

QUALIFICATION PARAMETERS FOR FAILED FINANCIAL INSTITUTION ACQUISITIONS

The Texas Department of Banking (the "DOB" or "DEPARTMENT") welcomes any interest in acquiring a failed or failing institution via a state bank charter, either existing or de novo. The primary concern is protection of the interests of the depositors, minimizing any negative impact on the affected community and promoting the safety and soundness of the banking system as a whole. To that end, we will endeavor to assist you in a transaction which fulfills these goals. Following is a synopsis of qualifications which must be satisfied in order to qualify to acquire a failing institution by or through a Texas state bank charter.

PROCEDURE / APPLICATION. If the resulting institution will be a Texas state chartered bank the approval of the DOB must be obtained prior to the submission of your bid. All applicants must supply the DOB sufficient information to review the proposed transaction in a timely manner. The DOB's "APPLICATION TO PURCHASE ASSETS AND ASSUME LIABILITIES" form (the "P&A FORM") solicits most of the information required to review a proposal. Additional information may be required.

EXISTING BANK - BRANCH

If you represent an existing state bank and determine to establish one or more branches as a result of the proposed transaction the P&A FORM will be considered your application to establish such branch(s).

STATE BANK CHARTER - DE NOVO

If you are a member of a group that wishes to obtain a state bank charter as a result of the subject transaction it is essential that you contact the representatives of the Texas Department of Banking (see "CONTACTS") immediately after the information meeting and submit the requisite biographical and financial information on all members of the proposed control group **AS SOON AS POSSIBLE**. The DEPARTMENT must conduct background investigations on each proposed principal. An application to charter a state bank must be submitted **in addition** to the P&A FORM.

DUE DILIGENCE

Those who intend to conduct a due diligence review of the institution must contact the DEPARTMENT regarding their intent and verify that clearance has been granted.

OUT-OF-STATE BANKS

An out-of-state bank which seeks to establish a branch(es) in Texas through the acquisition of a failed bank must provide the notice required by Section 203.002 of the Texas Finance Code.

BID PROPOSALS

Summary of Requirements:

All applicants must submit the following information to the Corporate Activities Division of the DEPARTMENT at least two (2) business days prior to the bid acceptance meeting. The DEPARTMENT'S P&A FORM solicits the information noted. A "*" indicates the information requested is related to the acquisition of a failed thrift.

A. Capital Plan

1. Pro forma Balance Sheet and Income Statements demonstrating at least 5% TANGIBLE EQUITY CAPITAL (TEC) or the indicated minimum (not less than \$1,000,000). If TEC is projected to drop below 5%, an acceptable capital plan must be submitted.
2. Consideration received from FDIC/ RTC, and Premium paid **are not** considered a component of the RESULTING BANK'S TANGIBLE CAPITAL ratio.
3. Core Deposits. Indicate an estimate of the amount of volatile and core deposits.
4. Exit and Entrance Fees must be noted in the Pro Forma Balance Sheet.*

B. Financing - Indicate the type and terms of any financing. Written documentation or phone verification of any proposed financing is required.

C. Due Diligence - Summary of the Review Performed.

D. Disclosure of the Bid.

1. Must be broken down by the applicable asset/liability categories.
2. Confidential - Your bid will be treated as confidential during the review process and will not be disclosed to anyone outside the DEPARTMENT, including other bank regulators.
3. Bid Form - Copy of the Bid Form as submitted to the FDIC.

E. Management Plan and Staff Considerations.

F. Investment in Fixed Assets. A state bank's investment in fixed assets is **limited to 100% of the bank's unimpaired capital and surplus accounts** (Section 34.002 of the Texas Finance Code). Requests to exceed such limitation must be submitted with the P&A FORM.

G. Fidelity Insurance - Evidence of Coverage of the Resulting Bank.

H. Tax Considerations - Summary of any special or unusual Tax Considerations.

I. Nonbank Assets / Unauthorized Investments - Plan for the disposition of any assets/investments not authorized for a state bank or any nonconforming assets.

Provide the Banking Department with copies of the information provided to other regulators (FDIC and FRB) regarding your bid.

FORMS. De novo bank charter and P&A application forms will be supplied upon request. See "Corporate Activities Contacts" below. Should you be the successful bidder the fee for a de novo charter is \$5,000. The fee for a P&A is \$4,000.00.

BANK HOLDING COMPANY. If your institution is or will be held by a holding company, you must demonstrate that the acquisition will not result in a violation of the deposit caps contained in state and federal law (see Section 202.002 of the Texas Finance Code).

OVERRIDE OR PREEMPTION OF STATE LAW. If an override or preemption of a state banking law will be required, notify the Texas Department of Banking.

CONTACTS. A representative of the DEPARTMENT will be available to discuss your proposal or you may discuss your proposal directly with the Corporate Activities Division of the DEPARTMENT. The regulatory contact, as indicated in the "List of Regulators" provided in the information packet, should be contacted as soon as a decision is reached regarding the intent to bid on the institution or if you have any questions in preparing your bid proposal.

Corporate Activities Contacts:

Dan Frasier
Director of Corporate Activities

email: dan.frasier@dob.texas.gov

TELEPHONE #: 512/475-1300 FAX #: 512/475-1313 or 512/475-1707

NOTE: Bid proposals must be received by the Austin Headquarters Office of the DEPARTMENT located at 2601 North Lamar Boulevard, Austin, Texas 78705, at least two (2) business days prior to submission to the FDIC.

APPLICATION TO PURCHASE AND ASSUME LIABILITIES

Application is hereby made for approval of this proposal to purchase certain assets and assume certain liabilities of a failed financial institution as required by the Texas Finance Code.

Legal Title of Charter/Acquiring Bank

Charter No.

Legal Address

City

State

Zip Code

County

Legal Title of Target Institution

Charter No.

Legal Address

City

State

Zip Code

County

Legal Title of Bank Holding Company for Charter /Acquiring Bank

Charter No.

Legal Address

City

State

Zip Code

County

Requests for additional information or other communications concerning this application and the underlying proposal should be directed to:

Name

Title

Mailing Address

Telephone Number

It is hereby certified that all statements in this application and in any other documents or paper submitted in connection with this application and the underlying bid proposal contain no misrepresentations or omissions of material facts.

_____ By _____
Bank **Signature of Authorized Officer**

Typed Name

Title

SEAL OF THE BANK

THE FOLLOWING SCHEDULES AND EXHIBITS MUST BE FILED IN CONJUNCTION WITH THIS APPLICATION.

SCHEDULE I: Transaction - Description / Management / Agreement

SCHEDULE II: Pro Forma Combined Balance Sheet

SCHEDULE III: Capital Ratio Computation

SCHEDULE IV: Branches

SCHEDULE V: Non-conforming Assets
[fixed assets, overlines, non-bank assets, etc.]

Note: Complete each section. If the information requested is not applicable, so indicate. Round all dollar amounts to the nearest thousand, unless otherwise noted.

SCHEDULE I: TRANSACTION - DESCRIPTION / MANAGEMENT / AGREEMENT

Attach a brief description of the terms of the proposed transaction and how such conforms to your bank's long term strategic plan. Also provide information regarding senior management and staffing requirements for any branches to be established in connection with the proposed transaction. Winning bidders are required to file a copy of the completed Purchase and Assumption Agreement with the Texas Department of Banking.

SCHEDULE II: PRO FORMA COMBINED BALANCE SHEET

This schedule reflects the pro forma combined balance sheet of the **RESULTING BANK** after adjustments. Provide information in separate columns for each institution participating in the transaction. All entries in the adjustment column must be footnoted and explained in detail. Also provide a brief pro forma income statement for the **RESULTING BANK** as of year-end, after the proposed transaction.

	<u>Charter Bank</u>	<u>Failed Target</u>	<u>Adjustments</u>	<u>Pro forma Resulting Bank</u>
ASSETS				
Cash and Due From Banks	\$ _____	\$ _____	\$ _____	\$ _____
Investment Securities, Federal Funds Sold & Similar Assets	_____	_____	_____	_____
Total Loans	_____	_____	_____	_____
Allowance Account	(_____)	(_____)	(_____)	(_____)
Net Loans	_____	_____	_____	_____
Fixed Assets	_____	_____	_____	_____
Other Assets	_____	_____	_____	_____
Intangible Assets	_____	_____	_____	_____
TOTAL ASSETS	\$ _____	\$ _____	\$ _____	\$ _____
LIABILITIES				
Demand Deposits	\$ _____	\$ _____	\$ _____	\$ _____
Time Deposits	_____	_____	_____	_____
Total Deposits	_____	_____	_____	_____
Federal Funds Purchased and Securities Sold Under Agreement to Repurchase	_____	_____	_____	_____
Liabilities for Borrowed Money	_____	_____	_____	_____
Other Liabilities	_____	_____	_____	_____
TOTAL LIABILITIES	\$ _____	\$ _____	\$ _____	\$ _____
CAPITAL				
Subordinated Notes Debentures	\$ _____	\$ _____	\$ _____	\$ _____
Stockholders Equity				
Preferred Stock	_____	_____	_____	_____
Common Stock	_____	_____	_____	_____
Surplus	_____	_____	_____	_____
Retained Profits	_____	_____	_____	_____
Other capital and contingency reserves	_____	_____	_____	_____
TOTAL EQUITY CAPITAL	\$ _____	\$ _____	\$ _____	\$ _____
TOTAL LIABILITIES, SUBORDINATED NOTES AND DEBENTURES, AND EQUITY CAPITAL	\$ _____	\$ _____	\$ _____	\$ _____

SCHEDULE III: CAPITAL RATIO COMPUTATION

COMPUTATION OF TANGIBLE CAPITAL RATIO

Equity Capital	_____
Plus: Minority interest in consolidated subsidiaries	_____
Less: Disallowed intangible assets	_____
Less: Loss not charged off	_____
Less: Premium for this transaction *	_____
TANGIBLE EQUITY CAPITAL	_____
Plus: Allowance for loan losses	_____
TANGIBLE PRIMARY CAPITAL	_____
Total Consolidated Assets - Assuming Bank	_____
Plus: Liabilities to be assumed in this transaction	_____
Less: Disallowed intangible assets	_____
Less: Loss not charged off	_____
Less: Premium for this transaction *	_____
ADJUSTED ASSETS	_____
Plus: Allowance for loan losses	_____
ADJUSTED ASSETS	_____
TANGIBLE EQUITY CAPITAL/ADJUSTED ASSETS =	=====
TANGIBLE PRIMARY CAPITAL/ADJUSTED ASSETS =	=====

* Includes, but is not limited to, deposit, tax attributes or any other intangibles paid to the FDIC or subtracted from the discount received from the FDIC.

NAME:

CAPITAL RATIO COMPUTATION

RISK-BASED

CORE (TIER 1) RATIO = $\frac{\text{**TIER 1 CAPITAL**}}{\text{**TOTAL RISK-WEIGHTED ASSETS**}}$

TOTAL RISK BASED CAPITAL = $\frac{\text{**TOTAL CAPITAL**}}{\text{**TOTAL RISK-WEIGHTED ASSETS**}}$

CORE CAPITAL _____ .. _____%

TOTAL CAPITAL _____ .. _____%

CAPITAL COMPUTATION

RISK-BASED

TIER 1: Common Stock and Related Surplus

**Non-Cumulative Perpetual Preferred Stock
and Related Surplus.**

Undivided Profits and Capital Reserves.

**Minority Interests in Consolidated
Subsidiaries.**

**LESS: Intangible Assets Other than Purchased
Mortgage Servicing Rights.**

**LESS: Net Unrealized Loss on Marketable
Equity Securities.**

LESS: Identified Losses.

TOTAL TIER 1

**TIER 2: Term Subordinated Debt.
(Original maturity of 5 years or more)**

**Intermediate-Term Preferred Stock.
(Original maturity of 5 years or more)**

SUBTOTAL

**Long Term preferred stock
(Original maturity of 5 years or more)**

**Cumulative and Auction Rate
Perpetual Preferred Stock.**

**Hybrid Capital Instruments Such
as Mandatory Convertible Debt.**

(ALLL) Allowance for Loan and Lease Loss

**LESS: Disallowed Portion of ALLL
SUBTOTAL**

TOTAL TIER 2

TIER 1 + TIER 2

SCHEDULE IV: BRANCHES

List all branches of the target institution and denote which ones you plan to retain (this normally will include the Home Office and opened branches of the target). Also list separately approved but unopened state bank branches. Authorizations for these branches will not be issued until they are to be opened. Also list separately the current branches, if any, of the acquiring bank.

Branch Street Address <u>City, County, State</u>	<u>Date Opened</u>	<u>Existing Branch of Target Bank</u>	<u>DOB Branch Certificate Needed</u>
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SCHEDULE V: NON-CONFORMING ASSETS / INVESTMENTS

Attach a schedule/description of any assets or investments which do not conform to the requirements of the Texas Finance Code or Regulations (ie excess investment in fixed assets, loans in excess of lending limits, assets/investments not authorized for state banks). Applicants must provide a plan, acceptable to the Banking Commissioner, describing how and when the bank will bring any non-conforming asset/investment into compliance.

Name or Type of Asset/Investment	Amount \$ _____	Collateral \$ _____	Discount \$ _____
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