

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

_____)	
Written Agreement by and between)	
)	
SURETY CAPITAL CORPORATION)	Docket No. 05-028-WA/RB-HC
Fort Worth, Texas)	
)	
and)	
)	
FEDERAL RESERVE BANK)	
OF DALLAS)	
Dallas, Texas)	
_____)	

WHEREAS, in recognition of their common goal to restore and maintain the financial soundness of Surety Capital Corporation, Fort Worth, Texas (“Surety”), a registered bank holding company that owns and controls Surety Bank, Fort Worth, Texas (the “Bank”), a state chartered nonmember bank, Surety and the Federal Reserve Bank of Dallas (the “Reserve Bank”) have mutually agreed to enter into this Written Agreement (the “Agreement”); and

WHEREAS, on October 10, 2005, the board of directors, at a duly constituted meeting, adopted a resolution authorizing and directing Richard Abrams to enter into this Agreement on behalf of Surety and consenting to compliance by Surety and its 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)), with each and every provision of this Agreement.

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

Capital

1. Within 45 days of this Agreement, Surety shall submit to the Reserve Bank an acceptable written plan to achieve and, thereafter, maintain sufficient capital at the Bank. The plan shall, at a minimum, address, consider, and include:

- (a) The current and future capital requirements of the Bank;
- (b) the source and timing of additional funds to fulfill the Bank's future capital requirements;
- (c) federal or state supervisory requests for additional capital at the Bank or the requirements of any supervisory action imposed on the Bank by any federal or state regulator; and
- (d) the requirement of section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. 225.4(a)) that Surety serve as a source of strength to the Bank.

Debt and Stock Redemption

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

(b) Within 60 days of this Agreement, Surety shall submit to the Reserve Bank an acceptable written plan to service its current debt without incurring any additional debt.

(c) Surety shall not, directly or indirectly, purchase or redeem any shares of its stock without the prior written approval of the Reserve Bank.

Dividends

3. (a) Surety shall not take dividends or any other form of payment representing a reduction in capital from the Bank without the prior written approval of the Reserve Bank. All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date or other payment date and shall contain, but not be limited to, an analysis of the impact such dividend or other payment would have on the Bank's capital position.

(b) Surety shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director of the Division of Banking Supervision and Regulation of the Board of Governors. All requests for prior approval shall be received by the Reserve Bank at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on consolidated earnings, Surety's and the Bank's capital levels and cash flow, and the asset quality and loan loss reserve needs of the Bank.

Affiliate Transactions

4. Surety shall take all steps necessary to ensure that all transactions between Surety and the Bank comply with the requirements of sections 23A and 23B of the Federal Reserve Act (12 U.S.C. 371c and 371c-1) and Regulation W of the Board of Governors (12 C.F.R. Part 223).

Internal Controls and Regulatory Reporting

5. (a) Within 60 days of this Agreement, Surety shall submit to the Reserve Bank acceptable written procedures designed to strengthen and maintain Surety's books and records. These procedures shall include corrective steps to ensure that all required regulatory reports filed or published by Surety:

- (i) accurately reflect Surety's condition on the dates for which such reports are filed or published;
- (ii) are filed in accordance with the applicable instructions for preparation; and
- (iii) are filed or published in a timely manner.

(b) Surety shall maintain for subsequent supervisory review documentation sufficient to support the accuracy of its required regulatory reports.

New Directors

6. (a) Surety shall take all available actions as are necessary to elect qualified directors, the majority of whom shall be outside directors with banking experience. Surety shall report quarterly to the Reserve Bank on efforts to secure new directors.

(b) For the purposes of this Agreement, the term: (i) "outside director" is defined as an individual, not an employee or executive officer of Surety or the Bank, who owns less than 10 percent of the outstanding voting stock of Surety or the Bank and who is not related in any manner to any shareholder who owns 10 percent or more of the outstanding voting stock of Surety or the Bank or any related interest of such a shareholder; and (ii) "executive officer" is defined as set forth in section 215.2(e) of Regulation O of the Board of Governors (12 C.F.R. 215.2(e)).

Statutory Restrictions

7. (a) In appointing any new officers or directors, Surety 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.

(b) Surety 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).

Approval, Implementation, and Progress Reports

8. (a) Surety shall submit written plans and procedures that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 1, 2(b), and 5(a) of this Agreement. Surety shall adopt the approved plans and procedures within 10 days of approval by the Reserve Bank. During the term of this Agreement, the approved plans and procedures shall not be amended or rescinded without the prior written approval of the Reserve Bank.

(b) Upon notice of the Reserve Bank's approval, Surety shall immediately implement the approved plans and procedures and thereafter fully comply with them.

9. Within 30 days after the end of each calendar quarter following the date of this Agreement, the board of directors shall furnish to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Agreement and the results thereof. Such reports may be discontinued when the corrections required by this Agreement have been accomplished and the Reserve Bank has, in writing, released Surety from making further reports.

Communications

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

(a) Mr. W. Arthur Tribble
Vice President
Federal Reserve Bank of Dallas
P. O. Box 655906
Dallas, Texas 75265

(b) Mr. Richard Abrams
Chairman of the Board
Surety Capital Corporation
301 Byron Street
Fort Worth, Texas 76114

Miscellaneous

11. Notwithstanding any provision of this Agreement to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to Surety to comply with any provision of this Agreement.

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

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

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

15. This Agreement is a "written agreement" for the purposes of, and is enforceable by the Board of Governors as an order issued 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 11th day of October, 2005.

Surety Capital Corporation

Federal Reserve Bank of Dallas

By: _____

By: _____

ITS CHAIRMAN

E. Con Leahy