

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

STEELE BANCSHARES, INC.  
Tyler, Texas

AMERICAN STATE BANK  
Arp, Texas

TEXAS DEPARTMENT OF BANKING  
Austin, Texas

and

FEDERAL RESERVE BANK OF DALLAS  
Dallas, Texas

Docket Nos. 23-031-WA/RB-HC  
23-031-WA/RB-SM

Commissioner Order 2023-036

WHEREAS, in recognition of their common goal to maintain the financial soundness of Steele Bancshares, Inc. (“Bancshares”), Tyler, Texas, a registered bank holding company, and its subsidiary bank, American State Bank (the “Bank”), Arp, Texas, a state-chartered bank that is a member of the Federal Reserve System, Bancshares, the Bank, the Texas Department of Banking (the “Department”) and the Federal Reserve Bank of Dallas (the “Reserve Bank” and together with the Department, the “Supervisors”) have mutually agreed to enter into this Written Agreement (the “Agreement”);

WHEREAS, the most recent examinations of the Bank, which commenced on May 1, 2023 (the “Report of Examination”) and October 10, 2023, respectively, and conducted by the Reserve Bank and the Department identified safety and soundness deficiencies at the Bank; and

WHEREAS, the undersigned are authorized to enter into this Agreement on behalf of Bancshares and the Bank, respectively, and consenting to compliance with each and every provision of this Agreement by Bancshares and the Bank.

NOW, THEREFORE, Bancshares, the Bank, the Department, and the Reserve Bank agree as follows:

### **Source of Strength**

1. Bancshares' board of directors shall take appropriate steps to fully utilize Bancshares' financial and managerial resources, pursuant to section 38A of the Federal Deposit Insurance Act (the "FDI Act") (12 U.S.C. § 1831o-1) and 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)), to serve as a source of strength to the Bank, including, but not limited to, taking steps to ensure that the Bank complies with this Agreement, and any other supervisory action taken by the Bank's federal or state regulators.

### **Board Oversight**

2. Within 60 days of this Agreement, the board of directors of the Bank shall submit a written plan to the Supervisors to strengthen board oversight of the management and operations of the Bank. The plan shall include the following four items:

(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, lending and credit administration, asset quality, liquidity, capital, earnings, and compliance;

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

(c) actions the board of directors will take in approving any new business line to be engaged in by the Bank, including, at a minimum:

(i) assessing the impact that the proposed business line will have on the Bank's capital;

(ii) ensuring that appropriate internal controls and risk management policies and procedures are in place and effective before the Bank engages in the proposed business line; and

(iii) retaining the minutes of any board of directors meeting, or committee thereof charged with oversight of the business line, that reflect the discussion and approval of the proposed business line consistent with this Agreement for review by the Supervisors; and

(d) steps to improve 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.

### **Corporate Governance Review**

3. (a) Within 60 days of this Agreement, the Bank's board of directors shall retain an independent third party acceptable to the Supervisors. The independent third party is to assess the effectiveness of the Bank's corporate governance, board and management structure, and staffing needs (the "Review"), and to prepare a written report of findings and recommendations (the "Report"). The Review shall include the following two items:

(i) an assessment of the current structure, qualifications, effectiveness, and composition of the board of directors and its committees and a determination of the structure and composition needed to adequately supervise the affairs of the Bank; and

(ii) the identification of the Bank's present and future management and

staffing needs, including a management succession plan for senior executive officers.

(b) Within 10 days of the Supervisors' approval of the Bank's independent third party, the Bank shall submit an engagement letter to the Supervisors for approval. The engagement letter shall require the independent third party to submit the Report within 60 days of regulatory approval of the engagement letter and a commitment that the Report and any drafts thereof will be provided to the Supervisors at the same time that it is provided to the Bank's board of directors.

(c) Within 60 days of receipt of the Report, the Bank's board of directors shall submit a written board oversight and senior management plan to the Supervisors that fully addresses the findings and recommendations in the Report and describes the specific actions that the board of directors will take to strengthen the oversight of the Bank.

### **Lending and Credit Administration**

4. Within 60 days of this Agreement, the Bank shall submit a written plan to maintain credit risk management practices acceptable to the Supervisors. The plan shall include the following three items:

- (a) procedures to identify, 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);
- (b) maintenance of operating policies for all of the Bank's geographic and economic markets to ensure that concentration exposures are appropriately measured and monitored against approved risk-parameters, and reported to senior management and the board of directors; and
- (c) a mechanism to ensure that loan policy exceptions are appropriately tracked, escalated, and reviewed by senior management and the board of directors, at least quarterly.

## **Asset Improvement**

5. 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, or in any subsequent report of examination, without the prior approval of a majority of the full board of directors or a designated committee thereof. The board of directors or its committee 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. 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)).

6. (a) Within 120 days of this Agreement, the Bank shall submit a written plan

acceptable to the Supervisors designed to improve the Bank's position through repayment, amortization, liquidation, additional collateral, or other means on each loan, relationship, or other asset in excess of \$100,000, including Other Real Estate Owned ("OREO"), that is past due as to principal or interest more than 90 days as of the date of this Agreement, is on the Bank's problem loan list, or was adversely classified in the Report of Examination.

(b) Within 45 days after the end of any quarter following the submission of the written plan in paragraph 6(a) in which any additional loan, relationship, 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 Supervisors an acceptable written plan to improve the Bank's position on such loan, relationship, or asset.

(c) Within 45 days after the end of each calendar quarter thereafter, the Bank shall submit a written progress report to the Supervisors 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. The board of directors shall review the progress reports before submission to the Supervisors and shall document the review in the minutes of the board of directors' meetings.

#### **Allowance for Credit Losses**

7. (a) Within 30 days from the receipt of any report of examination, the Bank shall charge off all assets classified as "loss" unless otherwise approved in writing by the Supervisors.

(b) Within 30 days of this Agreement, the Bank shall provide its allowance for

credit losses (“ACL”) methodology consistent with relevant supervisory guidance, including the Interagency Policy Statement on Allowances for Credit Losses, dated May 8, 2020 (SR 20-12). The Bank’s ACL methodology shall, at a minimum, include 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 collectability.

(c) Within 120 days of this Agreement, the Bank shall submit to the Supervisors a written program for the maintenance of an adequate ACL. The program shall, at a minimum, include policies and procedures to ensure adherence to the ACL methodology and provide for periodic reviews and updates to the ACL methodology. The program also shall provide for a review of the ACL by the board of directors on at least a quarterly calendar basis. Any deficiency found in the ACL shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Report of Condition and Income. 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 ACL. During the term of this Agreement, the Bank shall submit to the Supervisors, within 30 days after the end of each calendar quarter, a written report regarding the board of directors’ quarterly review of the ACL and a description of any changes to the methodology used in determining the amount of the ACL for that quarter.

### **Capital Plan**

8. Within 60 days of this Agreement, the Bank shall submit a written plan acceptable to the Supervisors to maintain sufficient capital. The plan shall include the following three items:

(a) the Bank's current and future capital requirements, including compliance with the applicable requirements of Regulation Q of the Board of Governors, Capital Adequacy of Board-Regulated Entities (12 C.F.R. Part 217);

(b) the adequacy of the Bank's capital, taking into account the volume of classified assets, concentrations of credit, the adequacy of the ACL, current and projected asset growth, projected earnings, and anticipated and contingency funding needs; and

(c) the source and timing of additional funds to fulfill the Bank's future capital requirements.

9. (a) The Bank shall notify the Supervisors, in writing, no more than 30 days after the end of any calendar quarter in which any of the Bank's capital ratios (total risk-based, Tier 1 risk-based, common equity Tier 1, or leverage) fall below the approved capital plan's minimum ratios. Together with the notification, the Bank shall submit a written plan acceptable to the Supervisors that details the steps it will take to increase its capital ratios to or above the approved capital plan's minimums.

(b) During the term of this Agreement, the Bank shall not enter into any agreement to sell or purchase any loan or other asset that, in the aggregate, would exceed 5 percent of the Bank's total assets at the end of the prior quarter without the prior written approval of the Supervisors.

(c) All requests for prior written approval shall be received at least 30 days prior to the proposed sale or purchase. All requests shall contain, at a minimum, a description of the terms of the proposed sale or purchase, the identity of the proposed purchaser or seller; current and projected information on the Bank's capital, asset quality, earnings, and ACL needs, and the identification of the sources of funds for any proposed purchase or sale.

## **Capital Conservation**

10. (a) Effective immediately, Bancshares and the Bank shall not, directly or indirectly, declare or pay dividends, engage in share repurchases, or make any other capital distribution in respect of common shares, preferred shares, trust preferred shares, or other capital instruments, including, without limitation, any interest payments due on subordinated debentures, without the prior written approval of the Supervisors and the Director of Supervision and Regulation of the Board of Governors. All requests for prior approval shall be received in writing at least 30 days prior to the earlier of the proposed declaration, payment, or distribution date, or required notice of deferral, and shall contain, at a minimum, current and projected information, as appropriate, on Bancshares and the Bank's respective capital, earnings, and cash flow; the Bank's asset quality, earnings, and allowance for loan and lease losses; and identification of the source(s) of funding for the proposed payment or distribution.

(b) Effective immediately, Bancshares and the Bank shall not, directly or indirectly, incur, increase, or guarantee any debt without the prior written approval of the Supervisors. All requests for prior approval shall be received at least 30 days prior to the proposed transaction date and 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.

## **Earnings Improvement Plan and Budget**

11. (a) Within 60 days of this Agreement, the Bank shall submit to the Supervisors a written business plan and a budget for 2024 to improve the Bank's earnings and overall condition. The plan shall include the following four items:

(i) short- and long-term goals and strategies for improving the Bank's earnings, and a description of how the Bank's board of directors and senior management intend

to achieve the stated goals;

- (ii) an assessment of the Bank's current financial condition, product lines, and market area, and a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;
- (iii) a realistic and comprehensive budget for 2024, including income statement and balance sheet projections; and
- (iv) a budget review process that analyzes and reports budgeted versus actual income and expense performance.

(b) A business plan and budget for each calendar year subsequent to 2024 shall be submitted to the Supervisors at least 30 days prior to the beginning of that calendar year.

### **Liquidity and Funds Management**

12. Within 60 days of this Agreement, the Bank shall submit an enhanced liquidity risk management program acceptable to the Supervisors that, at a minimum, includes steps to diversify sources of funding, enhanced liquidity stress test scenarios, and periodic independent review and evaluation of all components of the Bank's liquidity risk management process.

13. Within 60 days of this Agreement, the Bank shall submit a revised written contingency funding plan acceptable to the Supervisors that, at a minimum, is consistent with the Interagency Policy Statement on Funding and Liquidity Risk Management, dated March 17, 2010 (SR 10-6), and includes adverse scenario planning.

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

14. (a) The Bank shall take all necessary steps to correct all violations of law or regulation cited in the Report of Examination. In addition, the Bank shall take necessary steps to ensure future compliance with all applicable laws and regulations.

(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, Bancshares and the Bank shall comply with the notice provisions of section 32 of the FDI Act, as amended, (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 will obtain the prior written approval of the Banking Commissioner of the Department.

(c) Bancshares 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. § 359).

### **Progress Reports**

15. Within 45 days after the end of each calendar quarter following the date of this Agreement, the boards of directors of Bancshares and the Bank shall each submit to the Supervisors 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 Programs**

16. (a) The Bank shall submit written plans and programs that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 2, 4, 6(a), 7(c), 8, 11(a), 12, and 13 of this Agreement. Each plan and program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program. An independent third party acceptable to the Supervisors shall be retained in accordance with the Supervisors' requirements by the Bank within the time period set forth in paragraph 3(a) of this Agreement. The engagement letter shall be submitted to the Supervisors within the time period set forth in paragraph 3(b) of this Agreement.

(b) Within 10 days of approval by the Supervisors, the Bank shall adopt the approved plans and programs. Upon adoption, the Bank shall promptly implement the approved

plans and programs, and thereafter fully comply with them.

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

## **Communications**

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

- (a) Mr. Paul R. Wheeler  
Vice President  
Federal Reserve Bank of Dallas  
2200 North 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. Brandon Steele  
Chairman, President, and CEO  
Steele Bancshares, Inc.  
5555 Old Jacksonville Highway  
Tyler, Texas 75703
- (d) Mr. Mark Lowery  
Chairman  
American State Bank  
5202 Old Jacksonville Highway  
Tyler, Texas 75703

## **Miscellaneous**

18. Notwithstanding any provision of this Agreement, the Supervisors may in their sole discretion, grant written extensions of time to Bancshares or the Bank to comply with any provision of this Agreement.

19. The provisions of this Agreement shall be binding upon Bancshares, the Bank, and their institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the FDI Act (12

U.S.C. §§1813(u) and 1818(b)(3)), 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 Supervisors.

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

22. The Department 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 Department under Texas Finance Code §§ 35.002, 201.009(a) and 202.005(a)(2). Without admitting or denying any charges of unsafe and unsound banking practices, or violation of applicable Texas law, Bancshares and the Bank consent to deeming this Agreement to be a consent order for the purposes of Texas law. Bancshares and the Bank hereby waive all rights regarding an order under Texas Finance Code §§ 35.002, 35.004, 35.009, and 201.009, 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.

23. 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 Department 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 29th day of March, 2024.

STEELE BANCSHARES, INC.

FEDERAL RESERVE BANK  
OF DALLAS

By: /s/ Brandon Steele  
Brandon Steele  
Chairman, President, and CEO

By: /s/ Paul R. Wheeler  
Paul R. Wheeler  
Vice President

AMERICAN STATE BANK

TEXAS DEPARTMENT OF BANKING

By: /s/ Mark Lowery  
Mark Lowery  
Chairman

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