

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

Written Agreement by and between

GRIMES COUNTY CAPITAL CORPORATION  
Houston, Texas

and

FEDERAL RESERVE BANK OF DALLAS  
Dallas, Texas

Docket No. 99-016-WA/RB-HC

WHEREAS, in order to maintain the financial soundness of Grimes County Capital Corporation, Houston, Texas ("Grimes County"), a registered bank holding company, the Federal Reserve Bank of Dallas (the "Reserve Bank") and Grimes County have mutually agreed to enter into this Written Agreement (the "Agreement");

WHEREAS, as of the date of this Agreement, Grimes County owns and controls the Community State Bank, Houston, Texas, a state nonmember bank (the "Bank");

WHEREAS, this Agreement is being executed in accordance with the Rules Regarding Delegation of Authority of the Board of Governors of the Federal Reserve System (the "Board of Governors") specifically 12 C.F.R. 265.11(a)(15), and the Reserve Bank has received the prior approval of the Director of the Division of Banking Supervision and Regulation (the "Director") and the General Counsel of the Board of Governors to enter into this Agreement with Grimes County; and

WHEREAS, on July 14, 1999, the board of directors of Grimes County, at a duly constituted meeting, adopted a resolution authorizing and directing C.N. SCHWARZ, III to enter into this Agreement on behalf of Grimes County and consented to compliance with each and every provision of this Agreement by Grimes County 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)).

NOW, THEREFORE, before the taking of any testimony or adjudication of or finding on any issue of fact or law herein, and without this Agreement constituting an admission of any allegation made or implied by the Board of Governors or the Reserve

Bank, and solely for the purpose of settling this matter without further proceedings, the Reserve Bank and Grimes County hereby agree as follows:

1. (a) Grimes County shall not declare or pay any dividends without the prior written approval of the Reserve Bank and the Director. Requests for 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 cash flow at the parent company and earnings, capital levels and asset quality at the subsidiary bank.

(b) Grimes County shall not take dividends or any other form of payment, representing a reduction of capital, from the Bank without the prior written approval of the Reserve Bank.

2. (a) Grimes County shall not, directly or indirectly, increase its borrowings or incur any debt without the prior written approval of the Reserve Bank. 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 sources available to meet such debt repayment.

(b) Within 30 days of this Agreement, Grimes County shall submit to the Reserve Bank an acceptable written plan to service its outstanding debt without incurring any additional debt. The plan shall, at a minimum, specifically address and consider:

- (i) Reductions in outstanding debt and periodic payments of principal and interest;
- (ii) Grimes County's cash flow projections;
- (iii) the Bank's anticipated earnings, asset growth capital, and dividend projections;
- (iv) alternative sources of funds to be used to make all necessary debt reductions; and
- (v) the reimbursement to the Bank of tax overpayments required by paragraph 3(a) hereof.

3. (a) Within 30 days of this Agreement, Grimes County shall submit to the Reserve Bank an acceptable written plan for reimbursement to the Bank of all tax payments received by Grimes County in excess of its separate liability as noted in the Reserve Bank's Report of Inspection of Grimes County dated April 6, 1999 ("The Report of Inspection"), plus interest at the Bank's prime lending rate(s) from the date of overpayment to the date of reimbursement.

(b) Grimes County shall not, directly or indirectly, enter into, participate, or in any manner engage in any transaction with the Bank that would cause the Bank to violate the provisions of Sections 23A or Section 23B of the Federal Reserve Act (12 U.S.C. 371c and 371c-1), as made applicable by Section 18(j) of the FDI Act (12 U.S.C. 1828(j)).

(c) For the purposes of this Agreement, the terms (i) "transaction" shall include, but not be limited to, the transfer, sale or purchase of any asset,

the direct or indirect payment of any expense or obligation of Grimes County, the payment of a management or service fee of any nature, or any extension of credit, including overdrafts; and (ii) "extension of credit" shall be defined as set forth in section 215.3 of Regulation O of the Board of Governors (12 C.F.R. 215.3).

4. (a) Grimes County shall, where applicable, submit to the Reserve Bank a copy of any capital restoration plan for the Bank, including any proposed holding company guarantee submitted to the Federal Deposit Insurance Corporation pursuant to, and in the aggregate liability amount set forth in, section 38 of the FDI Act (12 U.S.C. 1831o(e)), as well as a copy of the capital plan required by the Texas Department of Banking's Determination Letter issued to the Bank, dated May 5, 1999.

(b) Grimes County shall take all actions necessary to perform its guarantee of any capital restoration plan.

5. (a) Within 30 days of this Agreement, Grimes County shall submit to the Reserve Bank acceptable written procedures designed to strengthen and maintain Grimes County's internal recordkeeping systems. These procedures shall include, without limitation: (i) corrective steps that are responsive to the criticisms noted in the Report of Inspection; (ii) maintenance of adequate documentation to support all assets, liabilities, capital, and income and expense balances reported on its financial statements; (iii) maintenance of a general ledger and cash receipts disbursement journal; and (iv) adequate checkbook register entries.

(b) Within 30 days of this Agreement, Grimes County shall take such actions as are necessary to amend and refile its "Parent Company Only Financial Statements" ("FR Y-9SP's") filed as of June 30, 1998 and December 31, 1998, as well as the Annual Statements of Nonbank Subsidiaries of Bank Holding Companies ("FR Y-11I's) as of December 31, 1998.

(c) Grimes County shall take such actions as are necessary to ensure that all reports required to be filed with the Federal Reserve System: accurately reflect Grimes County's condition on the date(s) for which such reports are filed or published; are filed in conformance with the instructions for the preparation of each required report; are filed or published in a timely manner; and that all records indicating how the reports are prepared are adequately maintained for subsequent supervisory review.

6. Within 10 days of this Agreement, Grimes County shall instruct its independent public accounting firm to include the financial records and internal controls of Grimes County and its nonbank subsidiary, CSB Mortgage, Houston, Texas, within the Bank's full-scope audit, as of December 31, 1998, and to conduct the audit in accordance with generally accepted accounting practices.

7. Prior to the election or appointment of any director or senior executive officer, Grimes County shall give the Reserve Bank 30 days written notice of such election or appointment, as required by Subpart H of Regulation Y of the Board of Governors (12 C.F.R. 225, Subpart H).

8. The plans and procedures required by paragraphs 2(b), 3(a), 4(a), and 5(a) hereof shall be submitted to the Reserve Bank for review and approval. The Reserve Bank may comment on the plans and procedures. Acceptable plans and procedures shall be submitted to the Reserve Bank within the required time periods set forth in this Agreement. Grimes County shall adopt the approved plans and procedures within 10 days of approval by the Reserve Bank and then shall comply with them. During the term of this Agreement, Grimes County shall not amend or rescind the approved plans and procedures without the prior written approval of the Reserve Bank.

9. Within 30 days of the end of each calendar quarter (September 30, December 31, March 31, and June 30) following the date of this Agreement, Grimes County 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. Along with such reports, Grimes County shall submit to the Reserve Bank:

(a) A parent company only balance sheet for the end of that quarter; and

(b) a parent company only income statement for the period ending that quarter.

For the purposes of the above reporting requirements, all parent company only financial statements shall be prepared in accordance with generally accepted accounting principals. Such reports may be discontinued when the corrections required by this Agreement have been satisfactorily accomplished and the Reserve Bank has, in writing, released Grimes County from making further reports.

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

- (a) Mr. Basil J. Asaro  
Vice President  
Federal Reserve Bank of Dallas  
P.O. Box 655906  
Dallas, Texas 75265-5906
  
- (b) Mr. Charles N. Schwarz, Jr.  
Chairman of the Board  
Grimes County Capital Corporation  
11102 Scarsdale Boulevard  
Houston, Texas 77089

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

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

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

14. The provisions of this Agreement shall not bar, estop or otherwise prevent the Board of Governors, the Reserve Bank or any Federal or State agency or

department from taking any other action affecting Grimes County or any of its current or former institution-affiliated parties.

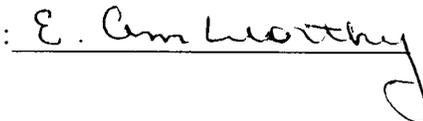
15. This Agreement is a "written agreement" for the purposes of section 8 of the FDI Act (12 U.S.C. 1818).

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed as of the 14 day of July, 1999.

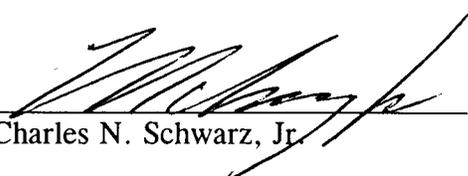
GRIMES COUNTY CAPITAL CORPORATION

FEDERAL RESERVE BANK OF DALLAS

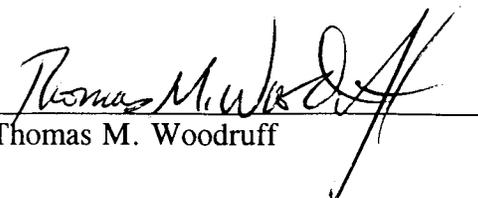
By:  AS PRESIDENT

By: 

The undersigned directors of Grimes County Capital Corporation each acknowledges having read the foregoing Agreement and approves of the consent thereto by Grimes County.

  
Charles N. Schwarz, Jr.

  
Charles N. Schwarz, III

  
Thomas M. Woodruff