

SUPERVISORY AGREEMENT

This Supervisory Agreement (Agreement) is made as of the Effective Date (defined below), by and between **Greater South Texas Bank, FSB** (Association) (OTS No. 07433), a federally chartered stock association, having its main office located in Falfurrias, Texas, and the Office of Thrift Supervision (OTS), an office within the United States Department of the Treasury, having its principal executive offices located at 1700 G Street, N.W., Washington, D.C., acting through its Midwest Regional Director or his designee (Regional Director).

WHEREAS, OTS is the Association's primary federal regulator; and

WHEREAS, based on the Association's Report of Examination, dated April 2, 2001 (ROE), OTS is of the opinion the Association engaged in acts and practices: (i) resulting in violations of certain laws or regulations, and/or (ii) considered to be unsafe and unsound; and

WHEREAS, OTS believes grounds exist for the initiation of administrative proceedings against the Association; and

WHEREAS, OTS believes it is appropriate to take measures intended to ensure the Association will: (i) comply with all applicable laws and regulations, and (ii) engage in safe and sound practices; and

WHEREAS, the Association, acting through its Board of Directors (Board), without admitting or denying any violations of laws or regulations and/or unsafe and unsound practices, wishes to cooperate with OTS and evidence the intent to: (i) comply with all applicable laws and regulations, and (ii) engage in safe and sound practices.

NOW THEREFORE, in consideration of the above premises, the parties agree as follows:

COMPLIANCE WITH LAWS, REGULATIONS & SAFE AND SOUND PRACTICES

1. Compliance With Regulations

The Association shall take all necessary and appropriate actions to achieve compliance with the following:

- A. Section 560.160 of the OTS Regulations, 12 C.F.R. § 560.160 (regarding asset classification);
- B. Section 560.170 of the OTS Regulations, 12 C.F.R. § 560.170 (regarding records for lending transactions);
- C. Section 562.1 of the OTS Regulations, 12 C.F.R. § 562.1 (regarding regulatory reporting requirements);

- D. Section 563.143 of the OTS Regulations, 12 C.F.R. § 563.143 (regarding filing with the OTS for capital distributions);
- E. Section 563.161 of the OTS Regulations, 12 C.F.R. § 563.161 (regarding management and financial policies and compensation); and
- F. The guidelines set forth in the Interagency Guidelines Establishing Standards for Safety and Soundness, set forth as Appendix A to Part 570 of the OTS Regulations, 12 C.F.R. Part 570 (regarding safety and soundness).

CORRECTIVE PROVISIONS

2. Restrictions on Asset Growth

The Association shall not increase its assets in any calendar quarter in excess of the amount of the net interest credited on its deposit liabilities during that calendar quarter.

3. Restrictions on Golden Parachute Payments

The Association shall not make any "golden parachute payments" (as that term is defined in 12 U.S.C. § 1828(k) and 12 C.F.R. Part 359), except as permitted under the applicable statute and regulation.

4. Regulatory Review of Certain Third-Party Contracts

The Association shall not enter into any third-party contracts outside of the normal course of business unless it (i) provides to the Regional Director a minimum of ten (10) days advance, written notice of the proposed transaction and (ii) receives a written notice of non-objection from the Regional Director.

5. Restrictions on Adding or Replacing a Board Member, Employing a Senior Executive Officer, or Changing the Responsibilities of a Senior Executive Officer

The Association shall not add or replace any member of its Board, employ any new senior executive officer or change the responsibilities of any senior executive officer, except in accordance with Subpart H of Part 563 of the OTS Regulations, 12 C.F.R. §§ 563.550 through 563.590, and Section 32 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1831i.

6. Restrictions on Compensation

- (a) The Association shall not enter into, renew, extend or revise any contractual arrangement related to compensation or benefits with any director, senior executive officer of the Association, or any subsidiary thereof, unless it first (i) provides to the Regional Director a minimum of 30 days advance, written notice of the proposed

transaction, and (ii) receives a written notice of non-objection from the Regional Director.

- (b) The Association shall further not grant to any senior executive officer or any director any bonus or increase in salary or other compensation without the written approval of the Regional Director.

7. Reduction in Salaries

By no later than the first payroll date following the Effective Date and thereafter, unless otherwise approved in writing by the Regional Director, the Association shall either:

- (a) Take all actions necessary to reduce the salaries of Chief Executive Officer Thomas Ratliff and Chief Financial Officer Ernest Perez to a level at or below the level of 75% of their respective salaries on April 2, 2001, without creating any liability on the part of the Association; or
- (b) Take all actions necessary and appropriate to obtain reimbursement for all salaries paid to or to be paid to Chief Executive Officer Ratliff and Chief Financial Officer Perez, in excess of the level of 75% of their respective salaries on April 2, 2001, such reimbursement to be obtained from any and all officers and directors of the Association responsible for such excess payments.

8. Review of Management Performance

- (a) By no later than July 15, 2001, the Board shall conduct a review of Association management and staff and shall submit to the Regional Director, in writing, a report of its findings.
- (b) The review and report required by subsection (a) hereof shall address management structure, staffing, compensation, and general management performance. That review and management report shall address whether additional or replacement staff is needed at the Association. The review and report of management performance shall specifically address, among other things, management's performance in strategic planning, budgeting, policy implementation, and lending practices.

9. Business Plan

- (a) By no later than July 31, 2001, the Board shall adopt and submit to the Regional Director a written, new Business Plan, covering a period of three years.
- (b) The Business Plan required by subsection (b) hereof shall address, at a minimum, the following:
 - (i) A realistic annual budget for each of the three years covered by the Business Plan

that demonstrates the projected impact on the Association's profitability resulting from all anticipated significant activities;

- (ii) Financial projections for the three years covered by the Business Plan, on a quarterly basis, that (A) includes major balance sheet and income statement components for the Association and its subordinate organization(s) and (B) sets forth the Association's projected tangible, core, and risk-based capital;
 - (iii) A system to evaluate and monitor earnings and capital that includes (A) an evaluation of the effect of the Association's anticipated growth rate, interest rate risk, and asset quality on earnings and capital, (B) an assessment of the source, volatility and sustainability of earnings, (C) an evaluation of the effect of nonrecurring or extraordinary income or expenses and investment in fixed assets, (D) an evaluation of the sources of capital to support any branch or other offices and to support the Association's products, (E) an assessment of marketing plans, including the costs associated with those plans, and (F) other appropriate factors that are addressed in Section 430 of the Thrift Activities Handbook; and
 - (iv) A narrative description of the economic environment, strategy, and interest-rate scenario assumptions upon which the Business Plan is based.
- (c) The Board shall promptly amend this Business Plan upon the direction of the Regional Director and submit the amended Business Plan to the Regional Director for written non-objection.
- (d) After adoption of the new Business Plan, the Association's management shall submit to the Board quarterly variance reports, which reports shall address all material variances from the Business Plan. The Board shall assess, on a quarterly basis, (i) whether the Association can meet the projections in the Business Plan and (ii) whether the Board should revise the goals and projections of the Business Plan. The Association shall submit a copy of variance reports submitted to the Board and any revisions to the Business Plan by the Board to the Regional Director for review and a written notice of non-objection by no later than 25 days after the board meeting at which the variance reports were submitted to the Board and the revisions to the Business Plan were adopted, together with the board minutes of that Board meeting.
- (e) The Association, including its Board and management, shall take all reasonable and appropriate actions in a good-faith attempt to follow the new Business Plan (as amended, if amended with the written, non-objection of the Regional Director).

10. Subprime Lending Program Policy

By no later than July 15, 2001, the Board shall adopt and submit to the Regional Director a written, comprehensive subprime lending program policy. This policy shall be amended as directed by the Regional Director. The Association shall comply with this policy (as

amended, if amended in accordance with a directive of the Regional Director or if amended with the express, written non-objection by the Regional Director).

11. Comprehensive Lending Policy

By no later than July 15, 2001, the Board shall adopt a new, written, comprehensive lending policy and submit that policy to the Regional Director. That policy shall require sound lending practices, establish lending limits for loan officers, establish and specify the structure and responsibilities of the Board's loan committee, and provide for improved monitoring of purchased subprime loans. The Board shall amend this policy as directed by the Regional Director. The Association shall comply with this policy (as amended, if amended in accordance with a directive of the Regional Director or if amended with the express, written non-objection by the Regional Director).

12. Limitation of Lending Authority

Immediately on the Effective Date and thereafter, the Association shall cease making any loans other than those made through officers of the Association who have specifically been authorized by the Board to make loans on behalf of the Association.

13. Asset Classification

- (a) By no later than June 30, 2001, the Association shall adopt and submit to the Regional Director a written, revised asset classification policy that conforms to the requirements of 12 C.F.R. § 560.160. The Board shall amend that policy as directed by the Regional Director. The Association shall comply with that policy (as amended, if amended in accordance with a directive of the Regional Director or if amended with the express, written non-objection by the Regional Director).
- (b) By the end of the Effective Date, the Board shall ensure that all assets referenced in the April 2, 2001, examination report by OTS of the Association have been classified in accordance with the report's determinations and that all appropriate allowances for loan and lease losses (ALLL) have been established by the Association accordingly.

14. Recapitalization

- (a) By no later than the end of the Effective Date, the Board shall adopt and submit to the Regional Director a written report of its analysis of what capital is needed by the Association. This report shall take into consideration, in reflecting the analysis, the capital needs necessitated by the risks of the Association's subprime lending activities.
- (b) The Board shall take appropriate measures designed to ensure that the Association remains at least "adequately capitalized", as such term is used in 12 C.F.R. § 565.4(b)(2), at all times. Such measures shall include efforts to: obtain capital infusions; obtain an acquisition by, or merger with, another depository institution, a

depository holding company, or a qualified entity; or the sale of all, or less than all (for example, through a branch sale or bulk loan sale) of the Association's assets and liabilities to another depository institution, a depository institution holding company, or a qualified entity. Such measures shall be taken by June 30, 2001, and shall be pursued thereafter as needed in order to ensure that the Association remains "adequately capitalized."

- (c) The Board shall submit a written report to the Regional Director, on a monthly basis, beginning in the first full calendar week following the Effective Date, which report summarizes all efforts of the Board to maintain capital at the Association in compliance with Section 14(b) of this Agreement.

15. Affiliate Transactions

As a problem association and an association in troubled condition, the Association shall comply with the requirements of 12 C.F.R. § 563.41(e)(2)(iii).

16. Director and Management Responsibility

Notwithstanding this Agreement's requirements that the Board submit various matters to the Regional Director, regulatory oversight by the OTS (including the Regional Director) does not derogate or supplant the continuing fiduciary duty of each member of the Association's Board and management. The Board has the ultimate responsibility for overseeing the Association's safe and sound operation, including compliance with the Regional Director's determinations as required by this Agreement.

17. Compliance with Agreement

- (a) The Board and the officers of the Association shall immediately, on the Effective Date, and thereafter, take all necessary and appropriate actions to ensure the Association's compliance with this Agreement.
- (b) The Board shall undertake diligent inquiries to confirm the Association's compliance with each provision of this Agreement.
- (c) Each calendar quarter, the Board shall adopt a resolution (Compliance Resolution), following a diligent inquiry of relevant information, attesting to the Association's compliance with this Agreement, or specifying in reasonable detail all violations of the Agreement. If the Board determines the Association was not in full compliance, the Compliance Resolution shall include the reasons for noncompliance. The Compliance Resolution shall further note all notices of exemption or non-objection issued by the Regional Director upon which the Board relies in making the Compliance Resolution.
- (d) The Boards' minutes shall set forth the following information regarding each Compliance Resolution: (i) the identity of each Director voting in favor of its adoption,

and (ii) the identity of each Director voting in opposition to its adoption or abstaining from voting thereon, setting forth each such Director's reasoning for opposing or abstaining.

- (e) The Association shall provide to the Regional Director a certified true copy of the Compliance Resolution, for each quarter, no later than the 25th Calendar Day of the month following the end of each calendar quarter. The Board, by virtue of the Association's submission of a certified true copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified the accuracy of the statements set forth in each Compliance Resolution, except as provided below. If one or more Directors do not agree with the representations in the Compliance Resolution, the Board minutes shall reflect such disagreement.

18. Definitions

- (a) All technical words or terms used in this Agreement for which meanings are not specified or otherwise provided by this Agreement shall have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, Home Owners' Loan Act (HOLA), FDIA or OTS Memoranda. Any such technical words or terms used in this Agreement and undefined in the Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings in accordance with the best custom and usage in the savings and loan industry.
- (b) The term "Effective Date" is the date of the execution of this Agreement by the Regional Director, as reflected by the date under the designated signature line.
- (c) "Senior executive officer" has the definition it is given at 12 C.F.R. § 563.555.
- (d) The term "qualified entity" is defined to include an individual, a group of individuals, a partnership, a corporation, or any other form of business organization that may, under applicable statutes and regulations, merge with or acquire the Association or purchase all or substantially all assets and liabilities of the Association.
- (e) The terms "depository institution" and "depository institution holding company" are defined in 12 U.S.C. § 1813(c)(1) and (w)(1), respectively.

19. Successor Statutes, Regulations, Guidance, Amendments

Reference in this Agreement to provisions of statutes, regulations, and OTS Memoranda shall include references to all amendments to such provisions as of the Effective Date and references to successor provisions as they become applicable.

20. Notices

Except as otherwise provided herein, any request, demand, authorization, direction, notice,

consent, waiver or other document provided or permitted by the Agreement to be made upon, given or furnished to, delivered to, or filed with OTS or the Association shall be in writing and mailed, first class or overnight courier, or submitted by means of electronic transmission, or physically delivered, and addressed as follows:

OTS: Midwest Regional Office
225 E. John Carpenter Fwy.
Suite 500
Irving, TX 75062-2326
(972) 277-9501 - Main Facsimile

Association: Greater South Texas Bank, FSB
131 East Rice
Falfurrias, Texas 78355

21. Duration, Termination or Suspension of Agreement

- (a) This Agreement shall: (i) become effective upon its execution by OTS, through its authorized representative whose signature appears below, and (ii) remain in effect until terminated, modified or suspended in writing by OTS, acting through its Director or the Regional Director (including any authorized designee thereof).
- (b) The Regional Director, in his or her sole discretion, may, by written notice, suspend any or all provisions of this Agreement.

22. Time Limits

Time limitations for compliance with the terms of this Agreement run from the Effective Date, unless otherwise noted.

23. Effect of Headings

The Section headings herein are for convenience only and shall not affect the construction hereof.

24. Separability Clause

If any court of competent jurisdiction rules any provision in this Agreement to be invalid, illegal or unenforceable, that decision shall not affect or impair the validity, legality and enforceability of the remaining provisions, unless the Regional Director in his sole discretion determines otherwise.

25. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted

Nothing in this Agreement: (a) allows the Association to violate any law, rule, regulation, or policy statement to which it is subject, or (b) restricts OTS from taking such action(s) that are appropriate in fulfilling its responsibilities, including, without limitation, any type of supervisory, enforcement or resolution action that OTS determines to be appropriate.

26. **Successors in Interest/Benefit**

This Agreement's terms and provisions bind, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Agreement, express or implied, shall give to any person or entity, other than the parties hereto and the Federal Deposit Insurance Corporation and their successors, any benefit or any legal or equitable right, remedy, or claim under this Agreement.

27. **Signature of Directors**

Each Director signing the Agreement attests, by such act, that she or he voted in favor of the resolution, in the form attached to this Agreement, authorizing the Association's execution of this Agreement.

28. **Integration Clause, Impact On Other Enforcement Documents**

This Agreement represents the parties' final and sole written agreement with respect to the subject matter hereof, as of the Effective Date.

29. **Enforceability of Agreement**

The Association represents and warrants that this Agreement has been duly authorized, executed, and delivered, and constitutes, a valid and binding obligation of the Association. The Association acknowledges that this Agreement is a "written agreement" entered into with OTS within the meaning of Section 8 of the FDIA, 12 U.S.C. §1818.

IN WITNESS WHEREOF, OTS, acting by and through the Regional Director, and the Association, in accordance with a duly adopted resolution of its Board (copy attached hereto), execute this Agreement as of the Effective Date.

OFFICE OF THRIFT SUPERVISION

**GREATER SOUTH TEXAS BANK, FSB
FALFURRIAS, TEXAS**

By:

/s/

Frederick R. Casteel
Midwest Regional Director

By:

/s/

Thomas E. Ratliff
Chief Executive Officer

Effective Date: 7-3-01

Date: 06-26-01

DIRECTORS OF THE ASSOCIATION

/s/

C.T. HORNSBY, DIRECTOR

/s/

Oscar Galindo, Director

/s/

ALONZO A. COSBY, JR., DIRECTOR

/s/

J. R. Holbein, Director

/s/

Roy Ibañez, Director

/s/

Bill E. Talley, Director

/s/

Thomas E. Ratliff, Director

**CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS**

I, the undersigned, being the duly appointed and qualified Secretary of **Greater South Texas Bank, FSB, Falfurrias, Texas** (Association), hereby certify as follows:

1. A duly called meeting of the Association's Board of Directors was held on June 26, 2001;
2. A quorum was present and voting throughout that meeting;
3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Association's Board of Directors wishes to cooperate with OTS and demonstrate that the Association and the Association's Board have the intent to: (1) comply with all applicable laws and regulations, and (2) engage in safe and sound practices; and

WHEREAS, the Association's Directors have read and considered the proposed Supervisory Agreement (Agreement) which shall be attached to the minutes of this meeting; and

WHEREAS, after due consideration, the Association's Directors have determined to cause the Association to enter into the proposed Agreement which is in the best interest of the Association;

NOW THEREFORE, BE IT RESOLVED, that the Association be and it hereby is authorized to enter into the Agreement in the form attached to the minutes of the meeting,

FURTHER RESOLVED, that the execution and delivery of, and performance of all of the Agreement's provisions be, and they hereby are, authorized and approved,

FURTHER RESOLVED, that the Association's Directors and Officers are authorized and directed to execute and deliver the Agreement and to take all steps necessary or appropriate to implement the Agreement's terms and to cause the Association to comply in all respects with the Agreement's terms.

4. All members of the Board of Directors were present and voted at the meeting (except _____) and all members of the Board of Directors (except _____) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and affixed the Association's seal on this 26 day of June, 2001.

/s/

Name: Ernest Perez
Secretary, Greater South Texas Bank, FSB
Falfurrias, Texas

(SEAL)