

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

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In the Matter of	)	
	)	
	)	CONSENT ORDER
	)	
VALLIANCE BANK	)	
MCKINNEY, TEXAS	)	FDIC-11-105b
	)	
(Insured State Nonmember Bank)	)	COMMISSIONER ORDER NO. 2011-013
	)	

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The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Valliance Bank, McKinney, 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 April 20, 2011, 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 capital, asset quality, management, earnings, and liquidity, 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:

## **NEW BUSINESS LINES**

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

## **CAPITAL MAINTENANCE**

2. (a) Within 10 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, shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 9 percent of the Bank's Average Total Assets; shall maintain its Tier 1 Risk-Based Capital ratio equal to or greater than 11 percent of the Bank's Total Risk-Weighted Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than 13 percent of the Bank's Total Risk Weighted Assets.

(b) If any such capital ratios are less than required by the ORDER, as determined as of the date of any Report of Condition and Income ("Call Report") 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 Bank's Tier 1 Capital of the Bank or to take such 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 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 plan, to increase its Tier 1 Capital by an amount sufficient to bring all the Bank's capital ratios to the percentages required by this

ORDER within 10 days after the Regional Director and the Commissioner respond to the plan. Such increase in Tier 1 Capital and any increase in Tier 1 Capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or
- (2) The direct contribution of cash subsequent to November 1, 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 November 1, 2010, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(d) If all or part of the increase in Tier 1 Capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's board 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.

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

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

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

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

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

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

### **LOAN REVIEW AND PROBLEM LOAN IDENTIFICATION**

3. (a) The Bank's board of directors shall within sixty (60) days employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans.

(b) Within ninety (90) days, the board of directors shall establish an effective, independent, and on-going loan review system to review, at least semi-annually, the Bank's loans to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the board of directors after each review. Such reports shall include, at a minimum, conclusions regarding:

- (1) The overall quality of the loan portfolio;
- (2) The identification, type, rating, and amount of problem loans;
- (3) The identification and amount of delinquent loans;
- (4) Credit and collateral documentation exceptions;
- (5) The identification and status of credit related violations of law, rules, or regulations;

- (6) Loans not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending policies;
- (7) The identity of the loan officer who originated each loan reported in accordance with items (1) through (6) of Provision 3 (b);
- (8) Concentrations of credit; and
- (9) Loans to executive officers, directors, principal shareholders (and their related interests) of the Bank.

(c) Within 90 days, the Bank's board of directors shall develop, implement, and thereafter ensure Bank adherence to a written program providing for independent review of problem loans in the Bank's loan portfolio for the purpose of monitoring portfolio trends, on at least a quarterly basis. The program shall require quarterly reports to the board of directors. At a minimum the program shall provide for an independent reviewer's assessment of the Bank's:

- (1) Monitoring systems for early problem loan identification to assure the timely identification and rating of loans based on lending officer submissions;
- (2) System for monitoring compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and,
- (3) System for monitoring the adequacy of credit and collateral documentation.

(d) The Bank's board of directors shall evaluate the internal loan and lease review reports and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the reports.

(e) A copy of the reports submitted to the board of directors, as well as documentation of the actions taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

(f) Within ninety (90) days, the board of directors shall develop, implement, and thereafter ensure Bank adherence to systems which provide for effective monitoring of early problem loan identification to assure the timely identification and rating of loans and leases, based on lending officer submissions.

(g) The board of directors shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the programs and systems developed pursuant to this provision.

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

4. (a) Within 30 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 volume of classified assets as of November 1, 2010, and thereafter. The plan shall address each asset so classified with a balance of \$250,000 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) Time frames 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.

In addition, the Bank's plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the 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.

(b) 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 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.

(c) For purposes of the plan, the reduction of adversely classified assets as of November 1, 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 Commissioner; or
- (4) Increase in the Bank's Tier 1 Capital.

(d) 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 examination conducted by the FDIC or the Department.

### **MANAGEMENT**

5. (a) The Bank shall have and retain qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities at the Bank. The qualifications of management personnel shall be evaluated on their ability to:

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

(b) While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner in writing of any changes in management. The notification must

include the name(s) and background(s) of any replacement personnel and must be provided 30 days prior to the individual(s) assuming the new position(s).

### **CONCENTRATIONS – PLAN FOR REDUCTION**

6. 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 effectively reduce its concentrations in commercial real estate (“CRE”) loans and to comply fully with the Joint Interagency Policy Statement regarding Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices issued on December 12, 2006.

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

7. Within 30 days after the effective date of this ORDER, the Bank must use FASB Accounting Standards Codification (“ASC”) Topic 310, formerly known as Financial Accounting Standards Board Statements (“FASB”) Number 114, and ASC Subtopic 450 - 20 (formerly known as FASB 5) 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 Board of Directors must document with written reasons any decision not to require provisions for loan losses in the board minutes.

### **BUDGET AND PROFIT PLAN**

8. (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 the remainder of calendar year 2011 and for calendar years 2012, 2013, and 2014. The plan required by this paragraph shall contain formal goals and strategies, be consistent with sound banking practices, improve the Bank's overall earnings and net interest income, and shall contain a description of the operating assumptions that form the basis for major projected income and expense components.

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

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

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

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

Thereafter, the Bank shall implement and follow the plan.

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

9. Within 45 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 to improve liquidity by reducing the Bank's reliance on non-core funding sources such as internet deposits and reducing the loan-to-deposit ratio to an acceptable level. 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. The initial plan shall include, at a minimum, a provision limiting the Bank's ratio of total loans to total deposits to not more than 85 percent.

## **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

10. (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.

### **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 30 days after the effective date of this ORDER, the Bank's board of directors shall establish a subcommittee of the board of directors, which may be the Board of Directors itself, charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. If a subcommittee is established, it shall report monthly to the entire board of directors of the Bank, and any such 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**

13. 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**

14. 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 has released the Bank in writing from making additional 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 by the FDIC and Commissioner.

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.

This order is signed by the FDIC Dallas Regional Director, pursuant to delegated authority.

Issued and made effective this 21st day of April 2011.

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

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