 by December 29, 2010. While this ORDER is in effect, the Bank, after establishing an Allowance for Loan and Lease Losses, shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 9 percent of the Bank's Average Total Assets and shall maintain its Total Risk-Based Capital ratio equal to or greater than 12 percent of the Bank's Total Risk Weighted Assets. Any increase in the Bank's 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 April 19, 2010, by the directors and shareholders of the Bank by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to April 19, 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.

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

(c) Thereafter, the Bank shall immediately initiate measures detailed in the Capital Plan, to the extent such measures have not previously been initiated, to increase the Bank’s Tier 1 Capital by an amount sufficient to bring return the Bank’s capital to the higher of the dollar amounts required by paragraph 1(a) or the percentages required by paragraph 1(a) of this ORDER within 30 days after the Regional Director and the Commissioner respond to the Capital Plan.

(d) The Capital Plan must include a capital contingency plan in the event that the bank (i) fails to maintain the minimum capital ratios required by the ORDER, (ii) fails to submit an acceptable Capital Plan or (iii) fails to implement or adhere to a Capital Plan to which no written objection was provided by the Regional Director and the Commissioner. The capital contingency plan shall include a plan to sell or merge the Bank. The Bank shall implement the capital contingency plan upon written notice from the Regional Director and the Commissioner.

(e) 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 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 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.

(f) 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.

(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.

DIVIDEND RESTRICTION

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.

MANAGEMENT – BOARD SUPERVISION

3. Within 30 days after the effective date of this ORDER, the Bank's board of directors 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 of directors' minutes shall document the board's reviews and approvals, including the names of any dissenting directors.

MANAGEMENT – STAFFING STUDY

4. (a) Within 30 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:

- (1) A description of the work to be performed under the contract or engagement letter;
- (2) The responsibilities of the consultant;
- (3) An identification of the professional standards covering the work to be performed;
- (4) Identification of the specific procedures to be used when carrying out the work to be performed;
- (5) The qualifications of the employee(s) who are to perform the work;
- (6) The time frame for completion of the work;
- (7) Any restrictions on the use of the reported findings; and
- (8) 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:

- (1) Identification of both the type and number 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 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 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.

STRATEGIC PLAN

5. (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, capital adequacy, and earnings; and
- (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 and the Commissioner for review and comment. After consideration all such comments, the Bank shall approve the Strategic 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 after 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 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 of directors' meeting. Thereafter, the Bank shall implement the Revised Strategic Plan.

PROFIT PLAN

6. (a) Within 90 days after the effective date of this ORDER, and within the first 30 days of each calendar year thereafter, the board of directors shall develop a written profit plan ("Profit Plan") consisting of goals and strategies for improving the earnings of the Bank for each calendar year. The written Profit Plan shall include, at a minimum:

- (1) Identification of the major areas in, and means by, which the board of directors will seek to improve the Bank's operating performance;
- (2) Realistic and comprehensive budgets;
- (3) A budget review process to monitor the income and expenses of the Bank to compare actual figures with budgetary projections on not less than a quarterly basis; and
- (4) A description of the operating assumptions that form the basis for and support major projected income and expense components.

(b) Such written Profit Plan and any subsequent modification thereto shall be submitted to the Regional Director and the Commissioner for review and comment. Within 30 days after the receipt of any comment from the Regional Director and the Commissioner, the Bank's board of directors shall approve the written Profit Plan which approval shall be recorded in the minutes of the Bank's board of directors. Thereafter, the Bank, its directors, officers, and employees shall follow the written Profit Plan and/or any subsequent modification.

CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION

7. (a) Within 15 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 Department as a result of its examination of the Bank as of April 19, 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 60 days after the effective date of this ORDER, the Bank shall submit a written plan ("Classified Asset Reduction Plan") to the Regional Director and the Commissioner to reduce the remaining assets classified Doubtful and Substandard as of April 19, 2010. The Classified Asset Reduction Plan shall address each asset so classified with a balance of \$100,000 or greater and provide the following:

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

- (4) Marketing strategies for Other Real Estate Owned and other assets;
and
- (5) Time frames for accomplishing the proposed actions.

The Classified Asset Reduction Plan shall also contain provisions which require, at a minimum:

- (1) Review of the financial position of each such borrower, including the source of repayment, repayment ability, and alternate repayment sources;
- (2) Ensure independent value estimates on Other Real Estate Owned and other assets are obtained; and
- (3) 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 Reduction Plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the Classified Asset Reduction Plan shall contain a provision requiring the submission of monthly progress reports to the Bank's board of directors and a provision mandating a review by the Bank's board of directors.

(c) The Bank shall present the Classified Asset Reduction 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 Reduction Plan, including any requested modifications or amendments shall be adopted by the Bank's board of directors which approval shall be recorded in the minutes of the meeting of the Bank's board of directors. The

Bank shall then immediately initiate measures detailed in the Classified Asset Reduction Plan to the extent such measures have not been initiated.

(d) For purposes of the Classified Asset Reduction Plan, the reduction of adversely classified assets as of April 19, 2010 shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses 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 Department; 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 Department.

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 Department 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 Department as the result of its examination of the Bank, either in whole or in part, and is uncollected, unless the Bank's board of directors 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 of directors' meeting.

EXTERNAL LOAN REVIEW

9. (a) Within 45 days after the effective date of this ORDER, the Bank shall hire an external loan review consultant who is acceptable to the Regional Director and the Commissioner. Within 120 days after the effective date of this ORDER, the consultant shall review all relationships in excess of \$50,000; review and assess the Bank's internal loan review system, loan underwriting practices, loan administrative practices, and loan officer authority; review compliance with the loan policy; assess qualification and training needs of the loan committee; complete the external loan review and assessment of the Bank's internal loan review system; and provide a written report to the Bank of its findings, with a copy of the report furnished to the Regional Director and the Commissioner.

(b) Within 45 days after receipt of the consultant's report by the Bank, the Bank shall notify the Regional Director and the Commissioner in writing of actions it has taken and actions it proposes to take in response to the consultant's findings.

(c) Within 120 days after its original report, the consultant shall conduct a follow-up review to determine what actions, if any, the Bank has taken with respect to the findings contained in the consultant's original report and file a follow-up report with the Bank within 30 days after completion of the follow-up review, with a copy of the follow-up report furnished to the Regional Director and the Commissioner.

LOAN COMMITTEE AND LOAN REVIEW REQUIREMENTS

10. (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 at least quarterly. 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 25 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.

LOAN POLICY

11. (a) Within 60 days after the effective date of this ORDER, and annually thereafter, the board of directors of the Bank shall review the Bank's loan policy and procedures for effectiveness and, based upon this review, shall make all necessary revisions to the policy in order to strengthen the Bank's lending procedures and abate additional loan deterioration. The revised written loan policy shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion.

(b) The initial revisions to the Bank's loan policy required by this paragraph, at a minimum, shall include provisions:

- (1) Establishing review and monitoring procedures to ensure that all lending personnel receive a copy of the loan policy, that they 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;
- (2) 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;

- (3) Requiring loan committee review and monitoring of the status of repayment and collection of overdue and maturing loans, as well as all loans classified “Substandard” in the Report of Examination;
- (4) Requiring the establishment and maintenance of a loan grading system and internal loan watch list;
- (5) 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;
- (6) Requiring a non-accrual policy in accordance with the Federal Financial Institutions Examination Council’s Instructions for the Consolidated Reports of Condition and Income;
- (7) Requiring accurate reporting of past due loans to the Bank’s loan committee on at least a monthly basis;
- (8) 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;

- (9) Establishing review and monitoring procedures to ensure compliance with FDIC's regulation on appraisals pursuant to Part 323 of the FDIC's Rules and Regulations, 12 C.F.R. Part 323.
- (10) Establishing time frames for resolving overdrafts, waiving fees, and maximum overdraft amounts allowed;
- (11) Clarifying guidelines for requiring Phase 1 environmental reports for commercial real estate loans;
- (12) Establishing procedures for marketing Other Real Estate Owned properties; and
- (13) Establishing guidelines for timely recognition of loss through charge-off.

(c) The Bank shall submit the foregoing policy to the Regional Director and the Commissioner for comment. After the Regional Director and the Commissioner have responded to the policy, the Bank's board of directors shall adopt the policy as amended or modified by the Regional Director and the Commissioner. The policy will be implemented immediately to the extent that it is not already in effect at the Bank.

TECHNICAL EXCEPTIONS

12. (a) Within 60 days after the effective date of this ORDER, the Bank shall correct, or document the Bank's efforts to correct, the loan documentation exceptions listed in the Report of Examination as of April 19, 2010.

(b) Within 60 days after the effective date of this ORDER, the Bank shall implement a system of monitoring loan documentation exceptions on an ongoing basis and

implement procedures designed to reduce the occurrence of such loan documentation exceptions in the future.

CONCENTRATIONS – PLAN FOR REDUCTION

13. (a) Within 15 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 (“Concentration Reduction Plan”) to reduce each of the loan concentrations of credit identified in the Report of Examination as of April 19, 2010. Such Concentration Reduction Plan shall prohibit any additional advances that would increase the concentrations or create new concentrations and shall include, but not be limited to:

- (1) Dollar levels to which the Bank shall reduce each concentration;
- (2) Percentage of Tier 1 Capital to which the Bank shall reduce each concentration;
- (3) Time frames for reduction of each concentration; and
- (4) 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 Bank’s board of directors.

(b) For purposes of the Concentration Reduction Plan, “reduce” means to:

- (1) Charge-off;
- (2) Collect; or
- (3) Increase Tier 1 Capital.

(c) After the Regional Director and the Commissioner have responded to the Concentration Reduction Plan, the Bank’s board of directors shall adopt the Concentration

Reduction Plan as amended or modified by the Regional Director and the Commissioner. The Concentration Reduction Plan shall be implemented immediately to the extent that the provisions of the Concentration Reduction Plan are not already in effect at the Bank.

**ALLOWANCE FOR LOAN AND LEASE LOSSES
AND
AMENDED CALL REPORTS**

14. (a) Within 15 days after the effective date of this ORDER, the Bank shall make provisions to its Allowance for Loan and Lease Losses (“ALLL”) in an amount equal to at least \$330,000. The allowance should be funded by charges to current operating income, and should be calculated in accordance with generally accepted accounting standards and ALLL supervisory guidance. After the initial provision is made, the Bank shall thereafter 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 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 30 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 March 31, 2010, 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 30 days after the effective date of this ORDER, the Bank must use Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Numbers 450 and 310 (formerly Statements Numbers 5 and 114 respectively) 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.

LIQUIDITY/CONTINGENCY FUNDING PLANNING

15. (a) Within 15 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, contingency funding and asset/liability management. Annually thereafter, while this ORDER is in effect, the Bank shall review this Liquidity Plan for adequacy and, based upon such review, shall make necessary revisions to the Liquidity Plan to strengthen funds management procedures and maintain adequate provisions to meet the Bank’s liquidity needs. The initial Liquidity Plan shall include, at a minimum, provisions:

- (1) Establishing a reasonable range for its net non-core funding ratio as computed in the Uniform Bank Performance Report;
- (2) Identifying the source and use of borrowed and/or volatile funds;
- (3) Establishing lines of credit at correspondent banks, including the Federal Reserve Bank and/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;

- (4) 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;
- (5) Establishing a minimum liquidity ratio and defining how the ratio is to be calculated;
- (6) Establishing contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;
- (7) 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., brokered deposits, internet deposits, Fed funds purchased and other correspondent borrowings); and
- (8) Establishing procedures for reducing and 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).

(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 of directors' meeting. Thereafter, the Bank shall implement the Liquidity Plan.

EXTERNAL AUDITS

16. (a) The Bank shall cause an external audit of its 2010 financial statements and a review of its internal controls to be performed by an independent public accounting firm acceptable to the Regional Director and the Commissioner.

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

- (1) A description of the work to be performed under the engagement letter;
- (2) The responsibilities of the accounting firm;
- (3) An identification of the professional standards covering the work to be performed;
- (4) An identification of the specific procedures to be used when carrying out the work to be performed;
- (5) The qualifications of the employee(s) who are to perform the work;
- (6) The time frame for completion of the work;
- (7) Any restrictions on the use of the reported findings; and
- (8) A provision for unrestricted examiner access to work papers.

(c) While this ORDER is in effect, the Bank shall forward copies of any external audit reports it receives to the Regional Director and the Commissioner within 10 days after the Bank's receipt of such reports.

CORRECTION OF VIOLATIONS

17. (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.

COMPLIANCE COMMITTEE

18. 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.

SHAREHOLDER NOTIFICATION

19. 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.

PROGRESS REPORTS

20. (a) Within 30 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 of directors, 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.

The provisions of this ORDER shall not bar, stop or otherwise prevent the FDIC, the Department, 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 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 Department.

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

Dated this 9th day of September 2010.

Pursuant to delegated authority.

/s/
Kristie K. Elmquist
Acting Regional Director
Dallas Region
Division of Supervision and Consumer Protection
Federal Deposit Insurance Corporation

/s/
Charles G. Cooper
Commissioner
Texas Department of Banking