

UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.

TEXAS DEPARTMENT OF BANKING  
AUSTIN, TEXAS

In the Matter of  
INDUSTRY BANCSHARES, INC.  
Industry, Texas

Docket No. 24-029-B-HC  
Commissioner Order 2024-026

Order to Cease and Desist Issued  
Upon Consent Pursuant to the  
Federal Deposit Insurance Act, as  
Amended

WHEREAS, Industry Bancshares, Inc., Industry, Texas (“Bancshares”), a registered bank holding company, owns and controls Bank of Brenham, National Association, Brenham, Texas, The First National Bank of Shiner, Shiner, Texas, The First National Bank of Bellville, Bellville, Texas, all national banks, Industry State Bank, Industry, Texas, Fayetteville Bank, Fayetteville, Texas, and Citizens State Bank, Buffalo, Texas, all state nonmember banks (collectively, the “Banks”), and various nonbank subsidiaries (collectively, with the Banks and Bancshares, the “Organization”);

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor of Bancshares;

WHEREAS, the Texas Department of Banking (the “TDB”) is the appropriate state supervisor for Bancshares;

WHEREAS, the most recent inspection of Bancshares, dated June 20, 2024, conducted by the Federal Reserve Bank of Dallas (the “Reserve Bank” and collectively with the TDB, the “Supervisors”) and the TDB identified deficiencies with respect to the operations of Bancshares, including with respect to Bancshares’ ability to serve as a source of strength to the Banks;

WHEREAS, Bancshares, the Board of Governors, the Reserve Bank, and the TDB have the common goal that Bancshares operate in a safe and sound manner and comply with all applicable federal and state laws, rules, and regulations;

WHEREAS, Bancshares, the Board of Governors, and the TDB have mutually agreed to enter into this consent Cease and Desist Order (the “Order”); and

WHEREAS, the board of directors of Bancshares has authorized the undersigned to enter into this Order and consent to compliance with each and every provision of this Order by Bancshares and to waive any and all rights that Bancshares may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1818) and the Texas Banking Act, as amended, (the “Banking Act”) (Tex. Finc. Code § 31 et seq.), including, but not limited to: (i) the issuance of a notice of charges on any matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of the Order or any provision hereof.

NOW, THEREFORE, it is hereby ordered that, before the filing of any notices, or taking of any testimony or adjudication of or finding on any issues of fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the

necessity for protracted or extended hearings or testimony, pursuant to section 8(b)(1) and (3) of the FDI Act (12 U.S.C. § 1818(b)(1) and 1818(b)(3)) and section 35.002(c) of the Banking Act (Tex. Finc. Code § 35.002(c)), Bancshares shall cease and desist and take affirmative action as follows:

### **Source of Strength**

1. The board of directors of Bancshares shall take appropriate steps to fully utilize Bancshares' financial and managerial resources, pursuant to section 38A of the Federal Deposit Insurance Act, as amended ("the FDI Act") (12 U.S.C. § 1831o-1) and section 225.4(a) of Regulation Y of the Board of Governors (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Banks, including, but not limited to, taking steps to ensure that the Banks comply with any supervisory action taken by the Banks' federal or state regulators.

### **Board Oversight**

2. Within 90 days of the effective date of this Order, Bancshares' board of directors shall submit to the Supervisors a written plan to strengthen board oversight of Bancshares' management and operations. The plan shall include the following four items:

(a) actions that the board of directors will take to maintain effective control over, and supervision of, Bancshares' operations and activities, including, but not limited to, risk management, interest rate risk management, liquidity, capital planning, strategic planning, and cash flow;

(b) steps to ensure that the board of directors monitors management's adherence to applicable laws and regulations, approved policies, procedures, and limits, and exceptions to approved policies, procedures, and limits;

(c) steps to improve the quality, comprehensiveness, and granularity of the information and reports provided to and reviewed by the board of directors, or its committees, in their oversight and operation of Bancshares, including information on risk management, interest rate risk management, capital, earnings, and liquidity; and

(d) measures to maintain adequate and complete minutes of all board of directors and committee meetings, approval of such minutes, and their retention for supervisory review.

### **Risk Management**

3. Within 90 days of the effective date of this Order, Bancshares shall submit to the Supervisors an acceptable written plan to enhance Bancshares' risk management practices. The plan shall include the following two items:

(a) policies, procedures, and controls to identify, assess, manage, and monitor risk exposures, including, but not limited to, risks in new activities and products, investments, and liquidity; and

(b) policies and procedures that:

(i) define the roles, responsibilities, independence, and reporting lines among the board of directors, committees thereof, senior management, and any other individuals or groups charged with oversight of the Organization's operations; and

(ii) provide for an appropriate schedule of meetings between the board of directors, committees thereof, and the individuals or groups, including senior management, charged with oversight of the Organization's operations.

### **Interest Rate Risk Management**

4. Within 60 days of the effective date of this Order, Bancshares shall submit a written plan acceptable to the Supervisors to enhance interest rate risk management practices that are appropriate for the size and complexity of the Organization. The plan shall include the following three items:

(a) appropriate guidelines and systems, including effective modeling, to measure, monitor, and control the Organization's interest rate risk;

(b) an adequate system to model and control the vulnerability of net interest income to changes in interest rates; and

(c) measures to ensure that interest rate risk management practices are consistent with the Interagency Advisory on Interest Rate Risk dated January 11, 2010 (SR 10-1).

## **Liquidity and Funds Management**

5. Within 30 days of the effective date of this Order, Bancshares shall submit an enhanced liquidity risk management program acceptable to the Supervisors that includes steps to diversify sources of funding, enhanced liquidity stress test scenarios, and periodic independent review and evaluation of all components of Bancshares' liquidity risk management process.

6. Within 30 days of the effective date of this Order, Bancshares shall submit a revised written contingency funding plan acceptable to the Supervisors that is consistent with the Interagency Policy Statement on Funding and Liquidity Risk Management, dated March 17, 2010 (SR 10-6) (as amended August 1, 2023), and includes adverse scenario planning.

## **Strategic Plan and Budget**

7. (a) Within 90 days of the effective date of this Order, the board of directors of Bancshares shall submit a written strategic business plan and budget for 2025 acceptable to the Supervisors that improves Bancshares' earnings and overall condition. The plan shall include the following four items:

- (i) short- and long-term goals and strategies for improving Bancshares' earnings and a description of how Bancshares' board of directors and senior management intend to achieve the stated goals;
- (ii) an assessment of Bancshares' current financial condition, product lines, and market area, and a description of the operating assumptions that form the basis for, and adequately support, major projected income, expense, and balance sheet components;

(iii) a realistic and comprehensive budget for 2025, including income statement and balance sheet projections; and

(iv) a budget review process that analyzes and reports budgeted versus actual income and expense performance.

(b) A strategic business plan and budget for each calendar year subsequent to 2025 shall be submitted to the Supervisors at least 30 days prior to the beginning of that calendar year.

### **Cash Flow Projections**

8. Within 90 days of the effective date of this Order, Bancshares shall submit to the Supervisors a written statement of its planned sources and uses of cash for debt service, operating expenses, and other purposes (“Cash Flow Projection”) for 2025. Bancshares shall submit to the Supervisors a Cash Flow Projection for each calendar year subsequent to 2025 at least one month prior to the beginning of that calendar year.

### **Capital Plan**

9. Within 90 days of the effective date of this Order, Bancshares shall submit to the Supervisors an acceptable written plan to maintain sufficient capital at Bancshares on a consolidated basis and to provide financial support to the Banks. The plan shall include the following four items:

(a) an assessment of the expected uses and sources of capital, a detailed description of Bancshares’ process for assessing capital adequacy, Bancshares’ capital policy,

and a discussion of any expected changes to Bancshares' business plan that are likely to have a material impact on capital adequacy or liquidity, consistent with the applicable requirements of Regulation Q of the Board of Governors (12 C.F.R. Part 217);

(b) an analysis of the adequacy of each Bank's capital, taking into account the volume of classified credits, its risk profile, the adequacy of the allowance for credit losses, current and projected asset growth, and projected earnings;

(c) the source and availability of additional funds necessary to fulfill the consolidated organization's and each Bank's future capital requirements on a timely basis; and

(d) provisions for supervisory requests for additional capital at each Bank or the requirements of any supervisory action imposed on each Bank by its federal or state regulator.

10. Bancshares shall notify the Supervisors, in writing, no more than 30 days after the end of any quarter in which any of Bancshares' capital ratios fall below the approved plan's minimum ratios. Together with the notification, Bancshares shall submit an acceptable written plan that details the steps that Bancshares will take to increase Bancshares' capital ratios to or above the approved plan's minimums.

### **Capital Conservation**

11. (a) Effective immediately, Bancshares shall not, directly or indirectly, declare or pay dividends, engage in share repurchases, or make any other capital distribution in respect of common shares, preferred shares, or other capital instruments, including, without limitation,



any interest payments due on subordinated debentures, without the prior written approval of the Supervisors and the Director of Supervision and Regulation of the Board of Governors. All requests for prior approval shall be received in writing at least 30 days prior to the earlier of the proposed declaration, payment, or distribution date, or required notice of deferral, and shall contain, at a minimum, current and projected information, as appropriate, on Bancshares' capital, earnings, and cash flow; the Banks' asset quality, earnings, and allowance for credit losses; and identification of the source(s) of funding for the proposed payment or distribution.

(b) Effective immediately, Bancshares shall not, directly or indirectly, incur, increase, prepay, or guarantee any debt without the prior written approval of the Supervisors and the Director of Supervision and Regulation of the Board of Governors. All requests for prior approval shall be received at least 30 days prior to the proposed transaction date and contain, but not be limited to, a statement regarding the purpose of the debt, the terms of the debt, and the planned source(s) for debt repayment, and an analysis of the cash flow resources available to meet such debt repayment.

### **Compliance with Laws and Regulations**

12. (a) In appointing any new director or senior executive officer, or changing the responsibilities of any senior executive officer so that the officer would assume a different senior executive officer position, Bancshares shall comply with the notice provisions of section 32 of the FDI Act (12 U.S.C. § 1831i) and Subpart H of Regulation Y of the Board of Governors (12 C.F.R. §§ 225.71 *et seq.*) and obtain the prior written consent of the TDB.

(b) Bancshares shall comply with the restrictions on indemnification and severance payments of section 18(k) of the FDI Act (12 U.S.C. § 1828(k)) and Part 359 of the Federal Deposit Insurance Corporation's regulations (12 C.F.R. Part 359).

### **Progress Reports**

13. Within 45 days after the end of each calendar quarter following the date of this Order, Bancshares shall submit to the Supervisors written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof, and a parent company only balance sheet, income statement, and, as applicable, report of changes in stockholders' equity.

### **Approval and Implementation of Plans and Programs**

14. (a) Bancshares shall submit written plans and programs that are acceptable to the Supervisors within the applicable time periods set forth in paragraphs 2, 3, 4, 5, 6, 7(a), and 9 of this Order. Each plan or program shall contain a timeline for full implementation of the plan or program with specific deadlines for the completion of each component of the plan or program.

(b) Within 10 days of approval by the Supervisors, Bancshares shall adopt the approved plans and programs. Upon adoption, Bancshares shall promptly implement the approved plans and programs and thereafter fully comply with them.

(c) During the term of this Order, the approved plans and programs shall not be amended or rescinded without the prior written approval of the Supervisors.

## **Communications**

15. All communications regarding this Order shall be sent to:
- (a) Richard M. Ashton  
Deputy General Counsel  
Jason Gonzalez  
Deputy Associate General Counsel  
Board of Governors of the Federal Reserve System  
20th & C Street, N.W.  
Washington, D.C. 20551
  
  - (b) Mr. Paul R. Wheeler  
Vice President  
Federal Reserve Bank of Dallas  
2200 North Pearl Street  
Dallas, Texas 75201
  
  - (c) Mr. Charles G. Cooper  
Texas Banking Commissioner  
Texas Department of Banking  
2601 North Lamar Boulevard  
Austin, Texas 78705
  
  - (d) Mr. Carl Chaney  
Chairman of the Board  
Industry Bancshares, Inc.  
7901 Ernst Parkway  
Industry, Texas 78944

## **Miscellaneous**

16. Notwithstanding any provision of this Order, the Supervisors may, in their sole discretion, grant written extensions of time to Bancshares to comply with any provision of this Order.

17. The TDB having determined that the requirements for issuance of an order under Texas Finance Code § 35.002 have been met, this Order is deemed to be a consent order issued by the TDB under Texas Finance Code §§ 35.002, 201.009(a) and 202.005(a)(2). Without admitting or denying any charges of unsafe and unsound banking practices, or violation of applicable Texas law, Bancshares consents to deeming this Order to be a consent order for the purposes of Texas law. Bancshares hereby waives all rights regarding an order under Texas Finance Code §§ 35.002, 35.004, 35.009, and 201.009, including requirements for issuance and service of an order under Texas Finance Code § 35.002, the right to a hearing under Texas Finance Code § 35.004, all defenses, and review of such order by the TDB, the Texas Banking Commissioner, or a state agency, commission, or state or federal court.

18. The provisions of this Order shall be binding upon Bancshares and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the FDI Act (12 U.S.C. §§ 1813(u) and 1818(b)(3)), in their capacities as such, and their successors and assigns.

19. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Supervisors.

20. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, the TDB, or any other federal or state agency from taking any other action affecting Bancshares, the Banks, or any of their current or former institution-affiliated parties and their successors and assigns.

By order of the Board of Governors of the Federal Reserve System and the Texas Banking Commissioner for the Texas Department of Banking, effective this 13<sup>th</sup> day of November, 2024.

INDUSTRY BANCSHARES, INC.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By: /s/ Carl Chaney  
Carl Chaney  
Chairman of the Board

By: /s/ Ann E. Misback  
Ann E. Misback  
Secretary of the Board

TEXAS DEPARTMENT OF BANKING

By: /s/ Charles G. Cooper  
Charles G. Cooper  
Texas Banking Commissioner