

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

_____	)	
In the Matter of	)	CONSENT ORDER
	)	
WESTBOUND BANK	)	
KATY, TEXAS	)	FDIC-10-668b
	)	
(Insured State Nonmember Bank)	)	COMMISSIONER ORDER No. 2010-055
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Westbound Bank, Katy, 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 November 12, 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 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 FDIC 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, the FDIC and the Commissioner hereby order that:

## STRATEGIC PLAN

1. (a) Within 90 days after the effective date of this ORDER, the Bank shall prepare and adopt an updated comprehensive 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 assets;
- (4) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings;
- (5) Formulation of a mission statement and the development of a strategy to carry out that mission; and,
- (6) Option to sell or merge the Bank in the event that the Bank fails to maintain a Tier 1 leverage capital ratio of 4.0 percent or greater, a Tier 1 risk-based capital ratio of 4.0 percent or greater, and a Total risk-based capital ratio of 8.0 percent or greater, as these ratios are defined in Part 325 of the FDIC Rules and Regulations, continuously for more than 90 days.

(c) The Bank shall submit the strategic plan to the FDIC Regional Director, Dallas Regional Office ("Regional Director") and the Commissioner for review and comment.

After consideration of 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 after the end of each calendar quarter following the effective date of this ORDER and approval of the strategic plan, 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 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.

### **CAPITAL MAINTENANCE**

2. (a) Within 90 days after the effective date of this ORDER and while this ORDER is in effect, the Bank, after establishing an Allowance for Loan and Lease Losses ("ALLL"), shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 9.0 percent of the Bank's Average Total Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than 13.0 percent of the Bank's Total Risk Weighted Assets.

(b) If any such capital ratios are less than required by the ORDER, as

determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the Department, 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 capital of the Bank or to take such other measures to bring all the capital ratios to the percentages required by this ORDER (“Capital Plan”). After the Regional Director and the Commissioner respond to the plan, the Bank’s board of directors shall adopt the plan, including any modifications or amendments requested by the Regional Director and the Commissioner.

(c) Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the Capital Plan, to increase its capital by an amount sufficient to bring all the Bank’s capital ratios to the percentages required by this ORDER within 60 days after the Regional Director and the Commissioner respond to the Capital Plan. Such increase in capital and any increase in 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 June 21, 2010, by the directors and/or shareholders of the Bank or by the Bank’s holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to June 21, 2010, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(d) If all or part of the increase in 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 to the extent necessary. 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.

(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's 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.

### **DIVIDEND RESTRICTION**

3. 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.

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

4. (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 June 21, 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 to the Regional Director and the Commissioner to reduce the remaining

assets classified Doubtful and Substandard as of June 21, 2010 (“Classified Asset Plan”). The Classified Asset Plan shall address each asset so classified with a balance of \$500,000 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; and
- (4) Timeframes for accomplishing the proposed actions.

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

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

In addition, the Bank’s Classified Asset Plan shall contain a schedule detailing the projected reduction of total classified assets as a percentage of the Bank’s Tier 1 Capital plus the Allowance for Loan and Lease Losses on a quarterly basis. Further, the Classified Asset Plan shall contain a provision requiring the submission of monthly progress reports to the Bank’s board of directors and a provision mandating a review by the Bank’s board of directors.

(c) The Bank shall present the Classified Asset Plan to the Regional Director and the Commissioner for review. Within 30 days after the Regional Director’s and the Commissioner’s response, the 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 plan to the extent such measures have not been initiated.

(d) For purposes of the Classified Asset Plan, the reduction of adversely classified assets as of June 21, 2010 shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's ALLL and may be accomplished by:

- (1) Charge-off;
- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the 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**

5. (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.

### **CONCENTRATION RISK MANAGEMENT**

6. Within 60 days, the Bank shall fully implement a risk management program, approved by the board of directors of the Bank, for identifying, measuring, monitoring, and controlling commercial real estate ("CRE") concentrations that fully complies with the Joint Interagency Policy Statement regarding *Concentrations in Real Estate Lending, Sound Risk Management Practices* issued on December 12, 2006. The program shall include the following elements:

(a) A CRE policy that establishes a reasonable level of risk, includes prudent guidelines, and incorporates an overall CRE lending strategy with specific CRE exposure limits and appropriate sub-limits measured as a percentage of total capital;

(b) Strategies for managing CRE on a portfolio-wide basis that includes contingency plans for reducing or mitigating concentrations under adverse CRE market conditions;

- (c) Management information systems (MIS) that are relevant to the institution's lending strategy, risk tolerances, and underwriting standards;
- (d) A periodically updated market analysis that provides the Board and management with information necessary to determine whether changes to the Bank's CRE lending strategies and policies are warranted;
- (e) Clear and measurable credit underwriting standards that reflect reasonable risk exposures toward CRE;
- (f) Pre- and post-funding credit analysis that evaluates the borrower's overall creditworthiness and the merits of the project itself;
- (g) Portfolio level stress testing or sensitivity analysis that quantifies the impact of changing economic conditions on asset quality, earnings, and capital; and,
- (h) An independent and effective credit risk review function.

#### **SMALL BUSINESS ADMINISTRATION LOAN PROGRAM**

7. (a) Within 90 days, the Bank shall prepare and adopt an updated Small Business Administration ("SBA") loan program that addresses the weaknesses outlined in the June 21, 2010 Report of Examination ("Report of Examination"), by ensuring that:

- (1) An adequate budget for the SBA loan program is prepared and compared against actual results on a periodic basis
- (2) Appropriate controls over general ledger posting and the accounting function are in place;

- (3) There is a clearly defined and appropriately designed compensation program for the SBA manager and department staff; and
- (4) The audit program includes sufficient periodic reviews of the SBA department.

(b) The Bank shall submit the updated SBA loan program to the Regional Director and the Commissioner for review and comment. After consideration of all such comments, the Bank shall approve the SBA loan program, which approval shall be recorded in the minutes of the Bank's board of directors' meeting. Thereafter, the Bank shall implement and follow the SBA loan program.

#### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

8. 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. The methodology for determining the Bank's ALLL adequacy must conform to generally accepted accounting principles. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The Bank's board of directors must document with written reasons any decision not to require provisions for loan losses in the board minutes.

## **PROFIT PLAN**

9. (a) Within the first 30 days of each calendar year end, while this Order is in effect, the Bank's board of directors shall formulate and submit to the Regional Director and the Commissioner for review and comment 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 any subsequent modification.

## **MANAGEMENT – BOARD SUPERVISION**

10. 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:

- (a) Reports of income and expenses;
- (b) New, overdue, renewed, insider, charged-off, delinquent, nonaccrued, and recovered loans;
- (c) Investment activities;
- (d) Operating policies; and
- (e) 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.

## **REDUCTION OF ADVERSELY CLASSIFIED LOANS TO INSIDERS**

11. Within 30 days after the effective date of this ORDER, the Bank shall prepare and submit to the Regional Director and the Commissioner for review and comment a written plan to eliminate the amount of loans or other extensions of credit advanced, directly or indirectly, to or for the benefit of Bank directors, executive officers, principal shareholders, or their related interests which were adversely classified in the Report of Examination as of June

21, 2010. For purposes of the plan, these terms shall be defined pursuant to Section 215.2 of Regulation O, 12 C.F.R. § 215.2. No new loans or other extensions of credit shall be granted to or for the benefit of such obligors without first providing the Regional Director and the Commissioner 30 days prior written notification of the anticipated action.

### **CORRECTION OF VIOLATIONS**

12. (a) Within 45 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 (“Violations”) or submit a plan for approval by the Regional Director and the Commissioner for elimination and/or correction of any Violations the Bank will be unable to eliminate or correct within that 45-day period. Thereafter, the Bank shall eliminate and/or correct any such remaining Violations within the deadlines set forth in the approved plan.

(b) Within 60 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 the contraventions of policy noted in the Report of Examination.

### **COMPLIANCE COMMITTEE**

13. Within 30 days after the effective date of this ORDER, the Bank’s board of directors shall establish a committee of the board of directors charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. At least two of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The committee shall report monthly to the full 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. The establishment of this committee shall not diminish the responsibility or liability of the entire board of directors of the Bank to ensure compliance with the provisions of this ORDER.

### **SHAREHOLDER NOTIFICATION**

14. 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**

15. 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 effective on the date of issuance.

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

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

Issued and made effective this 12th day of November, 2010.

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

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