

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON, D.C.  
AND  
TEXAS DEPARTMENT OF BANKING  
AUSTIN, TEXAS

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In the Matter of	)	CONSENT ORDER
	)	
FALCON INTERNATIONAL BANK	)	FDIC-11-440b
LAREDO, TEXAS	)	
	)	COMMISSIONER ORDER No. 2011-033
(Insured State Nonmember Bank)	)	
_____	)	

The Federal Deposit Insurance Corporation (“FDIC”) is the appropriate Federal banking agency for Falcon International Bank, Laredo, 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 September 29, 2011, 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 and liquidity, 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 FDIC’s Dallas Regional Office (“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 Department hereby order that:

### **MANAGEMENT – BOARD SUPERVISION**

1. Within 30 days after the effective date of this ORDER, the Bank's Board shall increase its participation in Bank affairs by assuming full responsibility for the approval of the Bank's policies and objectives and for the supervision of the Bank's management, including all the Bank's activities. The Board's participation in the Bank's affairs shall include, at a minimum:

(a) Monthly meetings in which the following areas shall be reviewed and approved by the Board: reports of income and expenses; internally classified assets; new, overdue, renewed, insider, charged-off, delinquent, non-accrued, and recovered loans; investment activities; operating policies; and individual committee actions.

(b) Board meeting minutes which document the Board's reviews and approvals of the above reports, and which include the names of any dissenting directors.

### **CLASSIFIED ASSETS - CHARGE-OFF AND PLAN FOR REDUCTION**

2. (a) Within 30 days after the effective date of this ORDER, the Bank shall, to the extent that it has not previously done so, eliminate from its books, by charge-off or collection, all assets or portions of assets classified Loss by the FDIC or the Department as a result of its examination of the Bank as of April 25, 2011, and any subsequent examination. Elimination or reduction of these assets through proceeds of loans made by the Bank shall not be considered "collection" for the purpose of this paragraph.

(b) Within 60 days after the effective date of this ORDER, the Bank shall submit a written plan to reduce the remaining assets classified Doubtful and Substandard as of the April 25, 2011 examination (“Classified Asset Plan”) to the Regional Director and the Commissioner for review. The Classified Asset Plan shall address each asset so classified with a balance of \$1,500,000 or greater. The Classified Asset Plan shall include any classified assets identified subsequent to the April 25, 2011 examination by the Bank internally or by the FDIC or the Department in a subsequent visitation or examination. For each identified asset, the Classified Asset Plan should provide the following information:

- (1) The name under which the asset is carried on the books of the Bank;
- (2) Type of asset;
- (3) Actions to be taken in order to reduce the classified asset; and
- (4) Time frames for accomplishing the proposed actions.

The Classified Asset Plan shall also, at a minimum:

- (1) A review of the financial position of each such borrower, including the source of repayment, repayment ability, alternate repayment sources, and a global cash flow analysis (if applicable); and
- (2) An evaluation of the available collateral for each such credit, including possible actions to improve the Bank’s collateral position.

In addition, the Bank’s Classified Asset Plan shall contain a schedule detailing the projected reduction of total classified assets on a quarterly basis. Further, the Classified Asset Plan shall contain a provision requiring the submission of monthly progress reports to the Bank’s Board and a provision mandating a review by the Bank’s Board.

(c) For purposes of the Classified Asset Plan, the reduction of adversely classified assets shall be detailed using quarterly targets expressed as a percentage of the Bank's Tier 1 Capital plus the Bank's Allowance for Loan and Lease Losses ("ALLL") and may be accomplished by:

- (1) Charge-off;
- (2) Collection;
- (3) Sufficient improvement in the quality of adversely classified assets so as to warrant removing any adverse classification, as determined by the FDIC or the Department; or
- (4) Increase in the Bank's Tier 1 Capital.

(d) Within 30 days after the Regional Director's and the Commissioner's response, the Classified Asset Plan, including any requested modifications or amendments shall be adopted by the Bank's Board, which approval shall be recorded in the meeting minutes of the Bank's Board. The Bank shall then immediately initiate measures detailed in the Classified Asset Plan to the extent such measures have not been initiated.

### **RESTRICTION ON ADVANCES TO CLASSIFIED BORROWERS**

3. (a) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose existing credit has been classified Loss by the FDIC or the Department as the result of its examination of the Bank, either in whole or in part, and is uncollected, or to any borrower who is already obligated in any manner to the Bank on any extension of credit, including any portion thereof, that has been charged off the books of the Bank and remains uncollected. The requirements of this paragraph

shall not prohibit the Bank from renewing credit already extended to a borrower after full collection, in cash, of interest due from the borrower.

(b) While this ORDER is in effect, the Bank shall not extend, directly or indirectly, any additional credit to or for the benefit of any borrower whose extension of credit is classified Doubtful and/or Substandard by the FDIC or the Department as the result of its examination of the Bank, either in whole or in part, and is uncollected, unless the Bank's Board has signed a detailed written statement giving reasons why failure to extend such credit would be detrimental to the best interests of the Bank. The statement shall be placed in the appropriate loan file and included in the minutes of the applicable Bank's Board meeting.

#### **CONCENTRATIONS – PLAN FOR REDUCTION**

4. (a) Within 60 days from the effective date of this ORDER, the Board shall adopt a risk management program for identifying, measuring, monitoring, and controlling concentrations in commercial real estate ("CRE") that fully complies with the Joint Interagency Policy Statement regarding Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices issued on December 12, 2006. The program shall include the following elements:

- (1) A CRE policy that establishes a reasonable level of risk, includes prudent guidelines, and incorporates an overall CRE lending strategy with specific CRE exposure limits and appropriate sub-limits measured as a percentage of total capital;
- (2) Strategies for managing CRE on a portfolio-wide basis that includes contingency plans for reducing or mitigating concentrations under adverse CRE market conditions;

- (3) Management information systems (“MIS”) that are relevant to the institution’s lending strategy, risk tolerances, and underwriting standards;
- (4) A qualitative analysis of the CRE concentration including a periodically updated market analysis that provides the Board and management with information necessary to determine whether changes to the Bank’s CRE lending strategies and policies are warranted;
- (5) Clear and measurable credit underwriting standards that reflect reasonable risk exposures toward CRE; and
- (6) Portfolio level stress testing or sensitivity analysis that quantifies the impact of changing economic conditions on asset quality, earnings, and capital.

(b) The Board shall, based upon the above-described program, develop an action plan to reduce concentration risk to an acceptable level through the reduction in concentration levels. For purposes of the Concentrations Plan, “reduce” means to:

- (1) Charge-off;
- (2) Collect; or
- (3) Increase Tier 1 Capital.

(c) After the Regional Director and the Commissioner have responded to the Concentrations Plan, the Bank’s Board shall adopt the Concentrations Plan as amended or modified by the Regional Director and the Commissioner. The Concentrations Plan shall be implemented immediately to the extent that the provisions of the Concentrations Plan are not already in effect at the Bank.

## **LOAN REVIEW AND PROBLEM LOAN IDENTIFICATION**

5. (a) Within 30 days after the effective date of this ORDER, the Bank's Board shall establish a loan review committee to periodically review the Bank's loan portfolio and identify and categorize problem credits. The committee shall file a report with the Bank's Board at each Board meeting. This report shall include the following information:

- (1) The overall quality of the loan portfolio;
- (2) The identification, by type and amount, of each problem or delinquent loan;
- (3) Credit and collateral documentation exceptions;
- (4) The identification of all loans not in conformance with the Bank's lending policy;
- (5) The identity of the loan officer who originated each loan reported in accordance with items (1) through (4) of Provision 5 (a); and
- (6) Concentrations of credit.

(b) The Bank's Board shall evaluate the internal loan and lease review reports and shall ensure appropriate action is taken concerning findings noted in the reports.

## **PROBLEM ASSET WORKOUT PROGRAM**

6. (a) Within 60 days after the effective date of this ORDER, the Board shall develop, implement, and thereafter ensure a Workout Program for the purpose of providing an independent resolution process for problem loans and other real estate owned. At a minimum the program will address the following key risk management processes:

- (1) Establishing an adequately staffed Problem Asset Workout Department that reports to the Board or designated committee thereof;
- (2) Approving reasonable levels of authority and establishing independence and responsibilities for the Problem Asset Workout Department to dispose of problem assets or restructure problem credits to minimize loss to the bank while obtaining reasonable terms and conditions.
- (3) Maintaining Updated Financial and Analytical Information;
- (4) Obtaining updated real estate appraisals and collateral valuations; and,
- (5) Revising Loan collection policies and procedures.

(b) The Board shall ensure that the Bank has adequate personnel and control systems to ensure adherence to this provision.

### **CAPITAL PLAN & MAINTENANCE**

7. (a) Within 30 days after 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 9 percent of the Bank's Average Total Assets; and shall maintain its Total Risk-Based Capital ratio equal to or greater than 13 percent of the Bank's Total Risk Weighted Assets. The Board shall consider the guidance provided in FIL-22-2008, Managing CRE in a Challenging Environment, when determining the appropriate level of capital.



(b) If any such capital ratios are less than required by the ORDER, as determined as of the date of any Report of Condition and Income or at an examination by the FDIC or the Department, the Bank shall, within 30 days after receipt of a written notice of the capital deficiency from the Regional Director or the Commissioner, present to the Regional Director and the Commissioner a plan to increase the capital of the Bank or to take such other measures to bring all the capital ratios to the percentages required by this ORDER (“Capital Plan”).

(c) In addition, 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 the Supervisory Authorities have made no written objection. The Bank shall implement the contingency plan upon written notice from the Supervisory authorities.

(d) 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 60 days after the Regional Director and the Commissioner respond to the Capital Plan. Such increase in capital and any increase in capital necessary to meet the capital ratios required by this ORDER may be accomplished by:

- (1) The sale of securities in the form of common stock; or

- (2) The direct contribution of cash subsequent to June 30, 2011, by the directors and/or shareholders of the Bank or by the Bank's holding company; or
- (3) Receipt of an income tax refund or the capitalization subsequent to June 30, 2011, of a bona fide tax refund certified as being accurate by a certified public accounting firm; or
- (4) Any other method approved by the Regional Director and the Commissioner.

(e) 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. 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 Federal securities laws. Prior to the implementation of the plan, 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.

(f) 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.

(g) The Bank shall comply with the FDIC's Statement of Policy on Risk-Based Capital found in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, App. A.

(h) For purposes of this ORDER, all terms relating to capital shall be calculated according to the methodology set forth in Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325.

### **DIVIDEND RESTRICTION**

8. 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.

### **ALLOWANCE FOR LOAN AND LEASE LOSSES**

9. Prior to the end of each calendar quarter, the Bank's Board shall review the adequacy of the Bank's ALLL. Such reviews shall include, at a minimum, the Bank's loan loss experience, an estimate of potential loss exposure in the portfolio, trends of delinquent and non-

accrual loans and prevailing and prospective economic conditions. The minutes of the Bank's Board meetings at which such reviews are undertaken shall include complete details of the reviews and the resulting recommended increases in the ALLL. The methodology for determining the Bank's ALLL adequacy must conform to generally accepted accounting principles and the December 13, 2006 Joint Interagency Statements of Policy regarding the ALLL. Provisions for loan losses must be based on the inherent risk in the Bank's loan portfolio. The directorate must document with written reasons any decision not to require provisions for loan losses in the Board's minutes.

### **VIOLATIONS AND STATEMENTS OF POLICY**

10. Within 60 days after the effective date of this ORDER, the Bank's Board shall, consistent with sound banking practices, ensure that all violations and contraventions of Statements of Policy ("SOP") cited in the Report are corrected. The Board shall also adopt procedures to prevent recurrence of violations and contraventions of SOP.

### **LIQUIDITY / ASSET / LIABILITY MANAGEMENT**

11. (a) Within 90 days after the effective date of this ORDER, the Bank shall develop and submit to the Regional Director and the Commissioner for review and comment a written plan addressing liquidity and a contingency funding plan. While this ORDER is in effect, the Bank shall review this plan for adequacy and, based upon such review, shall make necessary revisions to the plan to maintain adequate provisions to meet liquidity needs. The initial plan shall include, at a minimum, the following provisions:

- (1) Identification of the source and use of borrowed and/or volatile funds;

(2) Establishment of lines of credit at correspondent banks, that would allow the Bank to borrow funds to meet depositor demands if the Bank's other provisions for liquidity proved to be inadequate; and

(3) Establishment of contingency plans by identifying alternative courses of action designed to meet the Bank's liquidity needs;

(b) Within 90 days after the receipt of all such comments from the Regional Director and the Commissioner, and after revising the plan as necessary, the Bank shall adopt the plan, which adoption shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement the plan.

#### **BUDGET AND PROFIT PLAN**

12. (a) Within 90 days after the effective date of this ORDER, the Bank shall formulate and submit to the Regional Director and the Commissioner for review and comment a written profit plan and a realistic, comprehensive budget for all categories of income and expense for calendar year 2012. The plan required by this paragraph must contain a description of the operating assumptions that form the basis for major projected income and expense components.

(b) Within 30 days after the end of each calendar quarter following completion of the profit plan and budget required by this paragraph, the Bank's 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 by the Bank in the minutes of the Board meeting when such evaluation is undertaken.

(c) A written profit plan and budget shall be prepared for each calendar year for which this ORDER is in effect and shall be submitted to the Regional Director and the

Commissioner for review and comment within 30 days after the end of each year. Within 30 days after receipt of all such comments from the Regional Director and the Commissioner and after adoption of any recommended changes, the Bank shall approve the written profit plan and budget, which approval shall be recorded in the minutes of a Board meeting. Thereafter, the Bank shall implement and follow the plan.

### **CHANGE IN BUSINESS PLAN**

13. From the date of this ORDER the Bank shall not enter into any new line of business or offer any new service without the prior written consent of the Regional Director and the Commissioner.

### **COMPLIANCE COMMITTEE**

14. Within 30 days after 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. At least two 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 subcommittee shall not diminish the responsibility or liability of the entire Bank's Board to ensure compliance with the provisions of this ORDER.

### **SHAREHOLDER NOTIFICATION**

15. 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**

16. Within 30 days after the end of the first calendar quarter following the effective date of this ORDER, and within 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 secure 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 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.

This ORDER is signed by the FDIC Dallas Regional Director, pursuant to delegated authority.

Issued and made effective this 30th day of September 2011.

/s/  
\_\_\_\_\_  
Kristie K. Elmquist  
Acting Regional Director  
Dallas Region  
Division of Risk Management Supervision  
Federal Deposit Insurance Corporation

/s/  
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Charles G. Cooper  
Banking Commissioner  
Texas Department of Banking