

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

TEXAS DEPARTMENT OF BANKING  
AUSTIN, TEXAS

Written Agreement by and among

FIRST BANK OF SNOOK  
Snook, Texas

FEDERAL RESERVE BANK OF DALLAS  
Dallas, Texas

and

TEXAS DEPARTMENT OF BANKING  
Austin, Texas

Docket No. 08-005-WA/RB-SM

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

WHEREAS, on April 17, 2008, the board of directors of the Bank, at a duly constituted meeting, adopted a resolution authorizing and directing Rayfield Slovacek, President/Chairman of the Board, to enter into this Agreement on behalf of the Bank, and consenting to compliance 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)), with each and every provision of this Agreement.

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

### **Board of Directors Oversight**

1. Within 60 days of this Agreement, the board of directors shall submit to the Reserve Bank and the Commissioner a written plan to improve 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 senior management and major operations and activities, including, at a minimum:

(i) the credit administration program, including loan grading;

(ii) internal control systems, including, but not limited to, those for the stored value card program; and

(iii) profitability and the budget process;

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

(c) the responsibility of the board of directors to review any proposed new business lines and ensure that the Bank does not initiate new business lines without the prior written approval of the board of directors;

(d) a description of the detailed information to be included in the periodic reports that will be reviewed by the board of directors in its oversight of the management and operations of the Bank, including information sufficient to assess management's adherence to

applicable written policies, procedures, and programs, and compliance with applicable laws and regulations.

## **Staffing**

2. (a) Within 60 days of this Agreement, the Bank shall take such steps as are necessary to employ: (i) a qualified, full-time president; and (ii) an adequate number of qualified staff in the credit administration function with the ability, experience, training, and other necessary qualifications required to perform present and anticipated duties.

(b) 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), Subpart H of Regulation Y of the Board of Governors of the Federal Reserve System (the “Board of Governors”) (12 C.F.R. §§ 225.71 *et seq.*).

(c) 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).

## **Credit Administration**

### **Loan Review**

3. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written program for the on-going review and grading of the Bank’s loan portfolio by a qualified independent third party or by qualified staff that is independent of the Bank’s credit granting function. The program shall, at a minimum, address, consider, and include:

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

- (b) standards and criteria for assessing the credit quality of the loans;
- (c) application of loan grading standards and criteria to the loan portfolio; and
- (d) periodic written reports to the board of directors that identify the status of those loans that are adversely graded and the prospects for full collection or strengthening of the quality of any such loans.

#### **Document Exceptions**

4. (a) Within 60 days of this Agreement, the Bank shall take all steps necessary to correct all documentation and credit information deficiencies noted in the report of the examination of the Bank conducted by the Reserve Bank and the Commissioner that concluded in December 2007 (the "Report of Examination"). In all cases where the Bank is unable to obtain needed documentation or credit information, it shall document in written memoranda the actions taken to secure the information and the reason the information could not be obtained, and shall maintain such documentation in the credit file for subsequent supervisory review.

(b) The Bank shall adopt written procedures designed to minimize loan documentation exceptions. The Bank shall provide to the Reserve Bank and the Commissioner a copy of the procedures and a list of resolved technical exceptions within 120 days of this Agreement.

#### **Allowance for Loan and Lease Losses**

5. (a) The Bank shall maintain, in accordance with generally accepted accounting principles ("GAAP") and supervisory guidance, an adequate valuation reserve for loan and lease losses (the "ALLL"). The adequacy of the ALLL shall be determined in accordance with relevant supervisory guidance, including the Interagency Policy Statements on the Allowance for Loan and Lease Losses, dated July 2, 2001 and December 13, 2006. The

elements of supervisory guidance to be considered shall include, but are not limited to, the reliability of the Bank's loan grading system, the volume of criticized loans, the current level of past due and nonperforming loans, past loan loss experience, evaluation of probable losses in the Bank's loan portfolio, including the potential for the existence of unidentified losses in loans adversely classified, the imprecision of loss estimates, and examiners' criticisms noted in the Report of Examination.

(b) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a description of the methodology used to determine the Bank's ALLL. Thereafter, the Bank shall conduct, at least on a quarterly calendar basis, an assessment of its ALLL and, within 30 days of the end of each calendar quarter, shall submit to the Reserve Bank and the Commissioner the quarterly assessment, including the methodology used in determining the amount of ALLL for that quarter. The Bank shall maintain for subsequent supervisory review documentation to support the methodology used for each quarterly assessment.

### **Capital Plan**

6. 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 appendices 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.

### **Liquidity Contingency Plan**

7. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable contingency funding plan that, at a minimum, identifies available sources of liquidity and includes adverse scenario planning.

### **Dividends**

8. 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, and the Commissioner. All requests for prior approval shall be received by the Reserve Bank and the Commissioner at least 30 days prior to the proposed dividend declaration date and shall contain, but not be limited to, current and projected information on earnings, cash flow, capital, asset quality, and loan loss reserve needs of the Bank.

### **Compliance with Laws and Regulations**

9. The Bank shall immediately take all necessary steps to correct all violations of laws and regulations set forth in the Report of Examination. In addition, the board of directors shall take necessary steps to ensure the Bank's future compliance with all applicable laws and regulations.

## **Anti-Money Laundering Compliance**

10. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written revised program to ensure compliance with applicable anti-money laundering (“AML”) laws, rules, and regulations, including the Bank Secrecy Act (31 U.S.C. § 5311 *et seq.*) (“BSA”); the rules and regulations issued thereunder by the U.S. Department of the Treasury (31 C.F.R. Part 103); and sections 208.62 and 208.63 of Regulation H of the Board of Governors (12 C.F.R. §§ 208.62 and 208.63). The revised BSA/AML compliance program shall apply to all business lines and, at a minimum, shall provide for:

- (a) An adequate system of internal controls, including a risk assessment that fully addresses all of the products and services, categories of customers, and relevant geographic risk associated with the Bank’s activities;
- (b) management of the Bank’s BSA/AML compliance program by a qualified compliance officer who is supported by adequate staffing levels and resources, and is responsible for implementing and maintaining an effective BSA/AML compliance program that is commensurate with the Bank’s size and risk profile; and
- (c) training of all appropriate personnel that includes all relevant aspects of BSA/AML regulatory requirements, and internal policies and procedures; and updating of training on a regular basis to reasonably ensure that personnel are trained in the most current legal requirements and the Bank’s internal policies and procedures.

## **Suspicious Activity Reporting and Customer Due Diligence**

11. Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner an acceptable written customer due diligence program reasonably designed to

ensure the identification and timely, accurate, and complete reporting of all known or suspected violations of law against or involving the Bank and suspicious transactions at the Bank to law enforcement and supervisory authorities as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall be applicable to all business lines and include:

(a) A methodology for assigning risk levels to the Bank's customer base that considers factors such as type of customer, business operations of the customer and the market that the customer serves, type of product or service, and geographic location;

(b) a risk-focused assessment of the Bank's customer base that determines the appropriate level of enhanced due diligence necessary for those categories of customers that pose a heightened risk of conducting potentially illicit activities at or through the Bank;

(c) for each customer who requires enhanced due diligence, procedures to:

(i) determine the appropriate documentation necessary to verify the identity and business activities of the customer;

(ii) understand the normal and expected transactions of the customer;

and

(iii) periodically review the adequacy of the customer files documentation; and

(d) establishment of procedures designed to ensure proper identification and timely reporting of all known or suspected violations of law and suspicious transactions.

## **Business Plan and Budget**

12. (a) Within 60 days of this Agreement, the Bank shall submit to the Reserve Bank and the Commissioner a written business plan for 2008 to improve the earnings and overall condition of the Bank. The plan, at a minimum, shall provide for or describe:

(i) the responsibilities of the board of directors for the development, approval, implementation, and monitoring of the business plan;

(ii) the major areas in and means by which the board of directors will seek to improve the Bank's operating performance; and

(iii) a realistic and comprehensive budget.

(b) A business plan and budget for each calendar year subsequent to 2008 shall be submitted to the Reserve Bank and the Commissioner at least one month prior to the beginning of that calendar year.

## **Approval, Implementation, and Progress Reports**

13. (a) The Bank shall submit written plans and programs that are acceptable to the Reserve Bank and the Commissioner within the applicable time periods set forth in paragraphs 3, 6, 7, 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 and programs. Upon adoption, the Bank shall implement the approved plans and programs, and thereafter fully comply with them.

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

14. (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 be comprised of at least two outside directors. 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 monthly. Copies of the Compliance Committee’s minutes shall be provided quarterly to the Reserve Bank and the Commissioner as part of the progress reports required by paragraph 14(b) of this Agreement.

(b) Within 15 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 the provisions of this Agreement and the results thereof. The Reserve Bank and the Commissioner may, in writing, discontinue the requirement for progress reports or modify the reporting schedule.

### **Communications**

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

- (a) Ms. E. Ann Worthy  
Vice President  
Federal Reserve Bank of Dallas  
P. O. Box 655906  
Dallas, Texas 75265
- (b) Mr. Randall James  
Commissioner  
Texas Department of Banking  
2601 North Lamar  
Austin, Texas 78705

- (c) Mr. Rayfield Slovacek  
President and Chairman of the Board  
First Bank of Snook  
625 University Drive East  
Snook, Texas 77840

**Miscellaneous**

16. Notwithstanding any provision of this Agreement to the contrary, 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.

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

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

19. 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 the Bank or any of its current or former institution-affiliated parties and their successors and assigns.

20. 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 23<sup>rd</sup> day of April, 2008.

First Bank of Snook

Federal Reserve Bank of Dallas

By: /s/ Rayfield Slovacek  
Mr. Rayfield Slovacek  
Chairman of the Board  
and President

By: /s/ Paul T. Elzner  
Mr. Paul T. Elzner  
Supervision, Reserves, and  
Credit Officer

Texas Department of Banking

By: /s/ Bob Bacon  
Mr. Bob Bacon  
Deputy Commissioner