

#2000-87

**AGREEMENT BY AND BETWEEN
FIRST NATIONAL BANK
FAIRFIELD, TEXAS
AND THE
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

First National Bank, Fairfield, Texas (Bank) and the Comptroller of the Currency of the United States of America (Comptroller) wish to protect the interests of the depositors, other customers, and shareholders of the Bank, and, toward that end, wish the Bank to operate safely and soundly and in accordance with all applicable laws, rules and regulations.

The Comptroller, through his National Bank Examiner, has examined the Bank, and his findings are contained in the Report of Examination, dated April 10, 2000 (ROE).

In consideration of the above premises, it is agreed, between the Bank, by and through its duly elected and acting Board of Directors (Board), and the Comptroller, through his authorized representative, that the Bank shall operate at all times in compliance with the articles of this Agreement.

ARTICLE I -- JURISDICTION

(1) This Agreement shall be construed to be a "written agreement entered into with the agency" within the meaning of 12 U.S.C. ~ 1818(b)(1).

(2) This Agreement shall be construed to be a "written agreement between such depository institution and such agency" within the meaning of 12 U.S.C. § 1818(e)(1) and 12 U.S.C. § 1818(i)(2).

(3) This Agreement shall be construed to be a "formal written agreement" within the meaning of 12 C.F.R. § 5.51(c)(6)(ii). See 12 U.S.C. § 1831i.

(4) This Agreement shall be construed to be a "written agreement" within the meaning of 12 U.S.C. § 1818(u)(1)(A).

(5) All reports or plans which the Bank or Board has agreed to submit to the Assistant

Deputy Comptroller pursuant to this Agreement shall be forwarded to:

Donald S. Smith
Assistant Deputy Comptroller
Dallas South Field Office
500 North Akard Street, Suite 1600
Dallas, Texas 75201-3342

ARTICLE II -- CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Board shall develop a three year capital plan by September 30, 2000, that provides for the following capital level (as defined in 12 C.F.R. Part 3):

(2) Tier 1 capital at least equal to eight percent (8.0%) of adjusted total assets to be achieved on or before 12 months from OCC approval of said capital plan.

(3) The Board shall develop, implement, and use its best effort³ to ensure Bank adherence to a three year capital program. The program shall include

- (a) specific plans for the maintenance of adequate capital that may in no event be less than the requirements of paragraph (2);
- (b) projections for growth and capital requirements based upon a detailed analysis of the Bank's assets, liabilities, earnings, fixed assets, and off-balance sheet activities;
- (c) projections of the sources and timing of additional capital to meet the Bank's current and future needs;
- (d) the primary source(s) from which the Bank will strengthen its capital structure to meet the Bank's needs;
- (e) contingency plans that identify alternative methods should the primary source(s) under (d) above not be available; and,

(f) a dividend policy that permits the declaration of a dividend only:

(i) when the Bank is in compliance with its approved capital program; (ii) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and, (iii) with the prior written approval of the Assistant Deputy Comptroller if the dividend causes the Tier 1 to adjusted total assets ratio to drop below the level set forth in the bank's approved capital plan.

(4) Upon completion, the Bank's capital program shall be submitted to the Assistant Deputy Comptroller for approval. Upon approval by the Assistant Deputy Comptroller, the Bank shall implement and adhere to the capital program. The Board shall review and update the Bank's capital program on an annual basis, or more frequently if necessary. Copies of the reviews and updates shall be submitted to the Assistant Deputy Comptroller.

(5) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE 111 -- STRATEGIC PLAN AND BUDGET

(1) By September 30, 2000, the Board shall adopt, implement, and thereafter ensure Bank adherence to a written strategic plan for the Bank covering at least a three-year period. The strategic plan shall establish objectives for the Bank's overall risk profile, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital adequacy, reduction in the volume of nonperforming assets, product line development and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives and, at a minimum, include:

(a) a mission statement that forms the framework for the establishment of strategic goals and objectives;

(b) an assessment of the Bank's present and future operating environment;

the development of strategic goals and objectives to be accomplished over the short and long term;

(c) an identification of the Bank's present and future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in (1)(a) of this Article;

(ct) an evaluation of the Bank's internal operations, staffing requirements, board and management information systems and policies and procedures for their adequacy and contribution to the accomplishment of the goals and objectives developed under (1)(a) of this Article;

(e) a management employment and succession program to promote the retention and continuity of capable management;

(f) product line development and market segments that the Bank intends to promote or develop;

(g) a financial budget to include projections for major balance sheet and income statement accounts and desired financial ratios over the period covered by the strategic plan;

(h) control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's operating environment;

(i) specific plans to establish responsibilities and accountability for the strategic planning process, new products, growth goals, or proposed changes in the Bank's operating environment; and,

(j) systems to monitor the Bank's progress in meeting the plan's goals and objectives.

(2) Upon adoption, a copy of the plan shall be forwarded to the Assistant Deputy Comptroller for review and approval.

ARTICLE IV - CRITICIZED ASSETS

(1) The Bank shall take immediate and continuing action to protect its interest in those assets criticized in the ROE, in any subsequent Report of Examination, by internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination.

(2) By September 30, 2000, the Board shall adopt, implement, and use its best efforts to ensure Bank adherence to a written program designed to eliminate the basis of criticism of assets criticized in the ROE, in any subsequent Report of Examination, or by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination as "doubtful," "substandard," or "special mention." This program shall include, at a minimum:

(a) an identification of the expected sources of repayment;

(b) the appraised value of supporting collateral and the position of the Bank's lien on such collateral where applicable;

(c) an analysis of current and satisfactory credit information, including cash flow analysis where loans are to be repaid from operations; and,

(d) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment.

(3) Upon adoption, a copy of the program for all criticized assets equal to or exceeding twenty five thousand dollars (\$25,000) shall be preserved in the Bank.

(4) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(5) The Board, or a designated committee, shall conduct a review, on at least a quarterly basis, to determine:

(a) the status of each criticized asset or criticized portion thereof that equals or exceeds

twenty-five thousand dollars (\$25,000);

(b) management's adherence to the program adopted pursuant to this Article;

the status and effectiveness of the written program; and,

(c) the need to revise the program or take alternative action.

(6) A copy of each review shall be preserved in the Bank and made available to National Bank Examiners at their request.

(7) The Bank may extend credit, directly or indirectly, including renewals, extensions or capitalization of accrued interest, to a borrower whose loans or other extensions of credit are criticized in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination and whose aggregate loans or other extensions exceed twenty-five thousand dollars (\$25,000) only if each of the following conditions is met:

(a) the Board or designated committee finds that the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, extending or capitalizing any additional credit, a majority of the full Board (or

designated committee approves the credit extension and records, in writing, why such extension is necessary to promote the best interests of the Bank; and,

(b) a comparison to the written program adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the criticized asset will not be compromised. A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

ARTICLE V -- CREDIT AND COLLATERAL EXCEPTIONS

(1) By September 30, 2000, the Bank shall request and take such steps as are reasonably possible to obtain current and satisfactory credit information on all loans lacking such information, including those listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(2) By September 30, 2000, the Board shall adopt and implement systems designed to ensure proper collateral documentation is maintained on all loans and correct each collateral exception listed in the ROE, in any subsequent Report of Examination, in any internal or external loan review, or in any listings of loans lacking such information provided to management by the National Bank Examiners at the conclusion of an examination.

(3) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit only after:

(a) documenting the specific reason or propose for the extension of credit;

(b) identifying the expected source of repayment in writing;

(c) structuring the repayment terms to coincide with the expected source of repayment;

(d) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, where loans are to be repaid from operations;

(i) Failure to obtain the information in (3)(d) shall require a majority of the full Board (or a delegated committee thereof) to certify in writing the specific reasons why obtaining and analyzing the information in (3)(d) would be detrimental to the best interests of the Bank.

(ii) A copy of the Board certification shall be maintained in the credit file of the affected borrower(s). The certification will be reviewed by this Office in subsequent examinations of the Bank; and,

(e) *documenting*, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable.

ARTICLE VI - ALLOWANCE FOR LOAN AND LEASE LOSSES

(1) The *Board* shall continue to review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall continue its program for the maintenance of an adequate Allowance. The Board shall ensure that this review and program are designed in light of the comments on *maintaining a proper Allowance* found in *~be ALLOWANCE FOR LOAN AND LEASE LOSSES* booklet, A-ALLL, of the *Comptroller '6' Handbook*, and shall focus particular attention on the following factors:

(a) *results of the Bank's internal loan review*;

(b) results of the Bank's external loan review;

(c) an estimate of inherent loss exposure on each significant credit;

(d) an *estimate of inherent loss* exposure on *each credit* in excess of twenty-five thousand dollars (\$25,000);

(e) loan loss experience;

(f) trends of delinquent and nonaccrual loans; (g) concentrations of credit in the Bank; and,

(h) present and prospective economic conditions.

(2) The program shall provide for a review of the Allowance by the Board at least once each calendar quarter. Any deficiency in the Allowance shall be remedied in the quarter it is discovered, prior to the filing of the Consolidated Reports of Condition and Income, by additional provisions from earnings. Written documentation shall be maintained indicating the factors considered and conclusions reached by the Board in determining the adequacy of the Allowance.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE VII - LOAN REVIEW

(1) The Board shall continue to employ or designate a sufficiently experienced and qualified person(s) or firm to ensure the timely and independent identification of problem loans and leases.

(2) The Board shall maintain an effective, independent and on-going loan review system to review, at least semi-annually, the Bank's loan and lease portfolios to assure the timely identification and categorization of problem credits. The system shall provide for a written report to be filed with the Board after each review and shall use a loan and lease grading system consistent with the guidelines set forth in Section 215 of the *Comptroller's Handbook for National Bank Examiners*. Such reports shall, at a minimum, include conclusions regarding:

(a) the overall quality of the loan and lease portfolios;

- (b) the identification, type, rating, and amount of problem loans and leases; (c) the identification and amount of delinquent loans and leases; (d) credit and collateral documentation exceptions;
- (e) the identification and status of credit related violations of law, rule or regulation; (f) the identity of the loan officer who originated each loan reported in accordance with subparagraphs (b) through (e) of the Article; (g) concentrations of credit;
- (h) loans and leases to executive officers, directors, principal shareholders (and their related interests) of the Bank; and,
 - (i) loans and leases not in conformance with the Bank's lending and leasing policies, and exceptions to the Bank's lending and leasing policies.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) The Board shall evaluate the loan and lease review report(s) and shall ensure that immediate, adequate, and continuing remedial action, if appropriate, is taken upon all findings noted in the report(s).

(5) A copy of the reports submitted to the Board, as well as documentation of the action taken by the Bank to collect or strengthen assets identified as problem credits, shall be preserved in the Bank.

ARTICLE VIII-- INTERNAL AUDIT

(1) By September 30, 2000, the Board shall adopt, implement, and use its best efforts to ensure Bank adherence to an independent, internal audit program sufficient to:

- (a) detect irregularities in the Bank's operations;

(b) determine the Bank's level of compliance with all applicable laws, rules and regulations;

(c) evaluate the Bank's adherence to established policies and procedures, with particular emphasis directed to the Bank's adherence to its loan policies concerning underwriting standards and problem loan identification and classification; (d) ensure adequate audit coverage in all areas; and,

(e) establish an annual audit plan using a risk based approach sufficient to achieve these objectives.

(2) As part of this audit program, the Board shall evaluate the audit reports of any party providing services to the Bank, and shall assess the impact on the Bank of any audit deficiencies cited in such reports.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

(4) The Board shall ensure that the audit function is supported by an adequately staffed department or outside firm, with respect to both the experience level and number of the individuals employed.

(5) The Board shall ensure that the audit program is independent. The persons responsible for implementing the internal audit program described above shall report directly to the Board, that shall have the sole power to direct their activities. All reports prepared by the audit staff shall be filed directly with the Board and not through any intervening party.

(6) All audit reports shall be in writing. The Board shall ensure that immediate actions are undertaken to remedy deficiencies cited in audit reports, and that auditors maintain a written record describing those actions.

(7) The audit staff shall have access to any records necessary for the proper conduct of its activities. National bank examiners shall have access to all reports and work papers of the audit staff and any other parties working on its behalf.

(8) Upon adoption, a copy of the internal audit program shall be promptly submitted to *the Assistant Deputy Comptroller*.

ARTICLE IX -- EXTERNAL AUDIT

(1) By September 30, 2000, the Bank shall retain the services of a qualified and independent Certified Public Accountant to render an opinion on the Bank's December 31, 2000, *Statement of Condition (Balance Sheet)* and its Income Statement for year 2000 and for each subsequent year-end Statement of Condition and Income Statement during the term of this, Agreement.

(2) A copy of the Bank's proposed "Engagement Letter" with this independent Certified Public Accountant, and any amendments thereto, shall be submitted to the Assistant Deputy Comptroller for review, with veto power, prior to its execution. The results of this review shall be communicated to the Bank within thirty (30) days of the Assistant Deputy Comptroller's receipt of the proposal. Failure to exercise the veto power shall not constitute an approval or endorsement.

(3) The requirement to submit information and the prior veto provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller to complete his/her review and act on any such *information* or authority *within* ninety (90) days.

ARTICLE X-- CONSUMER COMPLIANCE PROGRAM

(1) By September 30, 2000 the Bank shall adopt, implement, and use its best efforts to ensure adherence to a written consumer compliance program designed to ensure that the Bank is

operating in compliance with all applicable consumer protection laws, rules and regulations. This program shall include, but not be limited to:

- (a) a written description of the duties and responsibilities of the compliance officer; (b) adequate internal controls to ensure compliance with consumer protection laws, rules, and regulations;
- (c) the preparation of a policies and procedures manual covering all consumer protection laws, rules and regulations for use by appropriate Bank personnel in the performance of their duties and responsibilities;
- (d) annual updates of the written policies and procedures manual to ensure it remains current;
- (e) an audit program to test for compliance with consumer protection laws, rules and regulations;
- (f) procedures to ensure that exceptions noted in the audit reports are corrected and responded to by the appropriate Bank personnel;
- (g) the education and training of all appropriate Bank personnel in the requirements of all federal and state consumer protection laws, rules and regulations; and,
- (h) periodic reporting of the results of the consumer compliance audit to the Board or a committee thereof.

(2) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy Comptroller for review.

(3) The Board shall ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the program developed pursuant to this Article.

ARTICLE XI- VIOLATIONS OF LAW

(1) The Board shall immediately take all necessary steps to ensure that Bank management corrects each violation of law, rule, or regulation cited in the ROE and in any subsequent Report of Examination.

(2) Within thirty (30) days of receipt of any subsequent Report of Examination which cites violations of law, rule, or regulation, the Board shall adopt, implement, and use its best efforts to ensure Bank adherence to specific procedures to prevent future violations as cited in the ROE and shall adopt, implement, and use its best efforts to ensure Bank adherence to general procedures addressing compliance management which incorporate internal control systems and education of employees regarding laws, rules and regulations applicable to their areas of responsibility.

(3) Upon adoption, a copy of these procedures shall be maintained in the Bank.

(5) The Board shall ensure that the Bank has policies, processes, personnel, and control systems to ensure implementation of and adherence to the procedures developed pursuant to this Article.

ARTICLE XII -- CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or approval, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) It is expressly and clearly understood that if, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him/her by the several laws of the United States of America to undertake any action affecting the Bank, nothing in this Agreement shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Any time limitations imposed by this Agreement shall begin to run from the effective date of this Agreement, Such time requirements may be extended in writing by the Assistant Deputy Comptroller for good cause upon written application by the Board.

(4) The provisions of this Agreement shall be effective upon execution by the parties hereto and its provisions shall continue in full force and effect unless or until such provisions are amended in writing by mutual consent of the parties to the Agreement or excepted, waived, or terminated in writing by the Comptroller.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller, has hereunto set his/her hand on behalf of the Comptroller.

Signed

Donald S. Smith
Assistant Deputy Comptroller
Dallas South Field Office

July 18, 2000
Date

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AND IN FURTHER TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

Warren D. Awalt- Signed	Date - 7/18/00
Ken H. Braun- Signed	Date - 7/18/00
Barry Capps- Signed	Date - 7/18/00
Gene Chavers- Signed	Date - 7/18/00
Ron Hopkins- Signed	Date - 7/18/00
Arthur Patrick, Jr. - Signed	Date - 7/18/00
Lyle Red- Signed	Date - 7/18/00
Hugh Reed, Jr. - Signed	Date - 7/18/00