

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY

In the Matter of:)
First National Bank)
Edinburg, Texas)

AA-EC-11-22

CONSENT ORDER

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller”), through his National Bank Examiner, has supervisory authority over First National Bank, Edinburg, Texas (“Bank”);

WHEREAS, the Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a Stipulation and Consent to the Issuance of a Consent Order (“Stipulation and Consent”), dated 2-8-2011, that is accepted by the Comptroller; and

WHEREAS, by this Stipulation and Consent, which is incorporated by reference, the Bank, has consented to the issuance of this Consent Order (“Order”) by the Comptroller.

NOW, THEREFORE, pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818, the Comptroller hereby orders that:

ARTICLE I

COMPLIANCE COMMITTEE

(1) Within ten (10) days of this Order, the Board shall appoint and maintain an active Compliance Committee of at least five (5) directors of which at least two (2) 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 and, in the event of a change of the membership, the name of any new member shall be submitted in writing to the Director of Special Supervision

("Director"). The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order.

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

(3) Within thirty (30) days of the date of this Order and thereafter monthly, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

- (a) a description of the actions needed to achieve full compliance with each Article of this Order;
- (b) actions taken to comply with each Article of this Order; and
- (c) the results and status 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 Director within ten (10) days of receiving such report.

(5) All reports or plans which the Bank or Board has agreed to submit to the Director pursuant to this Order shall be forwarded, by overnight mail or via email, to the following:

Director for Special Supervision
Comptroller of the Currency
250 E Street, S.W.
Mail Stop 7-4
Washington, DC 20219

with a copy to:
San Antonio South Field Office
Comptroller of the Currency
10001 Reunion Place, Suite 250
San Antonio, Texas 78216-4133

(6) The Board shall ensure that the Bank has sufficient processes, personnel, and control systems to effectively implement and adhere to all provisions of this Order, and that Bank personnel have sufficient training and authority to execute their duties and responsibilities under this Order.

ARTICLE II

STRATEGIC PLAN

(1) Within ninety (90) days, the Board shall forward to the Director for his review, pursuant to paragraph (4) of this Article, a written Strategic Plan for the Bank that is acceptable to the Director, covering at least a three-year period. The Strategic Plan shall establish objectives for the Bank's overall risk profile, methods to implement cash flow lending, earnings performance, growth, balance sheet mix, off-balance sheet activities, liability structure, capital and liquidity adequacy, and market segments that the Bank intends to promote or develop, together with strategies to achieve those objectives, and shall, at a minimum, include:

- (a) a mission statement that forms the framework for the establishment of strategic goals and objectives;
- (b) a description of the Bank's targeted market(s) and an assessment of the current and projected risks and competitive factors in its identified target market(s);
- (c) the strategic goals and objectives to be accomplished;
- (d) a projection of the Bank's capital needs, to include viable primary and alternative sources of capital and a restriction on dividends;
- (e) specific actions to improve Bank earnings and accomplish the identified strategic goals and objectives;
- (f) identification of Bank personnel to be responsible and accountable for achieving each goal and objective of the Strategic Plan, including specific time frames;
- (g) a financial forecast, to include projections for major balance sheet and income statement accounts, targeted financial ratios, and growth projections over the period covered by the Strategic Plan;

- (h) a description of the assumptions used to determine financial projections and growth targets;
- (i) an identification and risk assessment of the Bank's present and planned future product lines (assets and liabilities) that will be utilized to accomplish the strategic goals and objectives established in the Strategic Plan, with the requirement that the risk assessment of new product lines must be completed prior to the offering of such product lines;
- (j) a description of control systems to mitigate risks associated with planned new products, growth, or any proposed changes in the Bank's markets;
- (k) 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 established in the Strategic Plan;
- (l) assigned responsibilities and accountability for the strategic planning process, new products, growth goals, and proposed changes in the Bank's operating environment; and
- (m) a description of systems to monitor the Bank's progress in meeting the Strategic Plan's goals and objectives.

(2) At least monthly, the Board shall review financial reports and earnings analyses prepared by the Bank that evaluate the Bank's performance against the goals and objectives established in the Strategic Plan, as well as the Bank's written explanation of significant differences between actual and projected balance sheet, income statement, and expense accounts, including descriptions of extraordinary and/or nonrecurring items. Within ten (10)

days of the completion of its review, the Board shall submit a copy of the reports to the Director.

(3) At least quarterly, the Board shall prepare a written evaluation of the Bank's performance against the Strategic Plan, based on the Bank's monthly reports, analyses, and written explanations of any differences between actual performance and the Bank's strategic goals and objectives, and shall include a description of the actions the Board will require the Bank to take to address any shortcomings, which shall be documented in the Board meeting minutes. Within ten (10) days of completing its evaluation, the Board shall submit a copy to the Director.

(4) Prior to adoption by the Board, a copy of the Strategic Plan, and any subsequent amendments or revisions, shall be forwarded to the Director for review and prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to the Strategic Plan.

(5) The Bank may not initiate any action that deviates significantly from the Board-approved Strategic Plan without a written determination of no supervisory objection from the Director. The Board must give the Director advance, written notice of its intent to deviate significantly from the Strategic Plan, along with an assessment of the impact of such change on the Bank's condition, including a profitability analysis and an evaluation of the adequacy of the Bank's organizational structure, staffing, management information systems, internal controls, and written policies and procedures to identify, measure, monitor, and control the risks associated with the change in the Strategic Plan.

(6) For the purposes of this Article, changes that may constitute a significant deviation from the Strategic Plan include, but are not limited to, a change in the Bank's marketing strategies, marketing partners, underwriting practices and standards, credit administration, account management, collection strategies or operations, fee structure or pricing, accounting processes and practices, or funding strategy, any of which, alone or in aggregate, may have a material impact on the Bank's operations or financial performance; or any other changes in personnel, operations, or external factors that may have a material impact on the Bank's operations or financial performance. For purposes of this paragraph, "personnel" shall include the president, chief executive officer, chief financial officer, chief credit officer, deputy chief credit officer, executive vice president/legal and compliance, auditor, member of the Bank's board of directors, or any other position subsequently identified in writing by the Director.

ARTICLE III

CAPITAL PLAN AND HIGHER MINIMUMS

(1) The Bank shall achieve by March 31, 2011 and thereafter maintain the following minimum capital ratios (as defined in 12 C.F.R. Part 3):

- (a) Total capital at least equal to thirteen percent (13%) of risk-weighted assets;
- (b) Tier 1 capital at least equal to nine percent (9%) of adjusted total assets.

(2) The requirement in this Order to meet and maintain a specific capital level means that the Bank may not be deemed to be "well-capitalized" for purposes of 12 U.S.C. § 1831o and 12 C.F.R. Part 6, pursuant to 12 C.F.R. § 6.4(b)(1)(iv).

(3) Within ninety (90) days, the Board shall forward to the Director for his review, pursuant to paragraph (4) of this Article, a written Capital Plan for the Bank, consistent with the Strategic Plan pursuant to Article II, covering at least a three-year period. At the next Board meeting following receipt of the Director's written determination of no supervisory objection,

the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to the Capital Plan. The Capital Plan shall include:

- (a) specific plans for the maintenance of adequate capital, which may in no event be less than the requirements of paragraph (1) of this Article;
- (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 future needs, as set forth in the Strategic Plan;
- (d) identification of the primary sources from which the Bank will maintain an appropriate capital structure to meet the Bank's future needs, as set forth in the Strategic Plan;
- (e) specific plans detailing how the Bank will comply with restrictions or requirements set forth in this Order and the restrictions against brokered deposits in 12 C.F.R. § 337.6; and
- (f) contingency plans that identify alternative methods to strengthen capital should the primary source(s) under paragraph (d) of this Article not be available.

(4) The Bank may make payment of a dividend, or make a capital distribution, only:

- (a) when the Bank is in compliance with its approved Capital Plan and would remain in compliance with its approved Capital Plan immediately following the payment of any dividend;
- (b) when the Bank is in compliance with 12 U.S.C. §§ 56 and 60; and
- (c) following the prior written determination of no supervisory objection by the Director.

(5) Prior to adoption by the Board, a copy of the Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. Upon receiving a written determination of no supervisory objection from the Director, the Board shall adopt and the Bank shall immediately implement and adhere to the Capital Plan. The Board shall review and update the Bank's Capital Plan at least annually and more frequently if necessary or if requested by the Director. Revisions to the Bank's Capital Plan shall be submitted to the Director for a prior written determination of no supervisory objection. At the next Board meeting following receipt of the Director's written determination of no supervisory objection, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to the Capital Plan and any amendments or revisions thereto.

(6) If the Bank fails to submit an acceptable Capital Plan as required by paragraph (2) of this Article, fails to implement or adhere to a Capital Plan to which the Director has taken no supervisory objection pursuant to paragraph (5) of this Article, or fails to achieve and maintain the minimum capital ratios as required by paragraph (1) of this Article then in the sole discretion of the Director, the Bank shall, upon written direction of the Director, within thirty (30) days develop and shall submit to the Director for his review and prior written determination of no supervisory objection a Disposition Plan that shall detail the Board's proposal to sell or merge the Bank, including a transaction pursuant to 12 U.S.C. § 215a-3, or implement a voluntary plan of liquidation of the Bank under 12 U.S.C. § 181.

- (a) In the event that the Disposition Plan submitted by the Bank's Board outlines a sale or merger of the Bank, including a transaction pursuant to 12 U.S.C. § 215a-3, the Disposition Plan shall, at a minimum, address the steps that will be taken and the associated timeline to ensure that a definitive agreement for the sale or merger is executed not later than one hundred and eighty (180) days after the

receipt of the Director's written determination of no supervisory objection to the Disposition Plan.

- (b) If the Disposition Plan outlines a voluntary liquidation of the Bank, the Disposition Plan shall detail the actions and steps necessary to accomplish the liquidation in conformance with 12 U.S.C. §§ 181 and 182, and the dates by which each step of the liquidation shall be completed, including the date by which the Bank will terminate the national bank charter. In the event of liquidation, the Bank shall hold a shareholder vote, pursuant to 12 U.S.C. § 181, and commence liquidation within thirty (30) days of receiving the Director's written determination of no supervisory objection to the Disposition Plan.

(7) After the Director has advised the Bank in writing that he does not take supervisory objection to the Disposition Plan, the Board shall immediately adopt and implement, and shall thereafter ensure adherence to, the terms of the Disposition Plan. Failure to submit a timely, acceptable Disposition Plan, or failure to implement and adhere to the Disposition Plan after the Board obtains a written determination of no supervisory objection from the Director, may be deemed a violation of this Order, in the exercise of the Director's sole discretion.

ARTICLE IV

LOAN PORTFOLIO MANAGEMENT

(1) Within sixty (60) days, Board shall revise and the Bank (subject to Board review and ongoing monitoring) shall continue to ensure implementation and adherence to a written credit policy to improve the Bank's loan portfolio management. The credit policy shall include (but not be limited to):

- (a) a description of the types of credit information required from borrowers and guarantors, including (but not limited to) annual audited statements, interim

financial statements, personal financial statements, and tax returns with supporting schedules;

- (b) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and validating current credit information about the borrower and any guarantor sufficient to fully assess and analyze the borrower's and guarantor's cash flow, debt service requirements, contingent liabilities, and global liquidity condition, and only after the credit officer prepares a documented credit analysis;
- (c) procedures that require any extension of credit (new, maturity extension, or renewal) is made only after obtaining and documenting the current valuation of any supporting collateral, perfecting and verifying the Bank's lien position, and verifying that reasonable limits are established on credit advances against collateral, based on a consideration of (but not limited to) a realistic assessment of the value of collateral, the ratio of loan to value, and overall debt service requirements;
- (d) incorporate stress-testing requirements into underwriting guidance based on original underwriting and during life of the loan,
- (e) procedures that prohibit the capitalization of accrued interest on any loan renewal or extension;
- (f) procedures that prohibit, on any loan renewal, extension or modification, the establishment of a new interest reserve using the proceeds of any Bank loan to the same borrower or guarantor;
- (g) procedures to ensure that all exceptions to the credit policy shall be clearly documented on the loan offering sheet, problem loan report, and other

management information systems (“MIS”); and approved by the Board or a committee thereof before the loan is funded or renewed;

- (h) credit risk rating definitions consistent with applicable regulatory guidance;
- (i) procedures for early problem loan identification to ensure that credits are accurately risk rated at least monthly;
- (j) procedures governing the identification and accounting for nonaccrual loans that are consistent with the requirements contained in the Call Report Instructions; and
- (k) prudent lending and approval limits for lending officers that are commensurate with their experience and qualifications, and that prohibit combining individual lending officers’ lending authority to increase limits;
- (l) include more defined parameters for use of loan agreements on credits that exceed one million dollars (\$1,000,000);
- (m) expand and improve on the risk rating criteria for each loan grade used;
- (n) improve the frequency and quality of required interim financial information;
- (o) implement measure to correct the deficiencies in the Bank’s lending procedures noted in the Report of Examination; and
- (p) implement guidelines for periodic review of the Bank’s adherence to the revised lending policy.

(2) For construction lending, including lot development loans, the policy shall include more specific guidelines ensuring that:

- (a) Market feasibility analyses are performed on larger construction projects;
- (b) Detailed cash flow analyses, including global cash flow if applicable, are performed on borrowers and guarantors;
- (c) Current rental and sales information is maintained on all construction projects;

- (d) Pre-sale and pre-leasing thresholds are used to lower overall credit risk; and,
- (e) All construction loans are either in conformity with the Bank's construction loan policies and procedures or in compliance with the Bank's written provisions for exceptions to loan policies and procedures.

(3) The Bank shall immediately reverse or charge off all interest that has been accrued contrary to the requirements contained in the Instructions for Preparation of Consolidated Reports of Condition and Income ("Call Report Instruction") governing nonaccrual loans. Further, the Bank shall immediately reverse or charge off that portion of the remaining accrued interest on such loans that, when combined with principal, is not protected by sound collateral values.

- (a) Immediately, the Board shall ensure the Bank's adherence to written policies and procedures governing the supervision and control of nonaccrual loans. Such policies and procedures shall:
 - (i) Be consistent with the accounting requirements contained in the Call Report Instructions;
 - (ii) Be consistent with the accounting requirements contained in "FASB ASC 360-20, *Real Estate Sales* (SFAS 66)" for loans to finance OREO that are not eligible for full accrual method;
 - (iii) Address the circumstances under which accrued interest due on a loan may be added to the outstanding principal amount when the loan is renewed or restructured; and,
 - (iv) Require the monthly presentation to the Board of all loans meeting any of the nonaccrual criteria.

(b) Immediately, the Board shall develop and implement a written policy that shall provide for auditing accrued interest on loans. A copy of the written policy shall be provided to the Director for review and comment prior to adoption and implementation. The policy shall, at a minimum, provide for quarterly audits of accruals and incorporate procedures for periodically testing the Bank's identification of nonaccrual loans as governed by the policy adopted pursuant to paragraph (2) of this Article.

(4) The Board shall ensure that all Bank lenders or any other personnel performing credit analyses are adequately trained in cash flow analysis, particularly analysis using information on a global cash flow basis, evaluation of contingent liabilities, and verification of liquidity, and that processes are in place to ensure that additional training is provided as needed.

ARTICLE V

CRITICIZED ASSETS

(1) Within sixty (60) days, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to a written program designed to protect the Bank's interest in those assets criticized as "doubtful," "substandard," or "special mention" in the most recent Report of Examination ("ROE"), in any subsequent ROE, by any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination. The program shall include the ongoing use of Criticized Asset Reports ("CARs") identifying all credit relationships and other assets totaling in aggregate one million dollars (\$1,000,000) or more, criticized as "doubtful," "substandard," or "special mention." The CARs shall be updated monthly and submitted to the Board and Director at least quarterly. Each CAR shall cover an entire credit relationship and include, at a minimum, analysis and documentation of the following:

- (a) the origination date and any renewal or extension dates, amount, purpose of the loan, and the originating and current loan officer(s);
- (b) the expected primary and secondary sources of repayment and an analysis of the adequacy of the repayment source;
- (c) the appraised value of supporting collateral and the position of the Bank's lien on such collateral, where applicable, as well as other necessary documentation to support the current collateral valuation;
- (d) an analysis of current and complete credit information, including cash flow analysis where loans are to be repaid from operations;
- (e) results of any ASC 310 impairment analysis;
- (f) significant developments, including a discussion of changes since the prior CAR, if any; and
- (g) the proposed action to eliminate the basis of criticism and the time frame for its accomplishment, including an appropriate exit strategy.

(2) The Bank shall not extend credit, directly or indirectly, including renewals, modifications or extensions, to a borrower whose loans or other extensions of credit are criticized in any ROE, in any internal or external loan review, or in any list provided to management by the National Bank Examiners during any examination, unless and until the Board, or a designated committee thereof, finds and documents in writing each of the following conditions is met:

- (a) the extension of additional credit is necessary to promote the best interests of the Bank and that prior to renewing, modifying or extending 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. A copy of the findings and approval of the Board or designated committee shall be maintained in the credit file of the affected borrower;

- (b) the Bank has performed a written credit and collateral analysis as required by paragraph (1)(d) of this Article and, if necessary, the proposed action referred to in paragraph (1)(g) of this Article is revised, as appropriate; and
- (c) the Board's formal plan to collect or strengthen the criticized asset will not be compromised by the extension of additional credit.

ARTICLE VI

APPRAISAL PROCESS

(1) Immediately, the Board shall review and revise the Bank's real estate appraisal program. In revising its real estate appraisal policies and procedures, the Board shall refer to the "Commercial Real Estate and Construction Lending" booklet of the Comptroller's Handbook and other regulatory guidance. The real estate appraisal program shall incorporate more specific guidelines that:

- (a) Provide for the independence and qualifications of the person ordering, performing, and reviewing appraisals or evaluations;
- (b) Establish selection criteria and procedures to evaluate and monitor the ongoing performance of appraisers and persons who perform evaluations;
- (c) Ensure that appraisals comply with 12 C.F.R. § 34 and are consistent with supervisory guidance;
- (d) Ensure that appraisals and evaluations contain sufficient information to support the credit decision;

- (e) Maintain criteria for the content and appropriate use of evaluations consistent with safe and sound banking practices;
- (f) Provide for the receipt and review of the appraisal or evaluation report in a timely manner to facilitate the credit decision;
- (g) Develop criteria to assess whether an existing appraisal or evaluation may be used to support a subsequent transaction;
- (h) Implement internal controls that promote compliance with these program standards, including those related to monitoring third party arrangements;
- (i) Establish criteria for collateral valuation monitoring;
- (j) Establish criteria for obtaining appraisals or evaluations for transactions that are not otherwise covered by the appraisal requirements of 12 C.F.R. § 34;

(2) Upon adoption, the program shall be implemented, the Board shall thereafter ensure Bank adherence to the program, and a copy of the program shall be forwarded to the Director.

ARTICLE VII

LIQUIDITY RISK MANAGEMENT PROGRAM

(1) Within sixty (60) days, the Board shall revise and maintain a comprehensive liquidity risk management program which assesses, consistent with OCC Bulletin 2010-13, “Liquidity” (March 22, 2010), which assesses, on an ongoing basis, the Bank's current and projected funding needs, and ensures that sufficient funds or access to funds exist to meet those needs. Such a program must include effective methods to achieve and maintain sufficient liquidity and to measure and monitor liquidity risk, to include at a minimum:

- (a) strategies to maintain sufficient liquidity at reasonable costs including, but not limited to, the following:

- (i) better diversification of funding sources, reducing reliance on high cost providers;
 - (ii) reducing rollover risk;
 - (iii) increasing liquidity through such actions as obtaining additional capital, placing limits on asset growth, aggressive collection of problem loans and recovery of charged-off assets, and asset sales; and
 - (iv) monitoring the projected impact on reputation, economic and credit conditions in the Bank's market(s).
- (b) The preparation of liquidity reports which shall be reviewed by the Board on at least a monthly basis, to include, at a minimum, the following:
- (i) a certificate of deposit maturity schedule, including separate line items for brokered deposits and uninsured deposits, depicting maturities on a weekly basis for the next two months and monthly for the following four months, which schedule shall be updated at least weekly;
 - (ii) a schedule of all funding obligations, including money market accounts, unfunded loan commitments, outstanding lines of credit and outstanding letters of credit, showing the obligations that can be drawn immediately, and on a weekly basis for the next two months and monthly for the following four months, which schedule shall be prepared and updated at least weekly;
 - (iii) a listing of funding sources, prepared and updated on a weekly basis for the next two months and monthly for the following four

months, including federal funds sold; unpledged assets and assets available for sale; and borrowing lines by lender, including original amount, remaining availability, type and book value of collateral pledged, terms, and maturity date, if applicable.

(iv) a monthly sources and uses of funds report for a minimum period of six months, updated monthly, which reflects known and projected changes in asset and liability accounts, and the assumptions used in developing the projections. Such reports shall include, at a minimum:

1. the funding obligations and sources required by (b) and (c) of this paragraph;
2. projected additional funding sources, including loan payments, loan sales/participations, or deposit increases; and
3. projected additional funding requirements from a reduction in deposit accounts including uninsured and brokered deposits, inability to acquire federal funds purchased, or availability limitations or reductions associated with borrowing relationships.

(c) A contingency funding plan that, on a monthly basis, forecasts funding needs, and funding sources under different stress scenarios which represent management's best estimate of balance sheet changes that may result from a liquidity or credit event. The contingency funding plan shall include:

- (i) the preparation of reports which identify and quantify all sources of funding and funding obligations under best case and worst case scenarios, including asset funding, liability funding and off-balance sheet funding; and
- (ii) procedures which ensure that the Bank's contingency funding practices are consistent with the Board's guidance and risk tolerances.

(2) The Board shall submit a copy of the comprehensive liquidity risk management program, along with the reports required by this Article, to the Director.

ARTICLE VIII

VIOLATIONS OF LAW

(1) The Board shall require and the Bank shall immediately take all necessary steps to correct each violation of law, rule, or regulation cited in the most recent Report of Examination (“ROE”), any subsequent ROE, or brought to the Board’s or Bank’s attention in writing by management, regulators, auditors, loan review, or other compliance efforts. Within ninety (90) days after the violation is cited or brought to the Board’s or appropriate committee’s attention, the Bank shall provide to the Board a list of any violations that have not been corrected. This list shall include an explanation of the actions taken to correct the violation, the reasons why the violation has not yet been corrected, and a plan to correct the violation by a specified time.

(2) Within sixty (60) days of the date of this Order, the Board shall adopt and the Bank (subject to Board review and ongoing monitoring) shall implement and thereafter ensure adherence to:

- (a) specific procedures to prevent future violations as cited in the most recent ROE;
and
- (b) general procedures addressing compliance management that incorporate internal control systems and education of employees regarding laws, rules, and regulations applicable to their areas of responsibility.

(3) Upon adoption, the Board shall forward a copy of these policies and procedures to the Director.

ARTICLE IX

ADMINISTRATIVE APPEALS AND EXTENSIONS OF TIME

(1) If the Bank requires an extension of any timeframe within this Order, the Board shall submit a written request to the Director asking for relief. Any written requests submitted pursuant to this Article shall include a statement setting forth in detail the special circumstances that prevent the Bank from compliance with a provision and that require an extension of a timeframe within this Order.

(2) All such requests shall be accompanied by relevant supporting documentation and any other facts upon which the Bank relies. The Director's decision concerning a request is final and not subject to further review.

ARTICLE X

OTHER PROVISIONS

(1) Although the Bank is required to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection of the Director, the Board

has the ultimate responsibility for proper and sound management of the Bank and the completeness and accuracy of the Bank's books and records.

(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 Order shall in any way inhibit, estop, bar, or otherwise prevent the Comptroller from so doing.

(3) Except as otherwise expressly provided herein, any time limitations imposed by this Order shall begin to run from the effective date of this Order.

(4) The provisions of this Order are effective upon issuance of this Order by the Comptroller, through his authorized representative whose signature appears below, and shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) In each instance in this Order in which the Bank or a Board committee is required to ensure adherence to and undertake to perform certain obligations of the Bank; including the obligation to implement plans, policies or other actions, it is intended to mean that the Board or Board committee, shall;

- (a) authorize and direct measures necessary to take the required action;
- (b) require Bank management to make timely reports to the Board on the status of, and compliance with, the required action; and
- (c) take appropriate corrective measures for any failure to carry out the required action.

(6) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818, and expressly does not form, and may not be construed to form, a contract binding on the Comptroller or the United States.

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

IT IS SO ORDERED, this 8th day of February, 2011.

signed

Henry Fleming
Director for Special Supervision Division

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)
First National Bank)
Edinburg, Texas)

AA-EC-10-XXX

**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

WHEREAS, the Comptroller of the Currency of the United States of America (“Comptroller” or “OCC”) intends to initiate cease and desist proceedings against First National Bank, Edinburg, Texas (“Bank”), pursuant to 12 U.S.C. § 1818(b), through the issuance of a Notice of Charges, for unsafe and unsound banking practices relating to supervision of the Bank;

WHEREAS, the Bank, in the interest of compliance and cooperation, and without admitting or denying any wrongdoing, consents to the issuance of a Consent Order, dated 2-8-2011 (“Order”) by executing this Stipulation and Consent to the Issuance of a Consent Order;

NOW THEREFORE, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, hereby stipulate and agree to the following:

ARTICLE I

JURISDICTION

(1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*

(2) The Comptroller is “the appropriate Federal banking agency” regarding the Bank, pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).

(3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).

ARTICLE II

ACKNOWLEDGMENTS

(1) The Bank acknowledges that said Order shall be deemed an “order issued with the consent of the depository institution,” as defined in 12 U.S.C. § 1818(h)(2), and consents and acknowledges that said Order shall become effective upon its issuance and shall be fully enforceable by the Comptroller under the provisions of 12 U.S.C. § 1818. Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818, and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(2) The Bank also expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the U.S. Treasury Department, the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller’s exercise of his supervisory responsibilities.

ARTICLE III

WAIVERS

- (1) The Bank, by signing this Stipulation and Consent, hereby waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);
 - (b) any and all procedural rights available in connection with the issuance of the Order;
 - (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. § 1818(i) or 12 C.F.R. Part 19;
 - (d) all rights to seek any type of administrative or judicial review of the Order; and

- (e) any and all rights to challenge or contest the validity of the Order.

ARTICLE IV

OTHER PROVISIONS

(1) The provisions of this Stipulation and Consent shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, the Comptroller deems it appropriate to do so to fulfill the responsibilities place upon him by the several laws of the United States of America.

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

signed
Henry Fleming
Director, Special Supervision Division

2-8-2011
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

2-8-2011

Dwayne W. Bair

Date

signed

2-8-2011

Robert Gandy, III

Date

signed

2-8-2011

Oscar Garza Jr.

Date

signed

2-8-2011

A. R. Guerra

Date

signed

2-8-2011

Michael V. McCarthy

Date

signed

2-8-2011

Jack McClelland

Date

signed

2-8-2011

Saul Ortega

Date

signed

2-8-2011

Joe Pritchett

Date

signed

2-8-2011

David O. Rogers, Jr.

Date