

- D. Section 562.1 of the OTS Regulations, 12 C.F.R. § 562.1 (regarding regulatory reporting requirements);
- E. Section 563.161 of the OTS Regulations, 12 C.F.R. § 563.161 (regarding management and financial policies and compensation);
- F. Section 563.170(c) of the OTS Regulations, 12 C.F.R. § 563.170(c) (regarding establishment and maintenance of records);
- G. Section 563.190 of the OTS Regulations, 12 C.F.R. § 563.190 (regarding fidelity bond coverage);
- H. The guidelines set forth in Sections II.A., II.B., II.C., II.D., II.G., and II.H. of 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); and
- I. The guidelines set forth in the Interagency Guidelines Establishing Standards for Safeguarding Customer Information, set forth as Appendix B to Part 570 of the OTS Regulations, 12 C.F.R. Part 570 (regarding the safeguarding of customer information).

IT IS FURTHER ORDERED THAT:

CORRECTIVE PROVISIONS

1. 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.

2. 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.

3. Third-Party Contracts

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

(b) By no later than February 29, 2004, the Board shall adopt, and submit to the Regional Director, a written Vendor Management Plan that complies with, and mandates compliance with, both Paragraphs 3(a) and 13 of this Order and the guidelines of Thrift Bulletin 82. The Board shall amend the written Vendor Management Plan as directed by the Regional Director, if so directed. The Association and its Board, officers, employees and agents shall comply with the Vendor Management Plan (as so amended, if so amended).

(c) By no later than February 29, 2004, the Association shall provide to the Regional Director a copy of a written contract between the Association and ITC Corporation.

4. 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 of Directors (Board), employ any new senior executive officer or change the responsibilities of any senior executive officer, except in accordance with 12 C.F.R. §§ 563.550 through 563.590, and Section 32 of the Federal Deposit Insurance Act (FDIA), 12 U.S.C. § 1831i.

5. 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 or senior executive officer of the Association unless it first (i) provides to the Regional Director a minimum of 30 calendar 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.

6. Capital

(a) The Association shall maintain its Core Capital at a level of at least five percent of Adjusted Total Assets.

(b) The Association shall maintain its Total Capital at a level of at least ten percent of Risk-Weighted Assets.

(c) In addition to the requirement set forth in Paragraph 6(b), the Association shall maintain additional Total Capital at a level of at least eight percent of the outstanding balance of all Subprime Loans. The Association shall report this amount on line CCR80 of its Thrift Financial Reports filed with OTS.

(d) At least once per calendar month, the Board shall review the capital calculation of the Association's management in order to confirm or contradict those calculations following

a diligent review of the bases for the amounts entering into those calculations. The Board's findings shall be reflected in detail in the Compliance Resolution required by paragraph 23(d) of this Order.

- (e) The Association shall pay no capital distributions except in full compliance with 12 C.F.R. § 563.143.

7. Strategic Plan and Contingency Plan

- (a) The Board shall amend its Strategic Plan as directed in writing by the Regional Director, if so directed. The Association and its Board and management shall comply with its Strategic Plan, as amended in accordance with the Regional Director's written directive (if such directive is issued).
- (b) By no later than March 31, 2004, the Board shall adopt a written Contingency Plan, setting forth a well-reasoned program of what the Association and its Board and management will attempt to do in the event that profitability of the Association is not achieved as has been projected, and reflected in the Earnings section of the OTS Report of Examination of the Association as of November 3, 2003.

8. Brokered Deposits

The Association shall not accept or renew brokered deposits unless such brokered deposits are accepted both in compliance with 12 C.F.R. § 337.6 and with a written notice of non-objection by the Regional Director.

9. Lending

The Association shall not fund, make, or purchase or commit to fund, make, or purchase any loans other than:

- (a) loans that are fully secured by deposits at the Association;
- (b) residential mortgage loans fully secured by one-to-four family residences and with a loan-to-value ratio that does not exceed 80 percent;
- (c) construction loans that do not exceed \$250,000 that are fully secured by pre-sold (non-speculative) one-to-four family residences;
- (d) loans fully secured by commercial real estate that do not exceed \$300,000;
- (e) fully secured consumer loans that do not exceed \$40,000;
- (f) other consumer loans that do not exceed \$5,000; and
- (g) loans made in accordance with the written non-objection of the Regional Director.

10. Comprehensive Lending Policy

The Board shall, by no later than February 29, 2004, amend the Association's comprehensive lending policy to conform with the guidelines set forth in the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Account Management Policy, and to address deficiencies noted in the OTS's Report of Examination of the Association as of November 3, 2003. The Board shall amend the Association's comprehensive lending policy as directed in writing by the Regional Director, if so directed. The Association shall comply with its comprehensive lending policy, as amended in accordance with the written directive or written notice of non-objection by the Regional Director (if such written directive or written notice of non-objection is issued).

11. Subprime Loans

- (a) By no later than 15 calendar days after the end of each month, the Association shall submit a list of all Subprime Loans that satisfy one or more of the criteria set forth in Paragraph 24(h) of this Order. Any loan that appears on this list for one month shall appear on all subsequent monthly lists unless (i) the loan is repaid in full, or (ii) the Regional Director provides a written notice of non-objection to the removal of such loan from subsequent lists.
- (b) Except as otherwise authorized by a written notice of non-objection by the Regional Director, the Association shall deem and report each loan satisfying the definition of Subprime Loan in Paragraph 24(h) of this Order, as a "subprime loan", regardless of its repayment history.

12. Allowance for Loan and Lease Losses

By no later than February 29, 2004, the Board shall adopt and submit to the Regional Director, and the Association and its Board, officers, employees, and agents shall thereafter comply with, a written Allowance for Loan and Lease Losses (ALLL) methodology in conformance with the interagency Policy Statement on Allowance for Loans and Lease Losses Methodologies and Documentation for Banks and Savings Institutions, dated July 2, 2001. The Board, in adopting such methodology, shall ensure that the ALLL methodology requires the Association to reflect and analyze recent loan history when it uses that methodology. At the time the Board submits this written methodology to the Regional Director, it shall also submit, in the form of a Board resolution, an explanation of the following:

- (a) how the portfolio segmentation process is to be performed;
- (b) the identification of loans to be tested under Federal Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 114 (FAS 114), regarding Accounting Standards by Creditors for Impairment of a Loan;

- (c) how the impairment of loans tested will be determined and measured;
- (d) a definition of historical loss rates; and
- (e) the quantitative factor that may affect loss rates.

13. **Information Security Program**

By no later than February 29, 2004, the Board shall adopt a written Information Security Program that incorporates and satisfies the guidelines of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information, as set forth in Appendix B to 12 C.F.R. Part 570. The Board further shall amend the Information Security Program as directed in writing by the Regional Director (if so directed). The Association and its Board, officers, employees, and agents shall comply with its Information Security Program as amended in accordance with the written directive of the Regional Director (if so directed), and shall comply with the guidelines of the Interagency Guidelines Establishing Standards for Safeguarding Customer Information, as set forth in Appendix B to 12 C.F.R. Part 570.

14. **Information Technology Plan**

By no later than February 29, 2004, the Board shall adopt, and submit to the Regional Director, a written Information Technology Plan. The Board shall amend the written Information Technology Plan as directed by the Regional Director (if so directed). The Association, its Board, officers, employees, and agents shall comply with the written Information Technology Plan, as so amended (if so amended).

15. **Corrective Actions Regarding Letter from External Auditor**

By no later than February 29, 2004, the Board shall address, in the form of a Board Resolution, a determination of what corrective actions have been taken by the Association in response to a letter dated April 28, 2003, to the Association from the Association's external auditor.

16. **Interest Rate Risk**

By no later than February 29, 2004, the Board shall amend its Interest Rate Risk Policy to comply with the guidelines set forth in Thrift Bulletin 13a and to include net portfolio value (NPV) ratio limits.

17. **Transactions With Affiliates**

The Association shall provide the Regional Director with prior written notice of each transaction with an affiliate (as that term is used in 12 C.F.R. §§ 563.41 and 223.2(b)(1)), other than exempt transactions under 12 C.F.R. Part 223, and shall not engage in any such transaction with an affiliate until it has received a written notice of non-objection from the Regional Director.

18. **Asset Classification**

- (a) By no later than February 29, 2004, the Board shall amend its written Asset Classification Policy to address deficiencies cited in the Report of Examination by OTS of the Association as of November 3, 2003. The Board shall further amend the Asset Classification Policy as directed in writing by the Regional Director (if so directed). The Association and its Board, officers, employees, and agents shall comply with its Asset Classification Policy, as so amended (if so amended).
- (b) By no later than February 29, 2004, the Board shall submit to the Regional Director a written plan to reduce the Association's classified and nonperforming assets.
- (c) By no later than February 29, 2004, the Association shall provide to the Regional Director written evidence that an asset review committee has been established by the Board and that all of its members are otherwise independent of the Association's loan process.

19. **Fidelity Bond Coverage**

The Board shall, by no later than February 29, 2004, review the adequacy of the Association's fidelity bond coverage, formally approve the fidelity bond coverage, or make a contrary determination. Such approval or contrary determination shall be reflected in a Board resolution and in minutes for that Board meeting. The Association and its Board shall further comply with 12 C.F.R. § 563.190.

20. **Appraisal Policy**

By no later than February 29, 2004, the Board shall amend the Association's Appraisal Policy to comply with the guidelines set forth in OTS Thrift Bulletin 55a. The Board shall further amend the Association's appraisal policy as directed in writing by the Regional Director (if so directed). The Association and its Board, officers, employees, and agents shall comply with the Association's Appraisal Policy (as so amended, if so amended).

21. **Review of Policies**

By March 31, 2004, the Board shall conduct a thorough review of all of the Association's policies, excluding each policy specifically addressed in this Order, and make a determination, to be reflected in a Board resolution and Board minutes, of what changes are needed to address the circumstances of the Association.

BOARD OF DIRECTORS

22. **Director and Board Responsibility**

- (a) Notwithstanding the requirements of this Order that the Board submit various matters to the Regional Director for the purpose of receiving approval, notice of non-objection,

or notice of acceptability, such regulatory oversight does not derogate or supplant each individual member's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Association at all times, including compliance with the determinations of the Regional Director as required by this Order.

- (b) The Board further shall oversee the safe and sound operation of the Association at all times and shall take all reasonable and prudent actions necessary to satisfy this responsibility.
- (c) By no later than February 29, 2004, the Board shall ensure that committee meetings of the loan committee, asset review committee, investment committee, asset liability management (ALM) committee, audit committee, and any and all other committees as are required by Association's policies have met. By no later than February 29, 2004, the Association shall submit to the Regional Director a copy of the minutes for such meeting of each such committee.
- (d) The Board and each committee thereof shall ensure that detailed written minutes are made and maintained for each meeting of the Board or a committee thereof, accurately reflecting all material discussions and decisions that occur during such meeting. The written minutes of each committee meeting shall further be submitted to the full Board and attached to the minutes of the immediately following meeting of the full Board.

23. Compliance with Order

- (a) The Board and officers of the Association shall take immediate action to cause the Association to comply with the terms of this Order and shall take all actions necessary or appropriate thereafter to cause the Association to continue to carry out the provisions of this Order.
- (b) By no later than February 29, 2004, the Board shall adopt a written Compliance Program designed to prevent violations of this Order, applicable laws and regulations, and Association policies. The Board shall amend the Compliance Program as directed in writing by the Regional Director (if so directed). The Association and its Board, officers, employees, and agents shall comply with the Compliance Program, as amended, in accordance with the written directive of the Regional Director (if so amended).
- (c) The Board shall undertake diligent inquiries on a regular basis, no less often than once per calendar month, to confirm the Association's compliance with this Order and to ensure that the Association's officers, directors, and agents are acting in accordance with this Order.
- (d) The Board, on a monthly basis, shall adopt a resolution of the Board (the "Compliance Resolution"), formally resolving that, following a diligent inquiry of relevant information (including, but not limited to, reports of management), to the best of its

knowledge and belief, during the immediately preceding calendar month, the Association has complied with each provision of this Order currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption. The Compliance Resolution further shall describe, in reasonable detail, all material actions that were taken by the Board in the course of that diligent inquiry.

- (e) The minutes of the meeting of the Board shall set forth the following information with respect to the adoption of each Compliance Resolution: (i) the identity of each director voting in favor of its adoption, setting forth, in reasonable detail, each such director's reasoning for voting in favor of its adoption; (ii) the identity of each director voting in opposition to its adoption or abstaining from voting thereon, setting forth, in reasonable detail, each such director's reasoning for opposing or abstaining; and (iii) a description, in reasonable detail, of all material discussions and decisions made during the course of the corresponding Board meeting.
- (f) No later than the 15th calendar day of the month following the end of each month, beginning with the end of the first full calendar month following the Effective Date, the Association shall provide to the Regional Director a certified true copy of the Compliance Resolution(s) adopted at the Board meeting during that month. 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 to the accuracy of the statements set forth in each Compliance Resolution, except as provided below. In the event that one or more directors do not agree with the representations set forth in a Compliance Resolution, such disagreement shall be noted in the Board minutes of the Association. At the time of this submission, the Association shall also submit to OTS a copy of all documents submitted to the Board during that meeting and between the immediately prior monthly Board meeting and that meeting.
- (g) The Board shall promptly respond to any request from OTS for documents that the OTS requests to demonstrate compliance with this Order.

MISCELLANEOUS

24. Definitions

- (a) All technical words or terms used in this Order and Stipulation 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 of the Code of Federal Regulations, Home Owners' Loan Act (HOLA), FDIA or OTS Publications. Any such technical words or terms used in this Order and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Publications shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

- (b) "Adjusted Total Assets" has the definition it is given at 12 C.F.R. § 567.1.
- (c) "Asset Classification Policy" means the policy adopted by the Board pursuant to Section 13 of the Supervisory Agreement dated July 3, 2001, by and between the OTS and the Association, or any subsequent asset classification policy to which the Regional Director has either given written approval or given a written notice of non-objection.
- (d) "Core Capital" has the definition it is given at 12 C.F.R. § 567.5(a).
- (e) The term, "Effective Date", is the date of the execution of this Order by the Regional Director, as reflected on the first page of this Order.
- (f) "Risk-Weighted Assets" has the definition it is given at 12 C.F.R. § 567.1, provided, however, that for purposes of this Order, purchased Subprime Loans shall be placed in the 100 percent risk-weighted category.
- (g) "Senior Executive Officer" has the definition it is given at Section 563.555 of the OTS Regulations, 12 C.F.R. § 563.555.
- (h) For purposes of this Order only, a "Subprime Loan" includes any extension of credit upon which any borrower has any one or more of the following characteristics:
 - (i) a loan that has any characteristic which would, upon the application of standards prevailing in the savings association industry, suggest a higher than average risk of default; or
 - (ii) a loan that the Association or OTS designates or has designated as a Subprime Loan (unless the Regional Director subsequently provides a written notice of non-objection to removing such loan from such designation).
- (i) "Total Capital" has the definition it is given at 12 C.F.R. § 567.5(c).

25. **Successor Statutes, Regulations, Guidance, Amendments**

Reference in this Order to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have been made as of the Effective Date of this Order and references to successor provisions as they become applicable.

26. **Effective Date**

This Order is and shall become effective on the Effective Date, as shown in the caption hereof.

27. Notices

- (a) Except as otherwise provided herein, any request, demand, authorization, directive, notice, consent, waiver or other document provided or permitted by the Order to be made upon, given or furnished to, delivered to, or filed with:
- (i) the OTS, by the Association, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 225 East John Carpenter Freeway, Suite 500, Irving, Texas 75062-2327 or telecopied to (972) 277-9501 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address;
 - (ii) the Association, by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Association at 131 East Rice Street, Falfurrias, Texas 78355-3619.
- (b) Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Order, then, in the event such notice was sent by United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

28. Time Limits

Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted. The Regional Director may extend any time limits set forth in this Order by specifically granting that extension in writing.

29. No Violations Authorized; OTS Not Restricted

Nothing in this Order or the Stipulation shall be construed as: (a) allowing the Association to violate any law, rule, regulation, or policy statement to which it is subject, or (b) restricting or estopping the OTS from taking any action(s), including without limitation any actions that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

30. Enforcement Documents

- (a) The future requirements of the Consent Order to Cease and Desist for Affirmative Relief, dated November 20, 2001, as amended by the Order Modifying Order to Cease and Desist, dated March 28, 2002 (the Prior C&D Order) are hereby terminated and of no further effect. The future requirements of the Supervisory Agreement by and

between the Association, dated July 3, 2001 (Supervisory Agreement), remain terminated and of no further effect.

- (b) Notwithstanding the foregoing, all violations of the Prior C&D Order on or before the Effective Date retain their status as violations thereof and are not affected by this Order. Notwithstanding the foregoing, all violations of the Supervisory Agreement on or before November 20, 2001, retain their status of violations thereof and are not affected by this Order.

31. **Incorporation**

The Stipulation is made a part hereof and is incorporated herein by this reference.

32. **Duration, Termination or Suspension of Order**

The Stipulation and the Order shall remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director, Deputy Director, Regional Director or other authorized representative.

OFFICE OF THRIFT SUPERVISION

By: *FR Casteel*
Frederick R. Casteel
Regional Director
Midwest Region

UNITED STATES OF AMERICA
Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of _____

GREATER SOUTH TEXAS BANK, FSB _____
Falfurrias, Texas _____
OTS Docket No. 07433 _____

Order No. ~~MWR-04-14~~

Date: March 17, 2004

**STIPULATION AND CONSENT TO THE ISSUANCE OF AN
ORDER TO CEASE AND DESIST FOR AFFIRMATIVE RELIEF**

WHEREAS, the Office of Thrift Supervision (OTS), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against **GREATER SOUTH TEXAS BANK, FSB, Falfurrias, Texas** (the Association or Greater South Texas), OTS Docket No. 07433, pursuant to 12 U.S.C. § 1818(b)¹, and

WHEREAS, the Association desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds exist, or the Findings of Fact or opinions and conclusions of the OTS, except as to Jurisdiction, Paragraph 1, below, which is admitted, hereby stipulates and agrees to the following:

1. **Jurisdiction**

- (a) The Association is a "savings association" within the meaning of 12 U.S.C. § 1813(b), and 12 U.S.C. § 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in 12 U.S.C. § 1813(c).
- (b) Pursuant to 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking agency" to maintain an administrative cease and desist proceeding against such a savings association. Therefore, the Association is subject to the jurisdiction of the OTS to initiate and maintain a cease and desist proceeding against it pursuant to 12 U.S.C. § 1818(b). The Deputy Director of the OTS, pursuant to delegated authority from the Director of OTS, has delegated to the OTS Midwest Regional Director or his/her designee (Regional Director) the authority to issue cease and desist orders where the institution has consented to the issuance of the orders.

¹ All references to the United States Code (U.S.C.) are as amended, unless otherwise indicated.

2. OTS Findings of Fact

(a) Based on the Report of Examination (ROE) of the Association as of November 3, 2003, OTS finds that the Association violated:

- i. The guidelines set forth in the Interagency Guidelines for Real Estate Lending Policies, set forth as the Appendix to Section 560.101 of the OTS Regulations, 12 C.F.R. § 560.101 (regarding real estate lending standards);
- ii. Section 560.160 of the OTS Regulations, 12 C.F.R. § 560.160 (regarding asset classification);
- iii. Section 560.170 of the OTS Regulations, 12 C.F.R. § 560.170 (regarding records for lending transactions);
- iv. Section 562.1 of the OTS Regulations, 12 C.F.R. § 562.1 (regarding regulatory reporting requirements);
- v. Section 563.161 of the OTS Regulations, 12 C.F.R. § 563.161 (regarding management and financial policies and compensation);
- vi. Section 563.170(c) of the OTS Regulations, 12 C.F.R. § 563.170(c) (regarding establishment and maintenance of records);
- vii. Section 563.190 of the OTS Regulations, 12 C.F.R. § 563.190 (regarding fidelity bond coverage);
- viii. The guidelines set forth in Sections II.A., II.B., II.C., II.D., II.G., and II.H. of 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); and
- ix. The guidelines set forth in the Interagency Guidelines Establishing Standards for Safeguarding Customer Information, set forth as Appendix B to Part 570 of the OTS Regulations, 12 C.F.R. Part 570 (regarding the safeguarding of customer information).

(b) Based on the ROE of the Association as of November 3, 2003, OTS finds that the Association violated the following provisions of the Consent Order to Cease and Desist for Affirmative Relief issued by OTS on the Association on November 20, 2001, as amended by the March 28, 2001 Order Modifying Order to Cease and Desist (the Prior C&D), by:

- i. failing to satisfy the requirements of Paragraph 10 of the Prior C&D;
- ii. failing to satisfy the requirements of Paragraph 16 of the Prior C&D;

- iii. failing to satisfy the requirements of Paragraph 17 of the Prior C&D; and
 - iv. failing to apply the definition of "Subprime Loan" in Paragraph 18(e) of the Prior C&D for purposes of satisfying other provisions of the Prior C&D.
- (c) Based on the ROE of the Association as of November 3, 2003, OTS finds that the Association otherwise has engaged in unsafe and unsound practices in conducting its business, including, but not limited to, the following:
- i. failure of committees of the Board to operate to perform functions that are necessitated by the condition of the Association or in accordance with Association policy and failure of those committees to document deliberations and decisions;
 - ii. failure to adopt policies needed by the Association in light of its condition;
 - iii. material failure to comply with Association policies that have been adopted;
 - iv. undue delay in addressing concerns raised by the Association's independent auditor;
 - v. failing to comply with the guidelines of the Federal Financial Institutions Examination Council's Uniform Retail Credit Classification and Accounting Management Policy;
 - vi. failing to comply with the guidelines at OTS Thrift Bulletin 13a (regarding interest rate risk);
 - vii. failing to comply with the guidelines of OTS Thrift Bulletin 55a (regarding real estate appraisals); and
 - viii. failing to comply with the guidelines of Federal Financial Institutions Examination Council's Policy Statement on Allowance for Loan and Lease Losses (ALLL) Methodologies and Documentation for Banks and Savings Institutions.

3. **Consent**

The Association consents to the issuance by the OTS of the accompanying Consent Order to Cease and Desist for Affirmative Relief (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 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director, it shall be a final order, effective and fully enforceable by OTS under the provisions of 12 U.S.C. § 1818(i).

5. **Waivers**

The Association waives the following:

- (a) the right to be served with a written notice of OTS's charges against it as provided by 12 U.S.C. § 1818(b);
- (b) the right to an administrative hearing of OTS's charges against it as provided by 12 U.S.C. § 1818(b);
- (c) the right to seek judicial review of the Order, including, without limitation, any such right provided by 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order;
- (d) any and all claims against OTS, including its employees and agents, and any other governmental entity for the award of fees, costs or expenses related to this OTS enforcement matter and/or the Order, whether arising under common law, the Equal Access to Justice Act, 5 U.S.C. § 504, or 28 U.S.C. § 2412; and
- (e) the right to assert this proceeding, its consent to the issuance of the Order, the issuance of the Order, the payment of any monies or the provision of any other financial relief as contemplated by the Order as the basis for a claim of double jeopardy in any pending or future proceeding brought by the United States Department of Justice or any other governmental entity.

6. **Other Governmental Actions Not Affected**

The Association acknowledges and agrees that its consent to the issuance of the Order is for the purpose of resolving this OTS enforcement matter only, as set forth in Paragraph 2, OTS Findings of Fact, hereof. The Association acknowledges and agrees that its consent to the issuance of the Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against or other proceeding, civil or criminal, that may be or has been brought by OTS or another governmental entity. Further, the issuance of this Order does not release, discharge, compromise, settle, dismiss, resolve, or in any way affect any actions, charges against or other proceeding, civil or criminal, that may be or has been brought by OTS or any other governmental entity against any institution-affiliated party of the Association.

7. **Miscellaneous**

- (a) The construction and validity of this Stipulation and the Order shall be governed by the laws of the United States of America.
- (b) In case any provision of the Stipulation or Order is ruled to be invalid, illegal, or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality, and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his or her sole discretion determines otherwise.
- (c) All references to the OTS or the Association in this Stipulation and the Order shall also mean any of the OTS's or Association's predecessors, successors, and assigns.
- (d) The section and paragraph headings in this Stipulation and the Order are for convenience only and shall not affect the construction hereof.
- (e) The terms of this Stipulation and the Order represent the final written agreement of the parties with respect to the subject matters hereof, and constitute the sole agreement of the parties with respect to such subject matters.
- (f) This Stipulation and the Order shall remain in effect until terminated, modified, or suspended in writing by the OTS, acting through its Director, Deputy Director, Regional Director or other authorized representative.

8. **Signature of Directors**

Each Director of the Association's Board of Directors signing this Stipulation attests that he/she voted in favor of a resolution authorizing the execution of the Stipulation. A copy of the resolution of the Board of Directors of Greater South Texas authorizing execution of this Stipulation shall be delivered to OTS, along with the executed original of this Stipulation.

WHEREFORE, Greater South Texas Bank, FSB, Falfurrias, Texas, by a majority of its directors, execute this Stipulation and Consent to the issuance of an Order to Cease and Desist for Affirmative Relief, intending to be legally bound hereby.

Accepted by:

OFFICE OF THRIFT SUPERVISION

By:



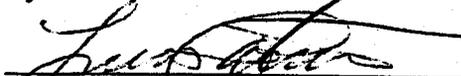
Frederick R. Casteel
Midwest Regional Director

Effective Date: 3-17-04

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

Accepted by a majority of its directors:

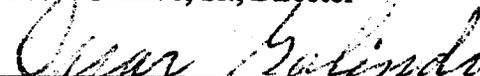
By:



Luis C. Cortinas, Director and
Chief Executive Officer



Oscar Galindo, Sr., Director



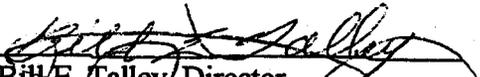
C. T. Hornsby, Director



J. R. Holbein, Director



Roy Ibanez, Director



Bill E. Talley, Director



Benny E. Dominguez, Director