

FEDERAL DEPOSIT INSURANCE CORPORATION
WASHINGTON, D.C.

AND

TEXAS DEPARTMENT OF BANKING
AUSTIN, TEXAS

_____	)	
In the Matter of	)	CONSENT ORDER
	)	
CITIZENS STATE BANK	)	
GANADO, TEXAS	)	FDIC-21-0108b
	)	
(INSURED STATE NONMEMBER BANK)	)	COMMISSIONER ORDER No. 2021-019
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for CITIZENS STATE BANK, GANADO, TEXAS (“Bank”), under 12 U.S.C. § 1813(q). 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 TO THE ISSUANCE OF A CONSENT ORDER” (“STIPULATION”), dated January 24, 2022, 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 relating to weaknesses in asset quality, deterioration in capital protection and earnings, and deficiencies in management and oversight by the Board, to the issuance of this CONSENT ORDER (“ORDER”) by the Regional Director of the Dallas Regional Office of the FDIC (“Regional Director”) and the Texas Banking Commissioner

(“Commissioner”).

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

BOARD SUPERVISION / CORPORATE GOVERNANCE

1) (a) Within thirty (30) days of the effective date of this ORDER, the Bank’s Board shall increase its participation in Bank affairs by assuming responsibility for the approval of the Bank’s policies and objectives and for the oversight of the Bank’s executive and senior management, including approval of a process to monitor all the Bank’s activities and compliance with the Bank’s Board-approved policies. The Board’s participation in the Bank’s affairs shall include, at a minimum:

- (1) Holding monthly meetings to monitor the overall condition of the Bank, its risk profile, and compliance with internal policies, regulations, statutes, statements of policy, and rules.
- (2) Maintain detailed Board meeting minutes of the items reviewed & discussed.
- (3) Within ninety (90) days of the effective date of this ORDER, the Board shall:
 - a. Participate in an enhanced training program on their duties and responsibilities as directors in order to ensure the safe and sound operation of the institution; and
 - b. Document the Board’s meeting minutes regarding the type of training received and list the directors who participated in the

training program.

- c. Develop a plan to increase oversight of CEO Staff in order to mitigate the risks stemming from his dominant influence over the Bank's activities.

MANAGEMENT

2) (a) The Board shall ensure that the Bank retains qualified management. Each member of management shall possess qualifications and experience commensurate with his or her duties and responsibilities. The Board shall evaluate the qualifications of management personnel according to their ability to do the following:

- (1) Comply with the provisions of this Memorandum
- (2) Operate the Bank in a safe and sound manner
- (3) Comply with applicable laws and regulations
- (4) Restore all aspects of the Bank to a satisfactory condition

(b) While this ORDER is in effect, the Bank shall notify the Regional Director and the Commissioner in writing of any changes in Bank's directors or Senior Executive Officers. For the purpose of this ORDER, "Senior Executive Officer" is defined as in Section 303.101(b) of the FDIC's Rules and Regulations, 12 C.F.R. § 303.101(b). Prior to the addition of any individual to the Board of Directors or the employment of any individual as a Senior Executive Officer, the Bank shall comply with the requirements of Section 32 of the Act, 12 U.S.C § 1831i, and Subpart F of Part 303 of the FDIC Rules and Regulations, 12 C.F.R. §§ 303.100-303.103. Additionally, the Bank will obtain the written approval of the Commissioner prior to changing, or adding any new Senior Executive Officer, or directors.

STRATEGIC PLAN

- 3) Within sixty (60) days of the date of this Order, the Board shall do the following:
- (a) Develop a comprehensive, written strategic plan;
 - (b) Submit the plan to the Commissioner and Regional Director for approval; and
 - (c) Ensure the plan is updated annually.

The plan shall address the following, at a minimum:

- Short-term goals to comply with this Order and correct all regulatory criticisms;
- An operating plan for the next 12 to 18 months to accomplish the short-term goals; and
- Long-term goals for growth, capital maintenance, and profitability.

EARNINGS, PROFIT PLAN, & BUDGET

4) Within thirty (30) days of the date of this Order the Board shall develop a written profit plan and submit it to the Regional Director and Commissioner for approval. The plan will establish specific strategies and remedial measures to improve the profitability of the Bank. At a minimum, the plan shall address the following items:

- (a) The major areas in which the Board will seek to improve the Bank's operating performance
- (b) A budget which incorporates realistic and comprehensive assumptions
- (c) A budget review process which compares actual income and expenses with projections

- (d) A description of the assumptions that support projected income and expense components

Thereafter, the Bank shall formulate such a plan and budget by January 31st of each subsequent year and submit it to the Commissioner and Regional Director for approval.

CAPITAL PLAN & MAINTENANCE

5) Within ninety (90) days of the effective date of this ORDER and while this ORDER is in effect, the Bank, after establishing an ALLL, shall maintain its Tier 1 Leverage Capital ratio equal to or greater than 8.0 percent of the Bank's Average Total Assets, and shall maintain its Total Risk-Based Capital ratio equal to or greater than 15.0 percent of the Bank's Total Risk Weighted Assets.

(a) Should the Board elect to opt into the Community Bank Leverage Ratio framework, the minimum leverage ratio will be greater than 9.00% and will replace the minimums described above, and as long as the leverage ratio is maintained then it will be assumed that the bank is in compliance with the Total Capital ratio and there will be no requirement for the bank to calculate. Regardless, these ratios shall be achieved and maintained through retention of earnings, collection of charged-off assets, reduction in total assets, sale of new equity, or any combination thereof.

(b) The Capital Plan must include a contingency plan in the event that the Bank has failed to maintain the minimum capital ratios required; failed to submit an acceptable Capital Plan as required by this subparagraph; or failed to implement or adhere to a Capital Plan to which no written objection has been provided by the Regional Director and the Commissioner. The Contingency Plan shall include a

plan to sell or merge the Bank. The Bank shall implement the Contingency Plan upon written notice from the Regional Director and Commissioner.

(c) After the Regional Director and the Commissioner respond to the Capital Plan, the Bank's Board shall adopt the Capital Plan, including any modifications or amendments requested by the Regional Director and the Commissioner. Thereafter, to the extent such measures have not previously been initiated, the Bank shall immediately initiate measures detailed in the Capital Plan, to increase its capital by an amount sufficient to bring all the Bank's capital ratios to the percentages required by this ORDER within ninety (90) days after the Regional Director and the Commissioner respond to the Capital Plan.

(d) If all or part of the increase in capital required by this ORDER is to be accomplished by the sale of new securities, the Bank's Board shall adopt and implement a plan for the sale of such additional securities, including soliciting proxies and the voting of any shares or proxies owned or controlled by them in favor of the plan if a shareholder vote is required. Should the implementation of the plan involve a public distribution of the Bank's securities (including a distribution limited only to the Bank's existing shareholders), the Bank shall prepare offering materials fully describing the securities being offered, including an accurate description of the financial condition of the Bank and the circumstances giving rise to the offering, and any other material disclosures necessary to comply with State and Federal securities laws. Prior to the implementation of the plan involving a public distribution of securities, and in any event, not less than 20 days prior to the dissemination of such materials, the plan and any materials used in the

sale of the securities shall be submitted to the FDIC, Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review. Any changes requested to be made in the plan or the materials by the FDIC shall be made prior to their dissemination. If the increase in capital is to be provided by the sale of non-cumulative perpetual preferred stock, then all terms and conditions of the issue shall be presented to the Regional Director and the Commissioner for prior approval.

(e) In complying with the provisions of this ORDER and until such time as any such public offering is terminated, the Bank shall provide to any subscriber and/or purchaser of the Bank's securities written notice of any planned or existing development or other change which is materially different from the information reflected in any offering materials used in connection with the sale of the Bank's securities. The written notice required by this paragraph shall be furnished within 10 days after the date such material development or change was planned or occurred, whichever is earlier, and shall be furnished to every purchaser and/or subscriber who received or was tendered the information contained in the Bank's original offering materials.

DIVIDEND RESTRICTION

6) As of the effective date of this ORDER, the Bank shall not declare or pay any cash dividend without the prior written consent of the Regional Director and the Commissioner.

VIOLATIONS

7) Within sixty (60) days of the effective date of this ORDER, the Bank shall eliminate and/or correct all violations of law and regulation and address all supervisory recommendations noted in the Report of Examination of the Bank as of July 19, 2021, and

implement procedures to ensure future compliance.

COMPLIANCE COMMITTEE

8) Within thirty (30) days of the effective date of this ORDER, the Bank's Board shall establish a committee of the Bank's Board charged with the responsibility of ensuring that the Bank complies with the provisions of this ORDER. The majority of the members of such committee shall be directors not employed in any capacity by the Bank other than as a director. The committee shall report monthly to the full Bank's Board, and a copy of the report and any discussion relating to the report or the ORDER shall be noted in the minutes of the Bank's Board meetings. The establishment of this committee shall not diminish the responsibility or liability of the entire Bank's Board to ensure compliance with the provisions of this ORDER.

BUSINESS PLAN

9) While this ORDER is in effect, the Bank shall not enter into any new line of business without the prior written consent of the Regional Director and the Commissioner.

INFORMATION TECHNOLOGY

10) Within thirty (30) days of the effective date of this Order, the Bank's Board shall increase its oversight of the Bank's IT affairs by monitoring the overall condition of the Bank's IT function, its risk profile, and compliance with internal policies, regulations, statutes, statements of policy, and rules. Board reviews and approvals shall include monthly receipt and review of relevant Information Technology / Cybersecurity reports, testing and audit results, and any exceptions to Bank policy.

11) Within ninety (90) days from the effective date of this Order, the Board shall develop, formalize, or update comprehensive policies and procedures to address security and operational controls of the Bank's Information Technology area as outlined in the Report. Formal policies

should at a minimum address:

- (a) operations, including data loss prevention controls;
- (b) user access administration and periodic access level reviews;
- (c) separation and segregation of duties and controls;
- (d) management oversight and monitoring of automated activities; and,
- (e) audit of the main banking application activities; the network and attached computers, wire transfer systems; and electronic, PC, and telephone banking applications.

12) Within sixty (60) days after the effective date of this Order, the Board shall formalize a process to identify and evaluate the business needs of bank system users, including new employees, IT outsourcing relationships, and contractors. The Board shall schedule and complete an independent review of user access rights ensuring assigned access rights are in alignment with job roles and responsibilities, and based upon the principle of least privilege.

13) Within sixty (60) days after the effective date of this Order, the Board shall implement secure control authorizations for privilege users. Furthermore, the Board shall implement effective monitoring procedures for user activity, including independent reviews of transaction logs and activity logs on critical systems. Finally, the Board or Board approved committee shall review system generated reports to identify any unusual or unauthorized activities by users and immediately report those activities to the Board or appropriate committee to initiate the Bank's Incident Response Plan.

14) Within one hundred twenty (120) days of the effective date of the Order, the Board shall implement a thorough training and testing program of the business continuity and disaster recovery programs, including support functions and pandemic events. Training on and testing of the business continuity and disaster recovery plans should be enterprise-wide and directed to all employees.

15) Within ninety (90) days from the effective date of this Order, the Board shall develop a risk-based audit program and perform, or cause to be performed, a comprehensive audit risk assessment encompassing the Bank's Information Technology systems. This assessment shall include, at a minimum, the main banking application and controls thereon, including user access levels; the Local Area Network (LAN) and firewall and intrusion protection systems; the Internet banking application and other electronic banking products; and payments systems including but not limited to the wire transfer and ACH systems.

16) Within sixty (60) days from the effective date of this Order, the Board shall establish a tracking system for audit issues and examination deficiencies. The tracking system shall list the source of each deficiency, date each deficiency was noted, management's plan of action for correction, the person responsible for corrective action, the target date of correction, and the status of correction. The Board shall specify the parties responsible for validating that IT audit and examination issues have been resolved.

SHAREHOLDER NOTIFICATION

17) After 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 shareholders (1) in conjunction with the Bank's next shareholder communication, and also (2) in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the

ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC Accounting and Securities Disclosure Section, Washington, D.C. 20429, for review at least 20 days prior to dissemination to shareholders. Any changes requested by the FDIC shall be made prior to dissemination of the description, communication, notice, or statement.

PROGRESS REPORTS

18) Within thirty (30) days after the end of the first calendar quarter following the effective date of this ORDER, and within thirty (30) days after the end of each successive calendar quarter, the Bank shall furnish written progress reports (“Progress Reports”) to the Regional Director and the Commissioner detailing the form and manner of any actions taken to achieve compliance with this ORDER and the results thereof. Such Progress Reports may be discontinued when the corrections required by the ORDER have been accomplished and the Regional Director and Commissioner have released the Bank in writing from making additional Progress Reports.

The provisions of this ORDER shall not bar, stop, or otherwise prevent the FDIC, the Department, or any other federal or state 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 upon its issuance by the FDIC and 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 in effect and enforceable except to the extent that any provision has been modified, terminated, suspended, or set aside by the FDIC and the Commissioner.

