

AGREEMENT BY AND BETWEEN  
Lone Star National Bank  
Pharr, Texas  
and  
The Comptroller of the Currency

Lone Star National Bank, Pharr, 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 has found unsafe and unsound banking practices including, but not limited to, practices relating to problem asset management, loan portfolio management, real estate appraisal/evaluation practices, problem loan identification, loan review, board and management oversight, and other real estate owned management. The Comptroller has found violations including, but not limited to, violations of 12 U.S.C. § 29 and 12 C.F.R. Part 34.

In consideration of the above premise, 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) This Agreement shall cause the Bank to be designated as in “troubled condition,” as set forth in 12 C.F.R. § 5.51(c)(6), unless otherwise informed in writing by the Comptroller. In addition, this Agreement shall cause the Bank not to be designated as an “eligible bank” for purposes of 12 C.F.R. § 5.3(g), unless otherwise informed in writing by the Comptroller.

(6) 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 the:

Assistant Deputy Comptroller  
San Antonio South Field Office  
10001 Reunion Place  
Suite 250  
San Antonio, TX 78216-4133

## ARTICLE II

### COMPLIANCE COMMITTEE

(1) Within fifteen (15) calendar days of the date of this Agreement, the Board shall appoint a Compliance Committee of at least three (3) directors, of which no more than one (1) shall be an employee or controlling shareholder 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 Assistant Deputy Comptroller within ten (10) calendar days of any such appointment or change. 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 sixty (60) calendar days of the date of this Agreement and by the end of each calendar quarter thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail:

(a) a description of the action needed to achieve full compliance with each Article of this Agreement;

(b) actions taken to comply with each Article of this Agreement; 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 Assistant Deputy Comptroller within ten (10) calendar days of receiving such report.

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

### ARTICLE III

#### BOARD AND MANAGEMENT OVERSIGHT

(1) Effective as of the date of this Agreement, the Board shall ensure adherence to written policies and procedures that result in appropriate and timely Board and management

responses to deficiencies identified in any Report of Examination, internal audit report, or external audit report. Such policies and procedures shall include specific actions for:

- (a) developing tracking systems to: record identified deficiencies, identify the member(s) of management responsible for correcting the deficiencies, and monitor management's progress in correcting the deficiencies within the timeframes established by the Board;
- (b) a written policy that requires management to respond to and commence correcting identified deficiencies within thirty (30) calendar days of receiving a final Report of Examination, internal audit report, or external audit report; and
- (c) establishing an appropriate training program designed to strengthen identified weaknesses in management oversight of the Bank.

#### ARTICLE IV

##### PROBLEM ASSET MANAGEMENT

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

(2) Effective as of the date of this Agreement, the Board shall continue to adopt, implement, and thereafter ensure Bank adherence to individual workout plans that are effective in protecting the Bank's interest in or eliminating the basis of criticism of assets identified as classified or special mention in any ROE, 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.” Each workout plan shall include, at a minimum:

- (a) an identification of the expected sources of repayment and an analysis of their adequacy;
- (b) 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 collateral valuation;
- (c) an analysis of current and satisfactory credit information (to the extent that such information is obtainable based on reasonable and diligent efforts), which credit information shall include a cash flow analysis where loans are to be repaid from operations;
- (d) an assessment of the borrower’s global cash flow;
- (e) an assessment of any guarantor’s global cash flow;
- (f) the current grade and proposed action to eliminate the basis of criticism and the timeframe for its accomplishment;
- (g) trigger dates for positive borrower actions or for loan officers to reassess the strategy, enact collection plans, and make appropriate downgrades or place the loan on nonaccrual;
- (h) a determination of whether the loan is impaired and the amount of the impairment, consistent with ASC 310-10-35-2 through 30 (formerly known as FAS 114);
- (i) for relationships of five hundred thousand dollars (\$500,000) or above that are classified or special mention and were made for the purpose of

constructing or developing commercial real estate, the Problem Asset Reports shall also include:

- (i) the initial scheduled maturity date of the loan, number of extensions and/or renewals, and current maturity date;
- (ii) project development status;
- (iii) a comparison of development costs to the budgeted amount;
- (iv) a comparison of sales activity to the original sales projections;
- (v) amount of initial interest reserve and the amount of any subsequent additions to the reserve;
- (vi) any other significant information relating to the project; and,
- (vii) an evaluation of the progress made in the last quarter.

(3) Upon adoption of each workout plan for all classified or special mention assets equal to or exceeding five hundred thousand dollars (\$500,000), a copy shall be forwarded to the Assistant Deputy Comptroller.

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

- (a) the status of each classified or special mention asset or criticized portion thereof that equals or exceeds five hundred thousand dollars (\$500,000);
- (b) management's adherence to the workout plans adopted pursuant to this Article;
- (c) the status and effectiveness of the plans; and,
- (d) the need to revise the plans or take alternative action.

(5) Within thirty (30) days of the end of each calendar quarter, a copy of each review shall be forwarded to the Assistant Deputy Comptroller.

(6) Effective as of the date of this Agreement, the Bank may extend credit, directly or indirectly, including renewals or extensions, to a borrower whose loans or other extensions of credit are identified as classified or special mention 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 five hundred thousand dollars (\$500,000) 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 plans adopted pursuant to this Article shows that the Board's formal plan to collect or strengthen the classified or special mention asset will not be compromised.

(7) 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

### LOAN PORTFOLIO MANAGEMENT

(1) Effective as of the date of this Agreement, the Board shall review, revise, and thereafter ensure Bank adherence to its written program to improve the Bank's loan portfolio management. The program shall include, but not be limited to:

- (a) 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;
- (b) procedures to ensure pre- and post-funding analysis is comprehensive and includes a complete analysis of the primary source of repayment, guarantor support, and collateral value, including:
  - (i) analysis that focuses on key financial indicators (i.e. cash flow/repayment capacity, income statement trends/ratios, balance sheet analysis), in addition to other appropriate considerations for credit approval decisions and determining risk rating classifications for loans; and,
  - (ii) analysis, assessment, and verification of contingent liabilities and liquid assets when consideration of such is relevant to loan approval decisions.
- (c) procedures to ensure satisfactory and perfected collateral documentation;
- (d) procedures to ensure conformance with loan approval requirements;
- (e) a system to track, aggregate, and analyze exceptions by loan officer;



- (f) a performance appraisal process, including performance appraisals, job descriptions, and incentive programs for loan officers, which adequately considers their performance relative to policy compliance, documentation standards, accuracy in credit grading, and other loan administration matters;
- (g) procedures to reduce the dollar volume and number of matured loans that are past due; and
- (h) the establishment of and adherence to a written policy governing the Bank's risk tolerances related to its mortgage banking operations, which policy shall include rules governing: products, hedging, secondary marketing, servicing, and accounting for mortgage banking activities.

(2) Upon completion, a copy of the program shall be forwarded to the Assistant Deputy Comptroller within ten (10) calendar days of completion.

(3) Effective as of the date of this Agreement, the Board shall continue to obtain current and satisfactory credit information on all loans lacking such information (to the extent that such information is obtainable based on reasonable and diligent efforts). The loans requiring the Board to obtain current and satisfactory credit information shall include 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.

(4) Effective as of the date of this Agreement, the Bank may grant, extend, renew, alter or restructure any loan or other extension of credit 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) documenting, with adequate supporting material, the value of collateral and properly perfecting the Bank's lien on it where applicable; and,
- (e) obtaining and analyzing current and satisfactory credit information, including cash flow analysis, when loans are to be repaid from operations;
  - (i) Failure to obtain the information in (4)(e) 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 (4)(e) would be detrimental to the best interests of the Bank. 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.

## ARTICLE VI

### APPRAISAL AND EVALUATION PROCESS

- (1) Effective as of the date of this Agreement, the Board shall fully implement and ensure adherence to an appraisal policy ensuring that the Bank obtains real estate appraisals and evaluations in compliance with Uniform Standards of Professional Appraisal Practice ("USPAP"), 12 C.F.R. Part 34, the Interagency Appraisal and Evaluation Guidelines (December 10, 2010), Advisory Letter 2003-9, and OCC Bulletin 2005-6, and must include, at a minimum:
  - (a) criteria for obtaining updated appraisals, new appraisals, and evaluations;

- (b) procedures to ensure that appraisals, updates and evaluations are the appropriate type and ordered in a timely manner;
- (c) a tickler system for tracking when appraisals, updates and evaluations are received, reviewed and adjustments are made, as appropriate, to reflect ASC 310-10-35-2 through 30 (formerly known as FAS 114) impairment and changes in risk ratings; and,
- (d) provision of both immediate and ongoing training to any individuals designated with ensuring compliance with appraisal and evaluation regulations and guidelines including taking all necessary steps to ensure that Bank management corrects any violation of 12 C.F.R. Part 34 cited in the ROE, and any subsequent Report of Examination.

## ARTICLE VII

### PROBLEM LOAN AND NONACCRUAL IDENTIFICATION; LOAN REVIEW

(1) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure adherence to a written program that is effective in ensuring that the Bank's officers and employees are timely identifying and accurately risk rating assets. At a minimum, the program implemented pursuant to the Article shall require the following:

- (a) accurate and timely risk rating of loans and other assets by bank officers and employees using a loan grading system that is based upon current facts and existing repayment terms, and that is consistent with the guidelines set forth in the *Rating Credit Risk* booklet of the Comptroller's Handbook;

- (b) that the Bank's loans and other assets be timely placed on nonaccrual by the lending officers in accordance with the guidelines set forth in the instructions to the Consolidated Report of Income and Condition (Call Report);
  - (c) the establishment of training programs for affected personnel to ensure the accurate and timely identification of classified or special mention loans; and
  - (d) including accuracy and timeliness of recognition of nonaccrual loans and loan grading in the annual performance evaluation of affected personnel.
- (2) Within sixty (60) days, the Board shall develop, implement, and thereafter ensure adherence to a program that is effective in ensuring that the Bank's Loan Review is independent, accurately risk rates loans in accordance with the *Rating Credit Risk* booklet of the Comptroller's Handbook, and determines loan accrual status in accordance with Call Report instructions.

## ARTICLE VIII

### OTHER REAL ESTATE OWNED

- (1) Within sixty (60) calendar days, the Board shall adopt, implement, and thereafter ensure Bank adherence to a policy to ensure that Other Real Estate Owned ("OREO") is managed in accordance with 12 U.S.C. § 29 and 12 C.F.R. Part 34. The policy shall, at a minimum, address:
- (a) responsibility and authority for OREO properties;
  - (b) proper accounting procedures for OREO properties from transfer to the Bank and until and upon sale to a third party;

- (c) procedures to require timely appraisals pursuant to 12 C.F.R. § 34.85 and 12 C.F.R. Part 34, Subpart C;
- (d) diligent sales efforts for all OREO properties, not just those approaching the end of the statutory holding period;
- (e) reporting systems; and
- (f) the preparation of monthly action plans that provide the Board with the status of each OREO property.

(2) Upon adoption, the Board shall submit a copy of the policy to the Assistant Deputy Comptroller.

## ARTICLE IX

### CLOSING

(1) Although the Board has agreed to submit certain programs and reports to the Assistant Deputy Comptroller for review or prior written determination of no supervisory objection, 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 requirements 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.

(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 Comptroller or the United States. 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(b)(1), 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. The Bank also expressly acknowledges that no officer or employee of the Office of the Comptroller of the Currency 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. The terms of this Agreement, 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.

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

/s/  
\_\_\_\_\_  
Patricia Lindsey  
Assistant Deputy Comptroller  
San Antonio South Field Office

3/31/2015  
\_\_\_\_\_  
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.

/s/  
Alonzo Cantu

3/31/15  
Date

/s/  
Cruz Cantu, II

3/31/15  
Date

/s/  
George R. Carruthers

3/31/15  
Date

/s/  
S. David Deanda, Jr.

3/31/15  
Date

/s/  
Lazaro H. Fernandez, Jr

3/31/15  
Date

/s/  
Oscar R. Gonzalez

3/31/15  
Date

/s/  
Abdala Kalifa

3/31/15  
Date

/s/  
David Penoli

3/31/15  
Date

/s/  
Nolan E. Perez

3/31/15  
Date

/s/  
Ruben M. Torres

3/31/15  
Date

/s/  
Manuel M. Vela

3/31/15  
Date

/s/  
Angie Vera-Oliva

3/31/15  
Date

/s/  
Joe D. Zayas

3/31/15  
Date