

UNITED STATES OF AMERICA
BEFORE THE
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

STATE OF TEXAS
COMMISSIONER OF BANKING
AUSTIN, TEXAS

Written Agreement by and among

TEXAS COASTAL BANK
Pasadena, Texas

FEDERAL RESERVE BANK OF DALLAS
Dallas, Texas

and

BANKING COMMISSIONER OF THE
TEXAS DEPARTMENT OF BANKING
Austin, Texas

Docket Nos. 11-078-WA/RB-SM
Commissioner Order 2011-025

WHEREAS, in recognition of their common goal to maintain the financial soundness of Texas Coastal Bank, Pasadena, Texas (the “Bank”), a state-chartered bank that is a member of the Federal Reserve System, the Bank, the Federal Reserve Bank of Dallas (the “Reserve Bank”), and the Banking Commissioner (the “Commissioner”) of the Texas Department of Banking (the “Department”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on July 29, 2011, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing John H. Moon, Jr. to enter into this Agreement on behalf of the Bank, and consenting to compliance with each

and every provision of this Agreement by the Bank and its institution-affiliated parties, as defined in section 3(u) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u)).

NOW, THEREFORE, the Bank, the Reserve Bank, and the Commissioner agree as follows:

Board Oversight

1. Within 60 days of this Agreement, the board of directors of the Bank shall submit to the Reserve Bank and the Commissioner a written plan to strengthen board oversight of the management and operations of the Bank and to ensure that the Bank is operated in a safe and sound manner. The plan shall, at a minimum, address, consider, and include:

(a) The actions that the board of directors will take to improve the Bank’s condition and maintain effective control over, and supervision of, the Bank’s senior management and major operations and activities, including but not limited to: credit risk management; lending and credit administration; loan grading and loan review; capital; and earnings;

(b) the responsibility of the board of directors to monitor management’s adherence to approved Bank policies and procedures, and applicable laws and regulations; and

(c) a description of the information and reports that will be regularly reviewed by the Bank’s board of directors in its oversight of the operations and management of the Bank, including information on the Bank’s problem assets,

concentrations of credit, allowance for loan and lease losses (“ALLL”), capital, and earnings.

Credit Risk Management

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to strengthen credit risk management practices. The plan shall, at a minimum, address, consider, and include:

- (a) Procedures to periodically review and revise individual and portfolio risk exposure limits to address changes in market conditions;
- (b) strategies to minimize credit losses;
- (c) stress testing of the loan portfolio;
- (d) enhanced monitoring by management and reporting to the board of directors of commercial real estate lending concentrations to include loan types, property types, and geographical locations; and
- (e) procedures and controls to identify, monitor, limit, and manage concentrations of credit that are consistent with the Interagency Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices, dated December 12, 2006 (SR 07-1).

Lending and Credit Administration

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner acceptable revised written lending and credit administration policies and procedures that shall, at a minimum, address, consider, and include:

(a) Standards for a written cash flow analysis of the borrower and any guarantor at loan origination, and the conditions under which updated financial information and periodic credit analysis are required;

(b) standards for documenting credit analysis;

(c) enhanced procedures for conducting appraisals and evaluations including, but not limited to, when loans are extended or renewed, when new funds are advanced, or when changes in market conditions or the condition of the collateral occur; and for other real estate owned (“OREO”);

(d) procedures to identify, report, and correct, loan documentation exceptions; and

(e) measures to ensure adequate staffing of the lending and credit administration functions.

Loan Grading and Loan Review

4. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the effective grading of the Bank’s loan portfolio. The program shall provide for policies, procedures, and processes for the timely and ongoing grading of loans. The program shall, at a minimum, address, consider, and include:

(a) Standards and criteria for assessing the credit quality of loans, including a discussion of the factors used to assign appropriate risk grades to loans;

(b) procedures for the early identification of problem loans;

(c) procedures to re-evaluate the grading of loans in the event of material changes in the borrower’s performance or the value of the collateral;

(d) procedures to evaluate the grading of all loans assigned less than a pass grade at least quarterly;

(e) designation of the person(s) responsible for the grading of loans;

(f) controls to ensure staff's consistent application and adherence to the loan grading system; and

(g) a mechanism for reporting to senior management and the board of directors, at least monthly, that at a minimum: summarizes the Bank's loan grades; describes trends in asset quality; identifies the loans that are nonperforming, adversely graded, or identified as needing special attention; describes collateral, collateral value, and date of valuation; and describes the actions taken, or to be taken, by management for strengthening of the quality of any such loans.

5. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the effective, ongoing review of the Bank's loan portfolio by a qualified independent party or by qualified staff that is independent of the Bank's lending function. The program shall provide for policies and procedures for the timely identification and categorization of problem loans, and processes to detect weaknesses in the Bank's loan approval, monitoring, and grading process. The program shall, at a minimum, address, consider, and include:

(a) The scope, depth, and frequency of the independent loan review;

(b) clearly defined responsibilities for the loan review function; and

(c) an objective and timely assessment of the overall quality of the loan portfolio and the accuracy of assigned loan grades.

6. The board of directors, or a committee thereof, shall evaluate the loan review report(s) and take appropriate steps to ensure that management takes prompt action to address findings noted in the report(s).

Asset Improvement

7. The Bank shall not, directly or indirectly, extend, renew, or restructure any credit to or for the benefit of any borrower, including any related interest of the borrower, whose loans or other extensions of credit are criticized in the report of examination conducted by the Reserve Bank and the Department that commenced on February 7, 2011 (the "Report of Examination"), or in any subsequent report of examination, without the prior approval of a majority of the full board of directors. The board of directors shall document in writing the reasons for the extension of credit, renewal, or restructuring, specifically certifying that: (i) the Bank's risk management policies and practices for loan workout activity are acceptable; (ii) the extension of credit is necessary to improve and protect the Bank's interest in the ultimate collection of the credit already granted and maximize its potential for collection; (iii) the extension of credit reflects prudent underwriting based on reasonable repayment terms and is adequately secured; and all necessary loan documentation has been properly and accurately prepared and filed; (iv) the Bank has performed a comprehensive credit analysis indicating that the borrower has the willingness and ability to repay the debt as supported by an adequate workout plan, as necessary; and (v) the board of directors or its designated committee reasonably believes that the extension of credit will not impair the Bank's interest in obtaining repayment of the already outstanding credit and that the extension of credit or renewal will be repaid according to its terms. The written certification shall be made a part of the minutes of the

meetings of the board of directors or its committee, as appropriate, and a copy of the signed certification, together with the credit analysis and related information that was used in the determination, shall be retained by the Bank in the borrower's credit file for subsequent supervisory review.

8. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan or other asset in excess of \$100,000, including OREO, that (i) is past due as to principal or interest more than 90 days as of the date of this Agreement; (ii) is on the Bank's problem loan list; or (iii) was adversely classified in the Report of Examination.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$100,000, including OREO, becomes past due as to principal or interest for more than 90 days, is on the Bank's problem loan list, or is adversely classified in any subsequent report of examination of the Bank, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve the Bank's position on such loan or asset.

(c) Within 30 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Reserve Bank and the Commissioner to update each asset improvement plan, which shall include, at a minimum, the carrying value of the loan or other asset and changes in the nature and value of supporting collateral, along with a copy of the Bank's current problem loan list,

a list of all loan renewals and extensions without full collection of interest in the last quarter, and past due/non-accrual report.

Allowance for Loan and Lease Losses

9. (a) Within 10 days of this Agreement, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified “loss” in the Report of Examination that have not been previously collected in full or charged off. Thereafter the Bank shall, within 30 days from the receipt of any federal or state report of examination, charge off all assets classified “loss” unless otherwise approved in writing by the Reserve Bank and the Commissioner.

(b) The Bank shall take immediate steps to maintain a sound process for determining, documenting, and recording an adequate ALLL in accordance with regulatory reporting instructions and relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 (SR 01-17 (Sup)) and December 13, 2006 (SR 06-17).

(c) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the maintenance of an adequate ALLL. The program shall include policies and procedures to ensure adherence to the revised ALLL methodology and provide for periodic reviews and updates to the ALLL methodology, as appropriate. The program shall also provide for a review of the ALLL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ALLL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions. The board of directors shall maintain written documentation of its review, including the factors

considered and conclusions reached by the Bank in determining the adequacy of the ALLL. During the term of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner, within 30 days after the end of each calendar quarter, a written report regarding the board of directors' quarterly review of the ALLL and a description of any changes to the methodology used in determining the amount of ALLL for that quarter.

Capital Plan

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include the Bank's current and future capital requirements, including:

(a) Compliance with the Capital Adequacy Guidelines for State Member Banks: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and B of Regulation H of the Board of Governors (12 C.F.R. Part 208, App. A and B);

(b) the volume of adversely classified assets;

(c) the adequacy of the loan loss reserve;

(d) any planned asset growth;

(e) the anticipated level of retained earnings;

(f) anticipated and contingent liquidity needs; and

(g) the source and timing of additional funds to fulfill the future

capital and loan loss reserve needs of the Bank.

11. The Bank shall notify the Reserve Bank and the Commissioner, in writing, no more than 30 days after the end of any quarter in which any of the Bank's capital ratios fall below the approved plan's minimum ratios. Together with the notification, the

Bank shall submit an acceptable written plan that details the steps that the Bank will take to increase their capital ratios to or above the approved plan's minimums.

Strategic Plan and Budget

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written strategic plan for the remainder of 2011 to improve the Bank's earnings and overall condition. The plan, at a minimum, shall provide for or describe:

- (i) a realistic and comprehensive revised budget for calendar remainder of calendar year 2011, including income statement and balance sheet projections;
- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;
- (iii) a fully funded ALLL; and
- (iv) a budget review process that analyzes and reports budgeted versus actual income and expense performance.

(b) Upon adoption, the Bank shall implement the business plan. Bank management shall report monthly to the Bank's board of directors on progress made implementing the business plan. The written monthly report shall compare actual financial results to those projected in the business plan. In the event that revisions to the plan are necessary, such revisions shall be forwarded to the Reserve Bank and the Commissioner within 15 days of adoption.

(c) A business plan and budget for each calendar year subsequent to

2011 shall be submitted to the Reserve Bank and the Commissioner at least 30 days prior to the beginning of that calendar year.

Dividends and Distributions

13. (a) The Bank shall not declare or pay any dividends without the prior written approval of the Reserve Bank, the Director of the Division of Banking Supervision and Regulation of the Board of Governors (the “Director”), and the Commissioner.

(b) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date. All requests shall contain, at a minimum, current and projected information, as appropriate, on the Bank’s capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. The Bank must also demonstrate that the requested declaration or payment of dividends is consistent with the Board of Governors’ Policy Statement on the Payment of Cash Dividends by State Member Banks and Bank Holding Companies, dated November 14, 1985 (Federal Reserve Regulatory Service, 4-877 at page 4-323).

Regulatory Reports

14. The Bank shall immediately take steps to ensure that all required regulatory reports filed with the Federal Reserve and the FFIEC accurately reflect the Bank’s financial condition and are filed in accordance with the applicable instructions for preparation.

Compliance with Laws and Regulations

15. The Bank shall immediately take all necessary steps to correct all violations of law and regulation cited in the Report of Examination. In addition, the

board of directors of the Bank shall take the necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

16. In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, the Bank shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*) and also provide written notice to the Commissioner. The Bank shall not appoint any individual to the Bank's board of directors or employ or change the responsibilities of any individual as a senior executive officer if the Reserve Bank or the Department notifies the Bank of disapproval within the time limits prescribed by Subpart H of Regulation Y.

17. The Bank shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

18. (a) Within 10 days of this Agreement, the board of directors shall appoint a compliance committee (the "Compliance Committee") to monitor and coordinate the Bank's compliance with the provisions of this Agreement. The Compliance Committee shall include outside directors who are not executive officers of the Bank, as defined in sections 215.2(e)(1) and 215.2(m)(1) of Regulation O of the Board of Governors (12 C.F.R. §§ 215.2(e)(1) and 215.2(m)(1)). At a minimum, the Compliance Committee shall meet at least monthly, keep detailed minutes of each meeting, and report its findings to the boards of directors of the Bank.

(b) Within 30 days after the end of each calendar quarter following the date of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof.

Approval and Implementation of Plans, Policies, Procedures, and Programs

19. (a) The Bank shall submit written plans, policies, procedures, and programs that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 2, 3, 4, 5, 8(a), 8(b), 9(c), 10 and 11 of this Agreement.

(b) Within 10 days of approval by the Reserve Bank and the Commissioner, the Bank shall adopt the approved plans, policies, procedures, and programs. Upon adoption, the Bank shall promptly implement the approved plans, policies, procedures, and programs and thereafter fully comply with them.

(c) During the term of this Agreement, the approved plans, policies, procedures, and programs shall not be amended or rescinded without the prior written approval of the Reserve Bank and the Commissioner.

Communications

21. All communications regarding this Agreement shall be sent to:

(a) Mr. Earl Anderson
Vice President
Federal Reserve Bank of Dallas
2200 N. Pearl Street
Dallas, Texas 75201

(b) Mr. Charles G. Cooper
Banking Commissioner
Texas Department of Banking
2601 North Lamar Boulevard
Austin, Texas 78705

(c) Mr. John H. Moon, Jr.
President
Texas Coastal Bank
6731 Spencer Highway
Pasadena, Texas 77505

Miscellaneous

22. Notwithstanding any provision of this Agreement, the Reserve Bank and the Commissioner may, in their sole discretion, grant written extensions of time to the Bank to comply with any provision of this Agreement.

23. The provisions of this Agreement shall be binding upon the Bank, and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

24. Each provision of this Agreement shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank and the Commissioner.

25. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, the Department, or any other federal or state agency from taking any other action affecting the Bank, or any of its current or former institution-affiliated parties and their successors and assigns.

26. The Commissioner having determined that the requirements for issuance of an order under Texas Finance Code § 35.002 have been met, this Agreement is deemed to be a consent order issued by the Commissioner under Texas Finance Code §§ 35.002. Without admitting or denying any charges of unsafe and unsound banking

practices, the Bank consents to deeming this Agreement to be a consent order. The Bank hereby waives all of its rights regarding an order under Texas Finance Code §§ 35.002, 35.004, and 35.009, including requirements for issuance and service of an order under Texas Finance Code § 35.002, the right to a hearing under Texas Finance Code § 35.004, all defenses, and review of such order by a state agency, commission, or state or federal court.

27. Pursuant to section 50 of the FDI Act (12 U.S.C. § 1831aa), this Agreement is enforceable by the Board of Governors under section 8 of the FDI Act (12 U.S.C. § 1818). This Agreement is enforceable by the Commissioner as a final, non-appealable, and immediately enforceable order pursuant to the provisions of Texas Finance Code § 35.009 and other provisions of Texas law.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 4th day of August, 2011.

TEXAS COASTAL BANK

FEDERAL RESERVE BANK
OF DALLAS

By: /s/ John H. Moon, Jr.
John H. Moon, Jr.
President

By: /s/ Ear Anderson
Earl Anderson
Vice President

TEXAS DEPARTMENT
OF BANKING

By: /s/ Charles G. Cooper
Charles G. Cooper
Banking Commissioner