

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

STATE OF TEXAS
DEPARTMENT OF BANKING
AUSTIN, TEXAS

Written Agreement by and among

LEGACYTEXAS GROUP, INC.
Plano, Texas

LEGACYTEXAS BANK
Plano, Texas

FEDERAL RESERVE BANK OF DALLAS
Dallas, Texas

and

TEXAS DEPARTMENT OF BANKING
Austin, Texas

Docket Nos. 09-100-WA/RB-HC
09-100-WA/RB-SM

WHEREAS, in recognition of their common goal to maintain the financial soundness of LegacyTexas Group, Inc., Plano, Texas (“LegacyTexas”), a registered bank holding company, and its subsidiary bank, LegacyTexas Bank, Plano, Texas (the “Bank”), a state chartered bank that is a member of the Federal Reserve System, LegacyTexas, the Bank, the Federal Reserve Bank of Dallas (the “Reserve Bank”), and the Texas Department of Banking (the “Commissioner”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on August 13, 2009, LegacyTexas’s and the Bank’s boards of directors, at duly constituted meetings, adopted resolutions authorizing and directing George A. Fisk, Vice

Chairman of Legacy Texas and Chief Executive Office of the Bank, to consent to this Agreement on behalf of Legacy Texas and the Bank, respectively, and consenting to compliance with each and every applicable provision of this Agreement by Legacy Texas, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)).

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

Board Oversight

1. Within 60 days of this Agreement, the Bank’s board of directors shall submit to the Reserve Bank and the Commissioner a written plan to strengthen board oversight of the management and operations of the Bank. 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 major operations and activities, including but not limited to, credit risk management, credit administration, processes to mitigate risks associated with credit concentrations, and earnings;

(b) the responsibility of the board of directors to monitor management’s adherence to approved Bank policies and procedures, and to require management to document exceptions thereto;

(c) measures to ensure Bank staff’s adherence to approved policies and procedures; and

(d) a description of the information and reports that will be regularly reviewed by the board of directors in its oversight of the operations and management of the Bank,

including information on the Bank's adversely classified assets, other real estate owned ("OREO"), allowance for loan and lease losses ("ALLL"), capital, earnings, and liquidity.

Lending and Credit Administration

2. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan to improve lending and credit administration practices that shall, at a minimum, address, consider, and include:

- (a) Appropriate controls on loan draws, including a description of the documentation necessary to support the draw;
- (b) a policy for the appropriate use of interest reserves;
- (c) procedures to limit the number of credit policy exceptions and ensure that staff comply with the Bank's credit policies;
- (d) an enhanced internal loan grading process that includes, but is not limited to, increased frequency of loan reviews;
- (e) stress testing of loan portfolio segments; and
- (f) procedures for the accurate valuation of OREO.

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable plan to reduce the levels of the Bank's concentrations of credit identified in the report of the examination of the Bank conducted jointly by the Reserve Bank and the Commissioner that concluded on April 23, 2009 (the "Report of Examination"). The plan shall include, but not be limited to, a schedule for and the means by which the Bank will reduce the levels of concentrations, and timeframes for achieving the reduced levels.

Asset Improvement

4. (a) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, who is obligated to the Bank in any manner on any extension of credit or portion thereof that has been charged off by the Bank or classified, in whole or in part, “loss” in the Report of Examination or in any subsequent report of examination, as long as such credit remains uncollected.

(b) The Bank shall not, directly or indirectly, extend or renew any credit to or for the benefit of any borrower, including any related interest of the borrower, whose extension of credit has been classified “doubtful” or “substandard” in the Report of Examination or in any subsequent report of examination, without the prior approval of the Bank’s board of directors. The board of directors shall document in writing the reasons for the extension of credit or renewal, specifically certifying that: (i) the extension of credit is necessary to protect the Bank’s interest in the ultimate collection of the credit already granted or (ii) the extension of credit is in full compliance with the Bank’s written loan policy, is adequately secured, and a thorough credit analysis has been performed indicating that the extension or renewal is reasonable and justified, all necessary loan documentation has been properly and accurately prepared and filed, the extension of credit will not impair the Bank’s interest in obtaining repayment of the already outstanding credit, and the board of directors reasonably believes 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 board of directors meetings, 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. For

purposes of this Agreement, the term “related interest” is defined as set forth in section 215.2(n) of Regulation O of the Board of Governors (12 C.F.R. § 215.2(n)).

5. (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 \$1 million, 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. In developing the plan for each loan, the Bank shall, at a minimum, review, analyze, and document the financial position of the borrower, including source of repayment, repayment ability, and alternative repayment sources, as well as the value and accessibility of any pledged or assigned collateral, and any possible actions to improve the Bank’s collateral position.

(b) Within 30 days of the date that any additional loan or other asset in excess of \$1 million, 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, extension report, and past due/non-accrual report. The board of

directors shall review the progress reports before submission to the Reserve Bank and shall document the review in the minutes of the board of directors' meetings.

Allowance for Loan and Lease Losses

6. (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) Within 60 days of this Agreement, the Bank shall review and revise its ALLL methodology consistent with 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), and the findings and recommendations regarding the ALLL set forth in the Report of Examination, and submit a description of the revised methodology to the Reserve Bank and the Commissioner. The revised ALLL methodology shall be designed to maintain an adequate ALLL and shall address, consider, and include, at a minimum, the reliability of the Bank's loan grading system, the volume of criticized loans, concentrations of credit, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including adversely classified loans, and the impact of market conditions on loan and collateral valuations and collectibility.

(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 Bank's 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

7. Within 60 days of this Agreement, LegacyTexas and the Bank shall submit to the Reserve Bank and the Commissioner an acceptable joint written plan to maintain sufficient capital at LegacyTexas on a consolidated basis, and the Bank as a separate legal entity on a stand-alone basis. The plan shall, at a minimum, address, consider, and include:

(a) LegacyTexas's current and future capital requirements, including compliance with the Capital Adequacy Guidelines for Bank Holding Companies: Risk-Based Measure and Tier 1 Leverage Measure, Appendices A and D of Regulation Y of the Board of Governors (12 C.F.R. Part 225, App. A and D);

(b) the Bank's current and future capital requirements, including 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);

(c) the adequacy of the Bank's capital, taking into account the volume of classified credits, concentrations of credit, ALLL, current and projected asset growth, and projected retained earnings;

(d) the source and timing of additional funds to fulfill LegacyTexas's and the Bank's future capital requirements; and

(e) the requirements of section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)) that LegacyTexas serve as a source of strength to the Bank.

8. LegacyTexas and the Bank shall notify the Reserve Bank and the Commissioner, in writing, no more than 30 days after the end of any calendar quarter in which any of LegacyTexas's consolidated capital ratios or the Bank's capital ratios (total risk-based, Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, LegacyTexas and the Bank shall submit an acceptable written plan that details the steps LegacyTexas or the Bank, as appropriate, will take to increase LegacyTexas's or the Bank's capital ratios to or above the approved capital plan's minimums.

Liquidity/Funds Management

9. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written plan designed to improve management of the Bank's liquidity position and funds management practices. The plan shall, at a minimum, address, consider, and include:

(a) Measures to enhance the monitoring, measurement, and reporting of the Bank's liquidity to the board of directors;

- (b) measures to reduce reliance on brokered deposits; and
- (c) specific liquidity targets and parameters, and the maintenance of sufficient

liquidity to meet contractual obligations and unanticipated demands.

Strategic Plan and Budget

10. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a strategic plan to improve the Bank's financial condition and earnings, and a budget for the remainder of 2009. The written plan and budget shall, at a minimum, provide for or describe:

- (i) identification of the major areas where, and means by which, the board of directors and management shall seek to improve the Bank's earnings and operating performance;

- (ii) a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components; and

- (iii) a realistic and comprehensive budget for the remainder of 2009, including income statement and balance sheet projections.

(b) A strategic plan and budget for each calendar year subsequent to 2009 shall be submitted to the Reserve Bank and the Commissioner at least 30 days prior to the beginning of that calendar year.

Dividends

11. (a) LegacyTexas and 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) LegacyTexas shall not take any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank and the Commissioner.

(c) LegacyTexas and its nonbank subsidiaries shall not make any distributions of interest, principal, or other sums on subordinated debentures or trust preferred securities without the prior written approval of the Reserve Bank, the Director, and the Commissioner.

(d) All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date, proposed distribution on subordinated debentures, and required notice of deferral on trust preferred securities. All requests shall contain, at a minimum, current and projected information, as appropriate, on the parent's capital, earnings, and cash flow; the Bank's capital, asset quality, earnings and ALLL needs; and identification of the sources of funds for the proposed payment or distribution. For requests to declare or pay dividends, LegacyTexas and the Bank, as appropriate, 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).

Debt and Stock Redemption

12. (a) LegacyTexas shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Reserve Bank and the Commissioner. All requests for prior written approval shall contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

(b) LegacyTexas shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank and the Commissioner.

BSA/AML Compliance

13. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Department an acceptable written plan to correct the criticisms detailed in the Report of Examination of the Bank's compliance with all applicable federal laws, rules, and regulations relating to anti-money laundering ("AML"), including the Bank Secrecy Act ("BSA") (31 U.S.C. § 5311 *et seq.*); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and the AML requirements of Regulation H of the Board of Governors (12 C.F.R. § 208.63).

Compliance with Laws and Regulation

14. (a) 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, LegacyTexas and 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.*).

(b) LegacyTexas and 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 FDIC's regulations (12 C.F.R. Part 359).

Compliance with the Agreement

15. (a) Within 10 days of this Agreement, the boards of directors of LegacyTexas and the Bank shall appoint a joint committee (the "Compliance Committee") to monitor and coordinate LegacyTexas's and the Bank's compliance with the provisions of this Agreement.

The Compliance Committee shall include a majority of outside directors who are not executive officers or principal shareholders of LegacyTexas and 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 LegacyTexas and 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 and Program

16. (a) The Bank and, as applicable, LegacyTexas shall submit written plans and a program that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 2, 3, 5, 6(c), 7, 9, and 13 of this Agreement.

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

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

Communications

17. All communications regarding this Agreement shall be sent to:
 - (a) Mr. Earl Anderson
Vice President
Federal Reserve Bank of Dallas
P. O. Box 655906
Dallas, Texas 75201
 - (b) Mr. Charles G. Cooper
Commissioner
Texas Department of Banking
2601 North Lamar Boulevard
Austin, Texas 78705
 - (c) Mr. George A. Fisk
Vice Chairman of the Board
LegacyTexas Group, Inc.
Chief Executive Officer
LegacyTexas Bank
5000 Legacy Drive
Plano, Texas 75024

Miscellaneous

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

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

20. 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.

21. The provisions of this Agreement shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the Commissioner, or any other federal or state agency

from taking any other action affecting LegacyTexas, the Bank, or any of their current or former institution-affiliated parties and their successors and assigns.

22. 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).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 18th day of August, 2009.

LEGACYTEXAS GROUP, INC.

FEDERAL RESERVE BANK OF
DALLAS

By: /s/ George A. Fisk
George A. Fisk
Vice Chairman

By: /s/ Earl Anderson
Earl Anderson
Vice President

LEGACYTEXAS BANK

TEXAS DEPARTMENT OF BANKING

By: /s/ George A. Fisk
George A. Fisk
Chief Executive Officer

By: /s/ Robert Bacon
Robert Bacon
Deputy Commissioner