

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

_____)
In the Matter of)
))
LUFKIN SAVINGS AND LOAN ASSOCIATION))
Lufkin, Texas))
_____))

Re: Resolution No. DAL-91-221

Dated: November 21, 1991

STIPULATION AND CONSENT TO ISSUANCE
OF ORDER TO CEASE AND DESIST

The Office of Thrift Supervision ("OTS"), by and through its Regional Director for the Midwest Regional Office, OTS, and Lufkin Savings and Loan Association, Lufkin, Texas ("Institution"), stipulate and agree as follows:

1. Consideration. The OTS, based upon information reported to it, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against the Institution pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)). The Institution desires to cooperate with the OTS and to avoid the time and expense of such administrative litigation and, without admitting or denying that such grounds exist, hereby stipulates and agrees to the following terms in consideration of the forbearance by the OTS from initiating such administrative cease and desist litigation against the Institution with respect to the matters covered in the accompanying Order to Cease and Desist ("Order").

2. Jurisdiction.

(a) The Institution is a "savings association" within the meaning of Section 3 of the FDIA and Section 2 of the Home Owners' Loan Act, as amended by FIRREA. Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1813(c)).

(b) Pursuant to Section 3 of the FDIA, as amended by FIRREA, the Director of OTS is the "appropriate Federal Banking agency" to maintain an enforcement proceeding against such a savings association. Therefore, the Institution is subject to the authority of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)).

3. Consent. The Institution consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. Finality. The Order is issued under Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)). Upon its issuance by the Regional Director for the Midwest Regional Office, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(i)).

5. Waivers. The Institution waives its right to a notice of charges and the administrative hearing provided by Section 8(b) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(b)), and further waives any right to

Page 3

seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, as amended by FIRREA (to be codified at 12 U.S.C. § 1818(h)), or otherwise to challenge the validity of the Order.

WHEREFORE, in consideration of the foregoing, the OTS, by and through its Regional Director for the Midwest Regional Office, OTS, and the Institution, by a majority of its directors, execute this Stipulation and Consent to Issuance of Order to Cease and Desist.

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Re: Resolution No.: DAL-91-221
Dated: November 21, 1991

ORDER TO CEASE AND DESIST

WHEREAS, Lufkin Savings and Loan Association, Lufkin, Texas ("Institution"), through its directors, has executed a Stipulation and Consent to Issuance of Order to Cease and Desist, which is incorporated herein by reference ("Stipulation") and is accepted and approved by the Office of Thrift Supervision ("OTS"), acting through its Regional Director for the Midwest Regional Office; and

WHEREAS, the Institution, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), as amended by the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") (to be codified at 12 U.S.C. § 1818(b)); and

WHEREAS, by entering into the Stipulation, the Institution neither admits nor denies any violation of any law, rule, or regulation.

NOW THEREFORE, IT IS ORDERED that the Institution and its directors shall cease and desist from, and shall order its officers, employees, agents, and service corporations to cease and desist from, any violation of, or the aiding and abetting of any violation of:

1. 12 U.S.C. § 1831i;
2. 12 C.F.R. § 563.160;
3. 12 C.F.R. § 563.170(c);
4. 12 C.F.R. § 563.176;
5. 12 C.F.R. § 566.2;
6. 12 C.F.R. § 571.18(h)(2); and
7. 12 C.F.R. § 571.26

IT IS FURTHER ORDERED that:

Accounting, Records, Loan Underwriting, Monitoring, and Appraisals.

1. (a) The board of directors of the Institution ("Board of Directors") shall, within 45 days of the date of this Order, adopt and implement written policies and procedures, in accordance with 12 C.F.R. § 563.170(c), which require the Institution to establish and maintain accounting and other records as will provide an accurate and complete record of all business it transacts, including but not limited to current financial statements that demonstrate the financial conditions of major borrowers on an ongoing basis and other loan underwriting documentation required by 12 C.F.R. § 563.170(c). The Institution shall comply with such written policies and procedures. Such policies shall include, but shall not be limited to, a requirement that current financial statements be maintained for all loans originated after the date hereof and a requirement that management use reasonable efforts to secure current financial statements from obligors on loans originated prior to the date hereof.

(b) The Institution shall develop and maintain such accounting and other records, in accordance with 12 C.F.R. § 563.170(c), as will provide an accurate and complete record of all business as it transacts.

2. Foreclosed property shall be accounted for in accordance with applicable regulations, including but not limited to 12 C.F.R. § 571.18(h)(2).

3. Acquisition appraisals shall be obtained on all foreclosed real estate.

4. Foreclosed assets of the the Institution shall immediately be written down by the Institution to fair value.

Liquidity.

5. The Institution shall continue to maintain a balance of liquid assets sufficient to satisfy the requirements of 12 C.F.R. § 566.2.

Interest Rate Risk.

6. Within 45 days of the date of this Order, the Board of Directors shall submit written policies designed to reduce the Institution's exposure to interest rate fluctuations to the Regional Deputy Director for the Dallas District, Midwest Region, OTS, or his successor or designee ("Regional Deputy Director") for approval or non-objection. If the Regional Deputy Director disapproves of, or objects to, such policies, the Board of Directors shall submit to the Regional Deputy Director amended policies addressing the issues raised by the Regional Deputy Director within 45 days after its receipt of such objection or disapproval in writing. Once the Regional Deputy Director approves or issues a notice of non-objection to the submitted policies, the Board of Directors shall adopt, and shall direct management of the Institution to comply with, such policies, as approved or reviewed without objection.

7. Within 45 days of the date of this Order, the Board of Directors shall submit procedures designed to require reports sufficient for it to monitor the level of interest rate risk on a quarterly basis to the Regional Deputy Director for approval or non-objection. If the Regional Deputy Director disapproves of

or objects to such procedures, the Board of Directors shall submit to the Regional Deputy Director amended procedures addressing the issues raised by the Regional Deputy Director within 45 days after its receipt of such objection or disapproval in writing. Once the Regional Deputy Director approves or issues a notice of non-objection to the submitted procedures, the Board of Directors shall adopt, and shall direct management of the Institution to comply with, such procedures, as approved or reviewed without objection.

Management.

8. (a) Within 45 days of the date of this Order, the Board of Directors shall either (i) complete a detailed study of the Institution's management or (ii) retain to perform such study of the Institution's management a person, subject to the approval of the Regional Deputy Director, qualified to conduct such a study.

(b) The results of the study referenced in subparagraph (a) hereof shall be disclosed and explained in a detailed, written report, which shall be transmitted to the Regional Deputy Director as soon as possible and, in any case, no later than 60 days after the date of this Order if performed internally, or 60 days after retention of a consultant, if performed by such consultant. The written report shall provide a recommendation as to whether management of the Institution needs to be strengthened and, if so, shall provide recommendations as to how it can most efficiently be strengthened.

(c) If the study, required pursuant to subparagraph (a) hereof, reveals that current management needs to be strengthened, then the Board of Directors shall, within 30 days after the date of the report specified in paragraph (b)

above, adopt and submit to the Regional Deputy Director, for approval, a written plan to strengthen management. The Board of Directors shall consider any changes to such plan recommended as directed by the Regional Deputy Director.

9. The Institution shall comply with the requirements of Section 32 of the Federal Deposit Insurance Act, 12 U.S.C. § 1831i, as added by Section 914 of FIRREA, before hiring any senior executive officer or appointing a director.

Classification of Assets.

10. (a) Within 30 days of the date of this Order, the Board of Directors shall appoint an asset review officer to comply with subparagraph (b) hereof.

(b) Within 90 days of the date of this Order, the Board of Directors shall submit its written internal loan review system that is intended to comply with 12 C.F.R. §§ 563.160(c)(2) and 571.26 by the Regional Deputy Director. If the Regional Deputy Director disapproves of, or objects to, such system, the Board of Directors shall submit to the Regional Deputy Director an amended system addressing the issue raised by the Regional Deputy Director within 45 days after its receipt of such objection or disapproval in writing. Once the Regional Deputy Director approves or issues a notice of non-objection to the submitted system, the Board of Directors shall adopt, and shall direct management of the Institution to comply with, such system, as approved or reviewed without objection.

(c) The Institution shall comply with the internal loan review system established pursuant to subparagraph (b) hereof.

Reduction of Classified Assets.

11. (a) Within one hundred twenty (120) days of the effective date of this Order, the Board of Directors shall adopt, implement, and submit to the OTS for

notice of no supervisory objection a written plan designed to eliminate the basis of criticism of assets classified in the report of examination as "doubtful", "substandard" or "special mention" and classified by the Institution's internal loan review system as revised pursuant to Paragraph 10 of this Order ("Plan"). This Plan shall include, for each asset the book value of which exceeds \$150,000, at a minimum:

- (i) an identification of the expected source(s) of repayment;
- (ii) the appraised value of supporting collateral (or, in the case of REO, the most recent calculation of net realizable value) and the position of the Institution's lien on such collateral, where applicable;
- (iii) an analysis of current and satisfactory credit information, including, where possible, cash flow analysis where loans are to be repaid from operations; and
- (iv) the proposed action to eliminate the basis of the classification and the time frame of its accomplishment.

(b) The Board of Directors, or a duly authorized committee thereof, shall conduct a review, on at least a quarterly basis, to determine:

- (i) the status of each classified asset or classified portion thereof which exceeds \$250,000;
- (ii) management's compliance with the Plan adopted pursuant to this Paragraph;
- (iii) the status and effectiveness of the Plan; and
- (iv) the need to revise the Plan or take alternative action.

A copy of each review shall be forwarded to the OTS on a quarterly basis.

Valuation Allowances.

12. (a) In accordance with 12 C.F.R. §§ 563.160(d)(3) and 571.26, the Board

of Directors shall, within 60 days of the date of this Order, submit written policies and procedures designed to ensure that the level of general valuation allowances of the Institution are maintained in a manner as needed to reflect the risk of loss of each category of asset on the Institution's books to the Regional Deputy Director for approval. If the Regional Deputy Director disapproves of, or objects to, such policies and procedures, the Board of Directors shall submit to the Regional Deputy Director amended policies and procedures addressing the issues raised by the Regional Deputy Director within 45 days after its receipt of such objection or disapproval in writing. Once the Regional Deputy Director approves or issues a notice of non-objection to the submitted policies and procedures, the Board of Directors shall adopt, and shall direct management of the Institution to comply with, such policies and procedures, as approved or reviewed without objection.

(b) The Institution shall comply with the written policies and procedures adopted pursuant to subparagraph (a) hereof.

Affiliated Persons Transactions and Conflicts of Interest

13. The Board of Directors shall review and familiarize itself with all applicable regulations pertaining to conflicts of interest and transactions with affiliated persons, including but not limited to the portions of 12 C.F.R. Part 215 corresponding to Section 22(h) of the Federal Reserve Act, as made applicable by FIRREA, and 12 C.F.R. § 563.43.

14. The Institution shall make no loans, directly or indirectly, to any of its officers, directors, or affiliates unless such loans are in compliance with all applicable regulations, including but not limited to 12 C.F.R. § 563.43 and applicable provisions of 12 C.F.R. Part 215.

15. The Institution shall revise all of its policies pertaining to loans and extensions of credit to officers, directors, and employees in order to bring them into compliance with all applicable regulations and statutes, including but not limited to applicable provisions of 12 C.F.R. Part 215 and 12 C.F.R. § 563.43.

16. The Institution shall take all reasonable measures to seek reimbursement from each director and "executive officer" (as defined in Regulation O of the Board of Governors of the Federal Reserve System, 12 C.F.R. § 215.2(d)) for losses to the Institution resulting from preferential treatment to such director or "executive officer", if any, on overdrafts, waived late charges, or preferential terms on loans that have occurred after the enactment of FIRREA. For purposes of this Paragraph, all financial benefit received by a director or "executive officer" as a result of such preferential treatment shall be deemed to constitute "losses to the Institution", as that term is used herein, regardless of whether an actual financial loss was incurred.

General Provisions

17. All technical words or terms used in this Order, for which meanings are not specified or otherwise provided by the provisions of this Order, shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 Code of Federal Regulations, and any such technical words or terms used in this Order and undefined in said Code of Federal Regulations shall have meanings that accord with the best custom and usage in the savings and loan industry.

