

#2001-32

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

First National Bank of Shamrock, Shamrock, 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 February 5, 2001 (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 "final order" within the meaning of 12 U.S.C. § 1818(u).

(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:

Ms. Debra A. Garland
Assistant Deputy Comptroller
Lubbock Field Office
5225 South Loop 289, Suite 108
Lubbock, Texas 79424

ARTICLE II -- COMPLIANCE COMMITTEE

(6) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee of the Bank or any of its affiliates [as the term "affiliate" is defined in 12 U.S.C. §371c(b)(1)], or a family member of any such person. Upon appointment, the names of the members of the Compliance Committee shall be submitted in writing to the Assistant Deputy Comptroller. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

(7) The Compliance Committee shall meet at least monthly.

(8) Within thirty (30) days of the appointment of the Committee and every thirty (30) days thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) actions taken to comply with each Article of this Agreement; and
- (b) the results of those actions.

(9) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Assistant Deputy Comptroller.

ARTICLE III -- BOARD TO ENSURE COMPETENT MANAGEMENT

(10) Within sixty (60) days, the Board shall take steps designed to ensure that the Bank has competent management in place on a full-time basis in its Chief Executive Officer, Senior Lending Officer, and Cashier positions to carry out the Board's policies, ensure compliance with this Agreement, applicable laws rules and regulations, and manage the day-to-day operations of the Bank in a safe and sound manner.

(11) Within sixty (60) days, the Board shall review the capabilities of the Bank's management to perform present and anticipated duties and the Board will determine whether management changes should be made, including the need for additions to or deletions from current management.

(12) For incumbent officers in the positions mentioned in Paragraph (10) of this Article, the Board shall within ninety (90) days assess each of these officers' experience, other qualifications and performance compared to the position's description, duties and responsibilities.

(13) If the Board determines that an officer will continue in his/her position but that the officer's depth of skills needs improvement, the Board will within ninety days develop and implement a written program, with specific time frames, to improve the officer's supervision and management of the Bank. At a minimum the written program shall include:

- (a) an education program designed to ensure that the officer has skills and abilities necessary to supervise effectively;
- (b) a program to improve the effectiveness of the officer;
- (c) objectives by which the officer's effectiveness will be measured; and
- (d) a performance appraisal program for evaluating performance according to

the position's description and responsibilities and for measuring performance against the Bank's goals and objectives.

Upon completion, a copy of the written program shall be submitted to the Assistant Deputy Comptroller.

(14) If a position mentioned in Paragraph (10) of this Article is vacant now or in the future, including if the Board realigns an existing officer's responsibilities and a position mentioned in Paragraph (10) of this Article becomes vacant, the Board shall within thirty days of such vacancy appoint a capable person to the vacant position who shall be vested with sufficient executive authority to ensure the Bank's compliance with this Agreement and the safe and sound operation of functions within the scope of that position's responsibility.

(15) Prior to the appointment of any individual to an executive officer position, the Board shall submit to the Assistant Deputy Comptroller the following information:

(a) the information sought in the "Changes in Directors and Senior Executive Officers" booklet of the Comptroller's Corporate Manual, together with a legible fingerprint card for the proposed individual;

(b) a written statement of the Board's reasons for selecting the proposed officer; and

(c) a written description of the proposed officer's duties and responsibilities.

(16) The Assistant Deputy Comptroller shall have the power of veto over the employment of the proposed executive officer. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed officer.

(17) 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 does not require the Comptroller to

complete his review and act on any such information or authority within ninety (90) days.

ARTICLE IV -- CREDIT RISK

(18) Within sixty (60) days, the Board shall develop, implement, and thereafter take steps to ensure Bank adherence to a written program to reduce the high level of credit risk in the Bank. The program shall include, but not be limited to:

- (a) procedures to strengthen credit underwriting, particularly in the loan portfolio;
- (b) procedures to strengthen management of loan operations and to maintain an adequate, qualified staff in all loan functional areas; and
- (c) an action plan to control loan growth.

(19) The Board shall submit a copy of the program to the Assistant Deputy Comptroller.

(20) At least quarterly, the Board shall prepare a written assessment of the bank's credit risk, which shall evaluate the Bank's progress under the aforementioned program. The Board shall submit a copy of this assessment to the Assistant Deputy Comptroller.

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

ARTICLE V -- LOAN PORTFOLIO MANAGEMENT

(22) The Board shall, within sixty (60) days, develop, implement, and thereafter take steps designed to ensure Bank adherence to a written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

(a) procedures designed to ensure satisfactory and perfected collateral documentation;

(b) procedures designed to ensure that extensions of credit are granted, by renewal or otherwise, to any borrower only after obtaining and analyzing current and satisfactory credit information;

(c) procedures designed to ensure conformance with loan approval requirements;

(d) a system designed to track and analyze exceptions;

(e) procedures designed to ensure conformance with Call Report instructions;
and

(f) procedures designed to ensure the accuracy of internal management information systems.

(23) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller.

(24) Within sixty (60) days, the Board shall develop, implement, and thereafter take steps designed to ensure Bank adherence to systems which provide for effective monitoring of:

(a) early problem loan identification to assure the timely identification and rating of loans;

(b) compliance with the Bank's lending policies and laws, rules, and regulations pertaining to the Bank's lending function; and

(c) adequacy of credit and collateral documentation.

(25) Beginning March 31, 2001, on a quarterly basis management will provide the Board with written reports including, at a minimum, the following information:

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

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

ARTICLE VI -- CREDIT AND COLLATERAL EXCEPTIONS

(27) Within sixty (60) days the Board shall take steps designed 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.

(28) Within sixty (60) days the Board shall take steps 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.

(29) Effective immediately, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit that exceeds fifty thousand dollars (\$50,000) only after:

- (a) documenting the specific reason or purpose 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 (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 (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 VII -- ALLOWANCE FOR LOAN AND LEASE LOSSES

(30) The Board shall review the adequacy of the Bank's Allowance for Loan and Lease Losses (Allowance) and shall establish a program for the maintenance of an adequate Allowance. This review and program shall be designed in light of the comments on maintaining a proper

Allowance found in the Allowance for Loan and Lease Losses booklet, A-ALLL, of the Comptroller's Handbook, and shall focus particular attention on the following factors:

- (a) results of the Bank's loan review;
- (b) an estimate of inherent loss exposure on each significant credit;
- (c) loan loss experience;
- (d) trends of delinquent and nonaccrual loans;
- (e) concentrations of credit in the Bank; and
- (f) present and prospective economic conditions.

(31) 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.

(32) A copy of the Board's program shall be submitted to the Assistant Deputy Comptroller for review and approval.

(33) The Board shall take steps designed to 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 VIII -- BUDGET AND BUSINESS PLAN

(34) Within ninety (90) days, the Board shall prepare, implement, and thereafter take steps designed to ensure Bank adherence to a written three-year business plan that shall include a projection of major balance sheet and income statement components, and shall provide for

injections of equity capital, as necessary. The business plan shall also include a written profit plan and a detailed budget. Specifically, the plan shall describe the Bank's objectives for improving Bank earnings, contemplated strategies and major capital expenditures required to achieve those objectives. Such strategies shall include specific market segments that the Bank intends to promote or develop. Procedures shall also be established to monitor the Bank's actual results against these projections and to provide for appropriate adjustments to the budget and profit plan. The plan shall set forth specific time frames for the accomplishment of these objectives.

(35) A copy of the plan shall be submitted to the Assistant Deputy Comptroller for review and approval.

(36) The Board shall take steps designed to ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the plan developed pursuant to this Article.

ARTICLE IX - Capital Plan and Higher Minimums

(37) The Bank shall achieve by March 31, 2002 and thereafter maintain the following capital levels (as defined by 12 C.F.R. Part 3):

- (a) Tier 1 capital at least equal to 19 percent (19%) of risk-weighted assets;
- and
- (b) Tier 1 capital at least equal to 9.5 percent (9.5%) of adjusted total assets.

(38) Within ninety (90) days, the Board shall develop, implement, and thereafter take steps designed 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 (37)

(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 prior written approval of the Assistant Deputy Comptroller.

(39) 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.

(40) The Board shall take steps designed to 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 X -- CONSUMER COMPLIANCE PROGRAM

(41) Within ninety (90) days, the Bank shall adopt, implement, and thereafter take steps designed 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) semiannual updates of the written policies and procedures manual designed 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.

(42) Upon adoption, a copy of the program shall be forwarded to the Assistant Deputy

Comptroller for review.

(43) The Board shall take steps designed to 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 -- INTERST RATE RISK POLICY

(44) Within ninety (90) days, the Board shall adopt, implement, and thereafter take steps designed to ensure Bank adherence to a written interest rate risk policy. In formulating this policy, the Board shall refer to the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook. The policy shall provide for a coordinated interest rate risk strategy and, at a minimum, address:

- (a) the establishment of adequate management reports on which to base sound interest rate risk management decisions;
- (b) establishment and guidance of the Bank's strategic direction and tolerance for interest rate risk;
- (c) implementation of effective tools to measure and monitor the Bank's performance and overall interest rate risk profile;
- (d) employment of competent personnel to manage interest rate risk;
- (e) prudent limits on the nature and amount of interest rate risk that can be taken; and
- (f) periodic review of the Bank's adherence to the policy.

(45) Upon adoption, a copy of the written policy shall be forwarded to the Assistant Deputy Comptroller for review.

(46) The Board shall take steps designed to ensure that the Bank has processes,

personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE XII -- INVESTMENT POLICY

(47) Within ninety (90) days, the Board shall review and revise the Bank's investment policy and implement the revised policy, and thereafter take steps designed to ensure Bank adherence to the policy. The policy shall contain the basic elements of a sound investment policy as described in the Comptroller's Handbook for National Bank Examiners at Section 203.1 and shall include:

(a) an investment portfolio strategy that is consistent with Board approved Bank asset and liability management policies and interest rate risk tolerances. Investment portfolio management shall be consistent with regulatory guidance provided in An Examiner's Guide to Investment Products and Practices, dated December 1992, 12 C.F.R. Part 1, and the Comptroller's issuance OCC 98-20;

(b) individual and committee investment portfolio purchase and sale authority;

(c) approval procedures that will include dollar size limits, quality limitations, maturity limitations, and concentration or diversification guidelines;

(d) a requirement that investment securities be supported by adequate credit and interest rate risk measurement information as described in the Interest Rate Risk booklet, L-IRR, of the Comptroller's Handbook and in the Comptroller's issuance OCC 98-20, dated April 27, 1998;

(e) required reviews and use of securities dealers;

(f) periodic reports to and approval by the Board for all investment portfolio

purchases and sales and strategy changes; and

(g) monthly review by the Board's investment committee of the Bank's investment portfolio activity to ensure adherence to the investment policy and to applicable banking and securities laws and regulations.

(48) The revised investment policy shall be implemented and a copy shall be forwarded to the Assistant Deputy Comptroller.

(49) The Board shall take steps designed to ensure that the Bank has processes, personnel, and control systems to ensure implementation of and adherence to the policy developed pursuant to this Article.

ARTICLE XIII -- INTERNAL AUDIT

(50) Within ninety (90) days, the Board shall adopt, implement, and thereafter take steps designed 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) take steps designed to ensure adequate audit coverage in all areas; and

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

(51) 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.

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

(53) The Board shall take steps designed to 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.

(54) The Board shall take steps designed to 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.

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

(56) 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.

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

ARTICLE XIV -- PROGRESS REPORTING: QUARTERLY

(58) The Board shall submit quarterly progress reports to the Assistant Deputy Comptroller, Lubbock Field Office (Assistant Deputy Comptroller). These reports shall set forth

in detail:

- (a) actions taken to comply with each Article of the Agreement;
- (b) results of those actions; and
- (c) a description of the actions needed to achieve full compliance with each Article of this Agreement.

(59) The progress reports should also include any actions initiated by the Board and the Bank pursuant to the criticisms and comments in the Report of Examination or in any future Report of Examination.

(60) The first progress report shall be submitted for the period ending June 30, 2001 and will be due within thirty (30) days of that date. Thereafter, progress reports will be due within thirty (30) days after the quarter end.

ARTICLE VX -- CLOSING

(61) 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.

(62) 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.

(63) 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.

(64) 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 her hand on behalf of the Comptroller.

-signed-

05-01-01

Debra A. Garland
Assistant Deputy Comptroller

Date

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

SIGNATURES:

DATE

-signed- _____ 05-01-01 _____

Brett Buckingham

-signed- _____ 05-01-01 _____

Kenneth W. Fields

-signed- _____ 05-01-01 _____

Chad Holland

-signed- _____ 05-01-01 _____

David Oldham

-signed- _____ 05-01-01 _____

Charles E. Sanders

-signed- _____ 05-01-01 _____

Joel G. Sanders