

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

and

TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

_____)	
In the Matter of)	
)	
)	
CITIZENS STATE BANK)	CONSENT ORDER
BUFFALO, TEXAS)	
)	FDIC-24-0063b
)	COMMISSIONER ORDER No. 2024-023
(Insured State Nonmember Bank))	
_____)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for CITIZENS STATE BANK, BUFFALO, TEXAS (“Bank”), under Section 3(q)(2) of the Federal Deposit Insurance Act (“Act”), 12 U.S.C. § 1813(q)(2).

The Texas Department of Banking (“Department”) is the appropriate state banking agency for the Bank, under Texas Finance Code, Title 3, Subtitle A, §§ 31.001 et. seq.

The Bank, by and through its duly elected and acting Board of Directors (“Board”), has executed a STIPULATION AND CONSENT TO THE ISSUANCE OF A CONSENT ORDER (“STIPULATION”), dated Sep. 3, 2024, that is accepted by the FDIC and the Department.

With the STIPULATION, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices or violations of law, to the issuance of this CONSENT ORDER (“ORDER”) by the Deputy Regional Director of the Dallas Regional Office of the FDIC (“Deputy Regional Director”) and the Texas Banking Commissioner (“Commissioner”).

Having determined that the requirements for issuance of an order under Section 8(b) of the Act, 12 U.S.C. § 1818(b) and Texas Finance Code § 35.002 have been satisfied, the FDIC and the Commissioner hereby order that:

BOARD OVERSIGHT

1. The Board shall monitor and confirm the completion of actions taken by Bank management to comply with the terms of this ORDER. All actions taken by the Board pursuant to this ORDER shall be duly noted in the minutes of its meetings. The Board shall ensure that the Bank has sufficient policies, processes, personnel, resources, and systems to effectively implement and adhere to all provisions of this ORDER.

CAPITAL PLAN

2. Within ninety (90) days from the effective date of this ORDER, the Board shall formulate a written capital plan ("Capital Plan") and submit such plan for the review and approval of the Regional Director and the Commissioner. The Capital Plan shall address, at a minimum, achieving and maintaining positive common equity tier 1 capital, potential sources of new capital, time frames for raising capital from such sources, the description of any triggering events or conditions that would cause the implementation of contingency aspects of the Capital Plan, dividends, stress testing, and a plan to maintain minimum capital levels as required by section 3 below. Capital stress testing must be based on the inherent price risk of the bond portfolio, including additional potential depreciation and liquidity risk metrics specific to deposit outflows. After receiving approval from the Regional Director and the Commissioner, the Board shall cause the Bank to implement the Capital Plan as soon as practicable.

3. Within ninety (90) days from the effective date of this ORDER, the Bank shall achieve (and thereafter maintain) a tier 1 leverage capital ratio (as defined in Part 324 of the FDIC's Rules and Regulations, 12 C.F.R. Part 324) of at least ten percent (10%), after establishing an appropriate allowance for credit losses ("ACL"). Notwithstanding any election the Bank has made to use the community bank leverage ratio ("CBLR") framework under 12 C.F.R §

324.12(a)(3) and the capital requirements therein, the Bank is subject to and shall maintain the minimum capital levels prescribed in this section 3.

DIVIDEND RESTRICTIONS

4. While this ORDER is in effect, the Bank shall not pay any dividend without the prior written consent of the Regional Director and the Commissioner. Written requests for such approval shall be submitted at least thirty (30) days prior to the anticipated dividend declaration date.

MANAGEMENT – STAFFING STUDY

5. (a) Within thirty (30) days from the effective date of this ORDER, the Board shall designate qualified individual(s) acceptable to the Regional Director and the Commissioner to develop a written analysis and assessment of the Bank’s management and staffing needs (“Management Plan”) for the purpose of providing qualified management for the Bank.

(b) The Management Plan shall be developed within one hundred and twenty (120) days from the date the qualified individuals were designated. The Management Plan shall include, at a minimum:

- (1) Identification of both the type and number of officer positions needed to properly manage and supervise the affairs of the Bank, including a description of each position’s responsibilities;
- (2) Identification and establishment of Bank and/or Board committees as are needed to provide guidance and oversight to active management of the Bank, including a description of the specific purposes of each committee;

- (3) Evaluation of all Bank officers and staff members (including lenders) to determine whether these individuals possess the ability, experience, and other qualifications required to perform present and anticipated duties, including adherence to the Bank's established policies and practices, effective oversight of Bank employees, and restoration and maintenance of the Bank to a safe and sound condition;
- (4) A plan to remediate issues identified in section (b)(3) above or elsewhere in the Management Plan, through training or other appropriate measures;
- (5) A plan to recruit and hire any additional or replacement personnel with the requisite ability, experience, and other necessary qualifications to fill those officer or staff member positions identified in the Management Plan; and
- (6) Identification of changes to the Bank's holding company's management positions and personnel that will supplement the Bank's needs identified in the Management Plan.

(c) The Management Plan shall be submitted to the Regional Director and the Commissioner for review and comment upon its completion. Within thirty (30) days from the receipt of any comments from the Regional Director and the Commissioner, and after the adoption of any recommended changes, the Board shall approve the Management Plan and record its approval in the minutes of the board of directors' meeting. Thereafter, the Bank, the Board, the Bank's officers, and employees shall implement and follow the Management Plan and/or any subsequent modification.

LOAN POLICY AND CREDIT ADMINISTRATION

6. (a) When purchasing a participation loan, Bank management must perform the same degree of independent credit analysis on the loan as if it were the originator. To determine if a participation loan meets its credit standards, Bank management must obtain, at a minimum, all relevant credit information on collateral values, lien status, loan agreements, and participation agreements before a commitment is made to purchase. During the life of the participation, the Bank must monitor the servicing and status of the loan. To exercise control of its ownership interest, Bank management must ascertain that the selling institution will provide complete and timely credit information on a continuing basis.

EARNINGS/PROFIT PLAN

7. (a) Within ninety (90) days from the effective date of this ORDER, and within the first thirty (30) days of each calendar year for which this ORDER is in effect, the Board shall develop and submit to the Regional Director and the Commissioner for review and comment a written profit plan ("Profit Plan") consisting of goals and strategies for improving the earnings of the Bank and which is consistent with sound banking practices. Within forty-five (45) days after the receipt of any comment from the Regional Director and the Commissioner, the Board shall approve the Profit Plan incorporating any such comments from the Regional Director and the Commissioner, which approval shall be recorded in the Board minutes. Thereafter, the Bank, the Board, the Bank's officers, and employees shall follow the Profit Plan and/or any subsequent modification.

(b) The Profit Plan must, taking into account the Bank's other written plans and policies, establish formal goals and strategies to improve and sustain the Bank's earnings and, at a minimum:

- (1) Specify goals to improve the net interest margin, increase interest income, reduce discretionary expenses and improve and sustain earnings, as well as maintain adequate provisions for the allowance for credit losses;
- (2) Identify the major areas in which the Board will seek to improve the Bank's operating performance;
- (3) Establish realistic and comprehensive budgets;
- (4) Establish appropriate budget/forecasting standards;
- (5) Contain a budget review process to monitor the income and expenses of the Bank as well as compare the actual to budget projections; and
- (6) Describe the operating assumptions that form the basis for and adequately support projected income and expense components.

(c) Within thirty (30) days after the end of each calendar quarter following completion of the Profit Plan and budget required by this ORDER, the Board shall evaluate the Bank's actual performance in relation to the written Profit Plan and budget, record the results of the evaluation, and note any actions taken in the Board's minutes.

SENSITIVITY TO MARKET RISK

8. (a) While this ORDER is in effect, the Board shall implement the following requirements to strengthen the Bank's Interest Rate Risk ("IRR") Management Program:

- (1) Model Risk Management Standards - The Board shall develop and implement written model risk management standards that are sufficient for developing and maintaining reasonable model input

assumptions; controlling and ensuring data accuracy; and validating model performance and use.

- (2) IRR Model Assumptions - The Board shall develop processes for adjusting and reviewing model assumptions. While assumptions are based on a deposit study, qualitative adjustments must be made given the extraordinary events that have occurred during and after the study timeframe, including pandemic -related deposit growth, interest rate increases, and deposit migration.

(b) Within ninety (90) days from the effective date of this ORDER, the Board shall revise the IRR Mitigation Plan, subject to the review and approval of the Regional Director and the Commissioner, to address the following items:

- (1) Maintenance of sufficient primary liquidity levels;
- (2) A new investment strategy that includes policy limits on investment securities volume, weighted average life, and duration;
- (3) A plan to return out-of-policy positions (e.g. weighted average life, duration, economic value of equity) to within Board -approved limits; and
- (4) A plan to address further net interest margin compression.

(c) After receiving approval from the Regional Director and the Commissioner, the Board shall cause the Bank to implement the revised IRR Mitigation Plan as soon as practicable.

LIQUIDITY

9. Within ninety (90) days from the effective date of this ORDER, the Board shall implement the following enhancements to the Bank’s Liquidity Risk Management and Funds Management Programs:

- (a) Liquidity Stress Testing - The Board shall implement Bank –specific scenarios given the unique vulnerabilities posed by the balance sheet.
- (b) Contingency Funding Plan (“CFP”) - The Board shall ensure that the CFP and liquidity stress tests work in unison and that early warning indicators included in the CFP are reported to the Board.

STRATEGIC PLANNING

10. (a) Within one-hundred and twenty (120) days from the effective date of this ORDER, the Bank shall revise its existing written Strategic Plan (“Strategic Plan”) and submit the revised Strategic Plan to the Regional Director and the Commissioner for review and comment. The revised Strategic Plan shall contain an assessment of the Bank's current financial condition and market area, and a description of the operating assumptions that form the basis for major projected income and expense components.

- (b) The revised Strategic Plan shall address, at a minimum:
 - (1) Strategies for pricing loans and deposits and asset/liability management;
 - (2) Plans for sustaining adequate liquidity, including increasing on-balance sheet liquidity and back-up lines of credit to meet any unanticipated deposit withdrawals;
 - (3) Goals for reducing problem loans;

(4) Financial goals, including pro forma statements for asset growth, capital adequacy, and earnings; and

(5) Formulation of a mission statement and the development of a strategy to carry out that mission.

(c) After consideration of all comments from the Regional Director and the Commissioner, the Board shall approve the revised Strategic Plan, which approval shall be recorded in the Board minutes. Thereafter, the Bank shall implement and follow the revised Strategic Plan.

(d) Within thirty (30) days after the end of each calendar quarter following the adoption of the Strategic Plan, the Board shall evaluate the Bank's performance in relation to the Strategic Plan required by this paragraph and record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board's meeting at which such evaluation is undertaken.

(e) The Strategic Plan required by this ORDER shall be further revised based on the findings in part (d) of this section and submitted to the Regional Director and the Commissioner for review and comment thirty (30) days after the end of each calendar year for which this ORDER is in effect. Within thirty (30) days after receipt of all such comments from the Regional Director and the Commissioner and after consideration of all such comments, the Board shall approve the revised Strategic Plan, which approval shall be recorded in the Board minutes. Thereafter, the Bank shall implement the revised Strategic Plan.

CORRECTION OF VIOLATIONS OF LAW AND REGULATIONS

11. Within one-hundred and twenty (120) days of the effective date of this ORDER, Bank management and the Board shall address and correct any violations noted in the June 12, 2023 Report of Examination and January 16, 2024 Visitation Letter.

PROGRESS REPORTS

12. Within forty-five (45) days after the end of each calendar quarter following the effective date of this ORDER, the Bank shall furnish to the Regional Director and the Commissioner written progress reports detailing the actions taken to secure compliance with the ORDER and the results thereof. Such reports may be discontinued when the corrections required by this ORDER have been accomplished and the Regional Director and the Commissioner have released, in writing, the Bank from making further reports.

NOTIFICATION TO SHAREHOLDERS

13. Within thirty (30) days from the effective date of this ORDER, the Bank shall send a copy of this ORDER, or otherwise furnish a description of this ORDER, to its parent holding company. The description shall fully describe this ORDER in all material respects.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC, the Department, or any other federal agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall be effective on the date of issuance by the FDIC and the Commissioner.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC and the Commissioner.

Issued pursuant to delegated authority.

Dated this 9th day of September, 2024.

/s/

J. Mark Love
Deputy Regional Director
Dallas Regional Office
Federal Deposit Insurance Corporation

/s/

Charles G. Cooper
Banking Commissioner
State of Texas
Texas Department of Banking