

**#2003-48**

**AGREEMENT BY AND BETWEEN  
SECURITY STATE BANK, NA  
ORE CITY, TEXAS  
AND THE  
OFFICE OF THE COMPTROLLER OF THE CURRENCY**

Security State Bank, NA, Ore City, 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 for the examination that commenced on February 24, 2003 (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. This Agreement supercedes and replaces the Memorandum of Understanding dated June 4, 2002, between the Bank and the Comptroller, which Memorandum is hereby terminated.

**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 (ADC) pursuant to this Agreement shall be forwarded to:

Marshall W. Mitchell  
Assistant Deputy Comptroller  
Longview Field Office  
1800 West Loop 281, Suite 306  
Longview, Texas 75604

## **ARTICLE II -- COMPLIANCE COMMITTEE**

(1) Within thirty (30) days, the Board shall appoint a Compliance Committee of at least three (3) directors, of which a majority shall **not** be employees 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 ADC. The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Agreement.

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

(3) Within thirty (30) days of the appointment of the Committee and quarterly 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.

(4) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the ADC.

### **ARTICLE III -- NEW BOARD MEMBER AND/OR SENIOR EXECUTIVE OFFICER**

(1) Prior to the appointment of any individual as a Board member or senior executive officer, the Board shall submit to the ADC 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 individual; and,
- (c) a written description of the proposed officer's duties and responsibilities.

(2) The ADC shall have the power of veto over the employment of the proposed officer or Board member. However, the failure to exercise such veto power shall not constitute an approval or endorsement of the proposed individual.

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

### **ARTICLE IV -- STAFFING PLAN**

(1) Within sixty (60) days, the Compliance Committee shall complete a study of the Bank’s staffing requirements in light of the Bank’s present condition. The findings and

recommendations of the Compliance Committee shall be set forth in a written report to the Board. At a minimum, the report shall contain:

- (a) the identification of present and future staffing requirements of each area of the Bank, with particular emphasis given to the loan area;
- (b) the identification of the job responsibilities for each position along with the skills and expertise needed to accomplish those responsibilities;
- (c) the identification of the skills and expertise of the Bank's current staff; and
- (d) comparison of the current staff's skills and expertise identified in (1)(c) to the skills and expertise needed to perform each position.

(2) Within thirty (30) days of the development of the staffing plan, the Board will implement the plan and direct any changes necessary to provide the Bank with a staff that possesses the skills and expertise identified in (1)(b) of this Article. Thereafter the Board will ensure that the Bank adheres to the staffing plan.

(3) Upon completion of the actions required by (1) and (2), the Board will provide a copy of its staffing plan to the ADC for review.

#### **ARTICLE V -- CONSUMER LOAN UNDERWRITING**

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter adhere to a written program to improve the Bank's consumer loan underwriting. The program shall include at a minimum the following:

- (a) a provision that current and satisfactory credit information will be obtained on each borrower to include a current loan application and credit report;
- (b) maximum debt to income ratios;

- (c) a maturity schedule related to the anticipated source of repayment, and the useful life of the collateral;
- (d) a maximum ratio of loan value to asset value; and
- (e) collection procedures, to include follow-up efforts that are systematically and progressively stronger.

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

(3) Upon completion, a copy of the program shall be forwarded to the ADC.

#### **ARTICLE VI -- COMMERCIAL LOAN UNDERWRITING**

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter adhere to a written program 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. For those commercial borrowers with aggregate debt equal to or greater than one hundred thousand dollars (\$100,000) procedures should require at a minimum the following:

- (a) trend and financial ratio analysis, including financial statement spreads, along with written detail of the obligor's financial strengths, weaknesses, and any pertinent discussions with the borrower; and
- (b) cash flow analysis to include all debt service requirements of the borrower, including that from other financial institutions.

(2) Upon completion, a copy of the program shall be forwarded to the ADC.

## **ARTICLE VII -- CREDIT AND COLLATERAL EXCEPTIONS**

(1) Within thirty (30) days, the Board shall develop implement, and thereafter ensure Bank adherence to a written program to reduce the level of documentation exceptions. The program shall include at a minimum the following:

- (a) procedures to ensure satisfactory and perfected collateral documentation;
- (b) procedures 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; and
- (c) a system to track, analyze, and correct exceptions.

(2) Upon completion, a copy of the program shall be forwarded to the ADC.

## **ARTICLE VIII -- 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) Within thirty (30) days, the Board shall adopt, implement, and thereafter 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 fifty thousand dollars (\$50,000) shall be forwarded to the ADC.

(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 monthly basis, to determine:

- (a) the status of each criticized asset or criticized portion thereof that equals or exceeds fifty thousand dollars (\$50,000);
- (b) management's adherence to the program adopted pursuant to this Article;
- (c) the status and effectiveness of the written program; and
- (d) the need to revise the program or take alternative action.

(6) A copy of each review shall be forwarded to the ADC on a quarterly basis (in a format similar to Appendix A, attached hereto).

(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 fifty thousand dollars (\$50,000) **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.

(8) A copy of the approval of the Board or of the designated committee shall be maintained in the file of the affected borrower.

#### **ARTICLE IX -- ALLOWANCE FOR LOAN AND LEASE LOSSES**

(1) 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 internal loan review;
- (b) results of the Bank's external loan review;
- (c) an estimate of inherent loss exposure on each significant credit;
- (d) loan loss experience;



- (e) trends of delinquent and nonaccrual loans;
- (f) concentrations of credit in the Bank; and
- (g) 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) A copy of the Board's program shall promptly be submitted to the ADC for review.

(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.

#### **ARTICLE X -- BUDGET**

(1) Within thirty (30) days, the Board shall develop, implement, and thereafter ensure Bank adherence to a budgetary process. This budget shall include, at minimum, the following elements:

- (a) realistic and comprehensive projections, including projected balance sheets and income statements on a monthly and year to date basis;
- (b) a budget review process to monitor both the Bank's income and expenses, and to compare actual figures with budgetary projections; and
- (c) a description of the operating assumptions that form the basis for major projected income and expense components.

(2) The budgets and related documents required in paragraph (1) above for 2003 shall be submitted to the ADC upon completion. The Board shall submit to the ADC annual budgets as described in paragraph (1) above for each year this Agreement remains in effect. The budget for each year shall be submitted on or before November 30th of the preceding year.

(3) The Board shall forward comparisons of its balance sheet and profit and loss statement to the budget projections to the ADC on a quarterly basis.

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

#### **ARTICLE XI -- CLOSING**

(1) Although the Board has agreed to submit certain programs and reports to the ADC 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 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 ADC 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.

(5) In each instance in this Agreement in which the Board is required to ensure adherence to, and undertake to perform certain obligations of the Bank, it is intended to mean that the Board shall:

- (a) authorize and adopt such actions on behalf of the Bank as may be necessary for the Bank to perform its obligations and undertakings under the terms of this Agreement;
- (b) require the timely reporting by Bank management of such actions directed by the Board to be taken under the terms of this Agreement;
- (c) follow-up on any non-compliance with such actions in a timely and appropriate manner; and
- (d) require corrective action be taken in a timely manner of any non-compliance with such actions.

(6) This Agreement is intended to be, and shall be construed to be, a supervisory “written agreement entered into with the agency” as contemplated by 12 U.S.C. § 1818(b)(1), and expressly does not form, and may not be construed to form, a contract binding on the OCC or the United States. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the OCC may enforce any of the commitments or obligations herein undertaken by the Bank under its supervisory powers, including 12 U.S.C. § 1818(b)(1), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the OCC has any intention to enter into a contract. The Bank also expressly acknowledges that no OCC officer or employee has statutory or other authority to bind the United States, the U.S. Treasury Department, the OCC, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the OCC’s exercise of its supervisory

responsibilities. The terms of this Agreement, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements or arrangements, or negotiations between the parties, whether oral or written.

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

/s/ Marshall W. Mitchell  
Marshall W. Mitchell  
Assistant Deputy Comptroller  
Longview Field Office

5/1/03  
Date

IN 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.

Signed  
Frank Breazeale

5-01-03  
Date

Signed  
Gaston W. Deberry, III

5-01-03  
Date

Signed  
Dr. Bob Glaze

5-1-03  
Date

Signed  
Jesse Lee Haggard, III

5-1-03  
Date

Joe Riley Jones, Jr.

Date

Sammy D. Satterwhite

Date

**APPENDIX A**  
Security State Bank, NA  
Ore City, Texas

CRITICIZED ASSET REPORT AS OF: \_\_\_\_\_

BORROWER(S): \_\_\_\_\_

ASSET BALANCE(S) AND OCC RATING (SM, SUBSTANDARD, DOUBTFUL OR LOSS):

\$ \_\_\_\_\_ CRITICISM \_\_\_\_\_

AMOUNT CHARGED OFF TO DATE \_\_\_\_\_

FUTURE POTENTIAL CHARGE-OFF \_\_\_\_\_

PRESENT STATUS (Fully explain any increase in outstanding balance; include past due status, nonperforming, significant progress or deterioration, etc.):

FINANCIAL AND/OR COLLATERAL SUPPORT (include brief summary of most current financial information, appraised value of collateral and/or estimated value and date thereof, bank's lien position and amount of available equity, if any, guarantor(s) info, etc.):

PROPOSED PLAN OF ACTION TO ELIMINATE ASSET CRITICISM(S) AND TIME FRAME FOR ITS ACCOMPLISHMENT:

IDENTIFIED SOURCE OF REPAYMENT AND DEFINED REPAYMENT PROGRAM (repayment program should coincide with source of repayment):

Use this form for reporting each criticized asset that exceeds fifty dollars (\$50,000) and retain the original in the credit file for review by the examiners. Submit your reports **quarterly** until notified otherwise, in writing, by the ADC.