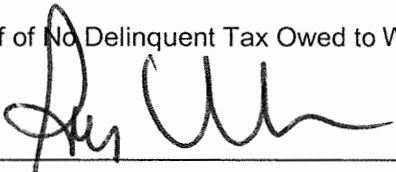


RFA # 2019-001
"Bank Depository for Webb County"

- ☒ Exhibit "A" – Account Analysis
- ☒ Exhibit "B" – Webb County Investment Policy
- ☒ Exhibit "C" – Bank Account Breakdown Summary
- ☒ Bid Worksheet "A"
- ☒ Bid Worksheet "B"
- ☒ Bid Worksheet "C"
- ☒ Bid Worksheet "C-1"
- ☒ Bid Worksheet "C-2"
- ☒ Bid Worksheet "D"
- ☒ Signature Form & References
- ☒ Conflict of Interest form (Form CIQ)
- ☒ Certification regarding Debarment (Form H2048)
- ☒ Certification regarding Federal lobbying (Form 2049)
- ☒ Code of Ethics Affidavit
- ☒ Proof of No Delinquent Tax Owed to Webb County



Signature of Person Completing this Package

4-12-19

Date

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RFA 2019-001

"Bank Depository for Webb County"

NOTICE is hereby given that the County of Webb is soliciting Request for Applications (RFA) for banking services from all banks with home offices or branch facilities within the boundaries of Webb County interested

Due: April 15, 2019 at/or before 10am

Certain Trust Funds and Court Registry Funds) of County Money), Chapter 116 code thin being designated as Webb County's Bank Depository. unt e y, Daeposnd pritecor for inct officTrusialt Fundss as permitted (Depositories for County Public Funds) of the by the Texas Local Government Code, ChapterCounty and . Webb County is seeking a four (4) year term with a two (2) DiThstrict e applicant(s) selectedClerks as weand Chapter 117 II as D as a epository D epos11(Depositories for 3 (Management for aitory mll day istrictalso ,

renewed term in accordance with State law.

All banks with home offices or branch facilities within the boundaries of Webb County can view this RFA with its terms, conditions, and attachments by visiting the online address listed below. Interested Banks may submit their proposals by registering on the Webb County's eBid site and uploading their file to our Response Attachment Tab. Should anyone need assistance please contact Mr. Juan Guerrero, Contract Administrator at (956) 523-4125.

<https://webbcountyebid.ionwave.net/Login.aspx>



This RFA package is due by or before 10 a.m. (Central Time) on April 15, 2019. **RFA received after the due date and time will not be accepted**. All RFA meeting the required deadline will be opened publicly and recorded for the record by the Purchasing Agent, designated representative of the County Judge at the following location:

Webb County Purchasing Office 1110 Washington
Street, Suite 101

Laredo, Texas 78040

Webb County Commissioners Court will consider all RFAs; select the qualified applicant(s) that offer the most favorable terms and conditions for the handling of the County funds. The Commissioners Court may reject those applicants whose management or conditions, in the opinion of the Court, does not warrant placing county funds in their possession. The County may select one or more applications as County depositories.



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GENERAL SPECIFICATIONS:

- 1.1 SCOPE OF THE CONTRACT** – It is the intent of the Webb County Commissioners' Court to execute a contract with a bank desiring to be designated as the County's Depository Bank. The applicant(s) selected as a Depository may also be the Depository for Trust Funds of the County and District Clerks as well as Depository for all district, county, and precinct officials as permitted by the Texas Local Government Code, Chapter 113 (Management of County Money), Chapter 116 (Depositories for County Public Funds) and Chapter 117 (Depositories for Certain Trust Funds and Court Registry Funds).

Webb County is seeking a four (4) year term with a two (2) renewed term in accordance with State law.

- 1.2 PROPOSAL PREPARATION COSTS:** The County will not reimburse any proposer for any costs involved in the preparation and submission of proposals, amendments or other relevant documents associated with the RFA.

- 1.3 GOOD FAITH GUARANTEE** – Banks must submit a certified check or cashier's check for at least one-half percent of the county's revenue for the preceding year. The total revenue for the preceding year is \$172,427,641.00, one-half percent of that amount is **\$862,138.00**. Deadline for certified or cashier's check is April 15, 2019 on or before 10 a.m. (Central Time). Checks must be delivered to the Webb County Purchasing Agent at 1110 Washington Street, Suite 101, Laredo, Texas 78040.

- 1.4 REQUIRED BANK QUALIFICATIONS** - The following requirements must be met at all times by the Bank(s) in order to maintain the depository agreement in good standing:

- a. Monthly statements for all accounts must be delivered to the County Treasury, by the 5th business day following the end of the month, including total receipts, disbursements and balances in printed numbers of each account, accompanied by the canceled checks and deposit slips for the period (*Monthly Statements in Electronic format*).
- b. The Statement of Account Analysis must be received by the County Auditor by the 7th business day following the close of the month, by account and include a total recap of all accounts.

Response:

No account fees or monthly service charges will be assessed against any accounts held by Webb County during the term of the agreement. Therefore, there no Account Analysis would be generated or the need for any earning credits. All balances maintained in checking accounts will be interest bearing at the specified contract rate.

- c. Statement of the Bank's financial condition must be forwarded to the County Auditor on a quarterly basis (*Electronic format is acceptable*).

- d. Designation of one (1) Bank Officer to handle all accounts and communication (Include name, title and contact information of Bank Officer(s) assigned to Webb County Depository.

Bank Response:

Primary Falcon International Bank
Rita Ancira
Senior Vice President/CFO
7718 McPherson Road
Laredo, Texas 78045
Phone (956) 723-2265 x 1149
Fax (956) 794-9748
rita@falconbank.com

Secondary Erika V. Laurel
First Vice President/Operations
5219 McPherson Road
Laredo, Texas 78041
Phone (956) 723-2265 x 1156
eveliz@falconbank.com

- e. The Depository(s) is/are) required to keep each account designated by the County separate. The accounts and funds are subject to the examination of the County Auditor at any time.
- f. The County provides its employees with the benefit of direct deposit of payroll. If in the course of direct deposit transfers, should such transfer fail to occur as the result of failure by the Depository to initiate said transfer, the Depository will reimburse individual employee for all cost incurred due to overdrafts and returned check charges assessed against them directly or against their individual checking account as a result of the failure of such transfer related to direct deposit of payroll.

1.5 RFA SCHEDULE

Activity	Time	Date	Responsible Party
Public Notice/newspaper	n/a	Mar. 25 th , Apr. 1 st , Apr. 8 th	Webb Co. Purchasing D
Posted RFA on website	n/a	Mar. 25 th until awarded.	Webb Co. Purchasing D
Questions Due to County	No later than 5pm	Apr. 3 rd	Proposer/Contractor
Posting of answers	No later than 5pm	Apr. 4 th	Webb Co. Purchasing D
Sealed Applications due	10 a.m.	Apr. 15 th	Proposer/Contractor
Evaluation of Applications	TBD	Apr. 16 th – Apr. 17 th	Webb Co. Evaluation Te
Award of Contract	TBD	TBD	Governing Body
Finalization of contract	TBD	May 2019	Webb County/Contractor

Webb County reserves the right to make changes to the RFA schedule above if it is determined that it's in the best interest to Webb County. Any changes will be made through addendum and will be posted publically in the eBid system and addendum will also be posted at the Webb County Courthouse in hard copy format.

1.5 QUESTIONS AND CLARIFICATIONS: Interested proposers shall familiarize themselves with conditions relating to the scope, specifications, and restrictions regarding the execution of work to be performed under the contract. It is the proposer's responsibility to obtain any additional information it deems necessary to submit in its RFA proposal, as well as in the performance of the contract. Information contained in this document should not be considered all-inclusive.

All questions regarding this RFP proposal request must be submitted to in writing through eBid by utilizing the **"Questions Tab"** in the Bid Event.

1.8 WITHDRAWAL AND ALTERING PROPOSALS: Proposals may be withdrawn or altered at any time prior to the official opening by or before Friday, April 12th at 5 p.m. Any withdrawal or changes to RFA must be done using the County's ebid system. For assistance, call Mr. Juan Guerrero, Contract Administrator at (956) 523-4125.

1.10 PUBLIC OPENING: All proposals will be opened publically and recorded for record by the Purchasing Agent, designated representative of the County Judge, at 1110 Washington Street, Suite 101, Laredo, Texas 78040 at 10:00 a.m., Monday, April 15, 2019. Public opening procedures will include the recording of each RFA to include the date and time received, and the name of the Bank submitting the RFA. **No late proposals will be accepted electronically or in hard copy format.**

1.11 RESERVATION OF RIGHT TO REJECT: Webb County Commissioners' Court reserves the right to reject in whole or in part any or all proposals from banks whose management and conditions do not warrant the placement of County funds

1.12 EVALUATION PROCESS/AWARDING OF CONTRACT – Awarding of the depository contract will be executed by the Webb County Commissioners' Court and will be confirmed by an award letter by the Webb County Judge's designated representative, Jose Angel Lopez III, Purchasing Agent for Webb County. The successful applicant shall submit a copy of the minutes from the Board of Directors meeting of the Depository bank's acceptance of the depository contract. All other banks will be notified at this time.

The selection of the County Depository and the terms of the depository contract are governed by Texas Local Government Code Chapters 116 and 117 and will be awarded based on, but not limited to, the following criteria:

- 1) Bank's past and prospective financial position.
- 2) Bank's ability to pledge adequate securities against County funds.
- 3) Experience with similar accounts in providing depository services requested.
- 4) Net rate of return on County funds.
- 5) Ability to meet service requirements.
- 6) Cost of services.
- 7) Cash management products available that will enhance the County's banking procedures.

2.1 COMPLIANCE WITH STATUTES – By submitting this RFA, Bank acknowledges understanding of State Statutes of Texas as stipulated by 116.000 through 116.155, and Chapter 117.001 through 117.125 that pertain to the managing and safekeeping of County funds, including but not limited to those specified, and will comply with those statutes throughout the duration of the contract.

2.2 BANK AFFILIATION – All banks **MUST** be members of the Federal Reserve System and the Federal Deposit Insurance Corporation and **MUST** be able to perform all services required in this Request for Application. A bidding bank **MUST** be a Federal or Texas chartered bank doing business in and having a full service facility within the County of Webb, Texas.

2.3 DURATION/TERMS – The contract will be effective for a period of four (4) years from the time fixed by law for the next selection of a depository. (June 1, 2019 to May 31, 2023). If a time deposit maturity extends beyond the expiration date of the depository contract, the Depository will pledge to Webb County sufficient securities required by law for public funds for the maturity of the time deposit.

2.4 RENEGOTIATIONS – The bank shall provide written notification of the Depository's desire to renegotiate at least 45 days prior to the end of the two-year mark of the depository contract. Webb County reserves the right to select the rate most favorable to the County at any time during the term of the contract, within the guidelines of Section 116.021 (b) of the Code.

Section 116.021 (b) (1) (2) of the Code specifies that:

"If the contract is for a four-year term, the contract **SHALL** allow the County to establish, on the basis of negotiation with the Bank, new interest rates and financial terms of the contract that will take effect during the final two years of the four-year contract.

2.5 QUALIFICATIONS DEPOSITORY OR SUBDEPOSITORY – Within 15 days after the date a bank is selected as a county depository or sub depository, the bank must qualify as the depository or sub depository by providing security for the funds to be deposited by the county with the bank. The depository or sub depository may secure these funds, at the option of the Commissioners Court, by:

- (1) *personal bond; surety bond; bonds, notes, and other securities; first mortgages on real property; real property; certificates of deposit; or a combination of these methods, as provided by this subchapter; or*
- (2) *investment securities or interests in them as provided by Chapter 726, Acts of the 67th Legislature, Regular Session, 1981 (Article 2529b-1, Vernon's Texas Civil Statutes).*

2.6 COLLATERAL – The Depository Bank must include, as part of their proposal, an explanation of how the bank intends to ensure, on a monthly basis, that sufficient collateral is pledged to protect covered accounts. In addition, a detailed monthly pledged collateral-to-deposit report is required from the Depository Bank. Pledged securities acceptable under this proposal will be U.S Treasuries and Agencies with a stated maturity of 5 years or less.

Bank Response:

Falcon Bank will provide on a daily basis a collateral report to Webb County showing that total amount of collateral pledged is sufficient to cover total amount of deposits held at Falcon Bank. The Bank intends to secure Webb County depository balances with a combination of a Federal Home Loan Bank Letters of Credit and other acceptable investment securities as per Webb County Investment policy.

This report shall contain security descriptions, par value/current face and current market value and will be submitted no later than the 3rd business day of each month. The report may be emailed directly to the Treasurer's Office at raulreyes@webbcountytx.gov however, the original document must follow be mailed to **Attn: Webb County Treasurer, 1110 Washington St. Ste. 202, Laredo, Texas 78040.**

To compensate for increases or decreases in County deposits and fluctuations of market value of pledged collateral, the minimum market value of pledged collateral shall be 110% of County deposits.

- 2.7 VALUE OF COLLATERAL** – The Depository Bank MUST propose how it will value pledged securities. The County, at any time, may investigate the value of any of the securities pledged by the bank. The full cooperation of the bank is required in such instance.

Bank Response:

Falcon Bank updates the value of securities on a monthly basis. Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

- 2.8 INVESTMENTS MADE OUTSIDE DEPOSITORY BANK** – Webb County reserves the right to withdraw, from time to time, any amount of funds of the County that are deposited in the County Depository and to make external investments in accordance with the Laws of the State of Texas and the Investment Policy of Webb County. All investment purchases shall be made on a delivery versus payment basis.
- 2.9 MERCHANT SERVICES** – The Depository Bank will process at the County's election, taxpayer credit or debit card payment transactions on behalf of the County.
- 2.10 FINANCIAL STATEMENTS** – Banks desiring to be designated, as the County's Depository Bank will include as part of the RFA, a statement showing the financial condition of the bank as of the date of application.

Bank Response:

See Attachments

- 2.11 WEBB COUNTY INVESTMENT POLICY:** Webb County operates under an Investment Policy adopted by the Webb County Commissioner's Court. Understanding and compliance of this policy and state law (Local Government Code Chapter 116 "Depositories for County Public Funds", Chapter 117 "Depositories for Certain Trust Funds and Court Registry Funds" and Government Code, Chapter 2256, "Public Funds Investment") is a required part of this depository contract.

A copy of the Webb County Investment Policy is enclosed with this RFA and will be included as part of the depository contract with successful Bank.

SERVICES

- 3.1 CONTACT PERSON AND BRANCH LOCATION** – Prior to the effective date of the Depository contract, bank must identify a local senior level management person who will be responsible for overseeing the County's entire relationship and would serve as the County's primary contact for the bank. This would include the ability to make decisions regarding operational aspects of the contract. A trained and competent backup for this individual, familiar with the account, should be assigned in the proposal. The bank will provide a list of branch locations as well.

Bank Response:

Primary Falcon International Bank
Rita Ancira
Senior Vice President/CFO
7718 McPherson Road
Laredo, Texas 78045
Phone (956) 723-2265 x 1149
Fax (956) 794-9748
rita@falconbank.com

Secondary Erika V. Laurel
First Vice President/Operations
5219 McPherson Road
Laredo, Texas 78041
Phone (956) 723-2265 x 1156
eveliz@falconbank.com

In addition to the contact person and branch location, the Bank shall provide a list of contact personnel who are qualified to provide information and assistance in the following areas:

Bank Response:

- General Information: Call Center (956) 723-2265
- Safekeeping and Securities Clearance – Rita Ancira x 1149
- Posting and Deposit Discrepancies – Jessica Arredondo x 1564
- Stop Payments – Jessica Arredondo x 1564
- Balance Adjustments – Jessica Arredondo x 1564
- Collateral Adequacy – Jessica Arredondo x 1564
- Internal Transfers – Jessica Arredondo x 1564 – Option Online Banking
- Internal Transfers – Elizabeth Hernandez – 1566 – Option Online Banking
- Online PC Service – Natalie Hernandez – x 1576
- Payroll Direct Deposit Transactions – Elizabeth Hernandez – 1566
- Certificate of Deposit rate quotes – As stated on contract
- Merchant Services – N/A
- Investment Services – Rita Ancira x 1149

3.2 ELECTRONIC (ON-LINE) BANKING SERVICES – The Depository Bank will provide an ONLINE PC communication link to the County for daily reporting of fund balances, collected and ledger balances, detailed debits and credits and stop payment requests. For bidding purposes, attach product description, pricing and sample reports for the on-line PC link available. Depository Bank will also provide built in security features.

Bank Response:

Falcon's online Banking offers the features mentioned above. Security features include, Multi Factor Authentication, Security Codes and Tokens. Falcon's website www.falconbank.com.

3.3 STATEMENTS – Monthly bank statements will include computer images of checks, deposit slips, transfer slips and debit and credit memos processed for **ALL** accounts. Missing items within a statement will be disclosed at the time statements are submitted. An example of the Bank's statement must be included with this Request for Application.

Bank Response:

See Exhibit – Sample Account Statement

Electronic statements will be processed and ready no later than five (5) business days after the close of each month. The statement cutoff will be the last day of each month. The monthly bank statement shall include copies of all checks and deposits. Checks shall be presented in fine numerical order and all deposits shall be arranged by the date of the deposit.

The daily ledger balances, average daily collected balances, number of debits, number of credits, and other items on which charges are based, will also be included in each monthly statement.

Monthly interest statements may be required on the County and District Clerk's Trust and CD accounts.

Monthly statements will be provided on Merchant Services if applicable.

Bank Response:

Monthly statements for Merchant Services provided by 3rd party Harbortouch

3.4 MONTHLY ACCOUNT ANALYSIS REPORTS – Electronic monthly account analysis reports will be provided for each account and on a total account basis. The account analysis will contain, at a minimum, the following:

- Daily average ledger balance
- Average collected balance
- Price levels for each activity
- Earnings allowance
- Daily average float
- Monthly volume by type

Bank Response:

Falcon Bank is proposing a Free Account. No fees or service charges will be assessed against any accounts held by Webb County for the term of the contract. Therefore, no account analysis would be generated.

3.5 PAYROLL DIRECT DEPOSIT – Bank must provide the capability for the County to utilize “Direct Deposit” payroll processing, allowing employees to select the bank(s) of their choice. Bank must indicate the manner of transmission for Direct Deposit, time requirement and funds availability in participating banks.

Bank Response:

ACH Payroll files must be submitted to the Bank at least 1 day prior to the effective payroll date.

3.6 PAYROLL CARD PROGRAM – Does your Bank provide the capability for the County to utilize a “Payroll Card Program”? Please provide a written statement of this service (if offered) and any costs associated with this service.

Bank Response:

Falcon Bank currently does not offer a Payroll Card Program. Optional to a Payroll Card Program would be a MasterCard Debit Card that would be linked to a Free Checking Account.

3.7 ACH TRANSACTIONS – Bank must provide for acceptance of ACH (Automated Clearing House) credits and debits. The bank must conform to National Automated Clearing House Association (NACHA) and Uniform Commercial Code Article 4A (UCC4A) rules.

3.8 INTEREST RATES – The bidding Bank should quote floating and fixed interest rate bids on accounts and certificates of deposit. Webb County reserves the right to select the rate most favorable to the County at any time during the term of the contract, within the guidelines of Section 116.021 (b) of the Code. The Bank should also quote rates for loans made to the County.

- 3.9 STALE DATED CHECKS** – The bank will agree not to honor stale dated checks on Webb County accounts, which are not endorsed by the County as acceptable after the 90-day limit.

Bank Response:

County would be able monitor payment and non-payment of issued checks through Positive Pay.

- 3.10 STOP PAYMENTS** – The Bank will be required to process stop payments on verbal instructions from the County Treasurer or his designee with follow-up written confirmation.
- 3.11 STANDARD DISBURSEMENT SERVICES** – The Bank will furnish standard disbursing services for all accounts to include the payment of all County checks upon presentation. Bank must also agree to cash, without charge to the County or County employee, a County employees' payroll check whether or not the employee has an account with the Depository Bank (including any of the bank's locations).
- 3.12 STANDARD DEPOSIT SERVICES** – The Bank must guarantee immediate credit on all incoming wire transfers, ACH transactions and U.S. Treasury checks upon receipt and all other checks based on the Bank's published availability schedule provided with this document. The Bank must specify in their proposal their deposit requirements and commercial and retail deposit locations, including night deposit service and procedures.

Bank Response:

There are no minimum balance requirements on any account held by the County during the term of the agreement.

Local Bank Locations:

Falcon Bank's Headquarters
7718 McPherson Road
Night Depository Services Available

Falcon Bank's Hillside Location
5219 McPherson Road
Night Depository Services Available

Falcon Bank's Downtown Location
801 Matamoras
Night Depository Services Available

Falcon Bank's East Location
212 Bob Bullock Loop
Night Depository Services Available

Falcon Bank's San Isidro Location
10511 McPherson Road
Night Deposit Services Available

Falcon Bank's Calle Del Norte Location
6002 McPherson Road
Night Deposit Services Available

Falcon Bank's San Dario Location
6625 San Dario Ave.
Night Deposit Services Available

- 3.13 CASH OVERDRAFTS** – For the purpose of determining cash overdrafts, the daily cash balance in all County accounts will be added together and if a negative balance occurs, the County's account is considered to be over-drafted. If, after three (3) days the County's account remains over-drafted, the bank should quote an interest rate charged on negative balance.

Bank Response:

Overdraft Interest 18.00%

- 3.14 COMPUTERIZED OUTPUT** – Does your Bank provide a media disk of paid items that can be utilized in the bank account reconciliation process? Is this item available through on-line banking services? Does your bank provide export capabilities? Please provide written statements explaining these services (if offered).

Bank Response:

Through On-Line Banking, customers have the option to export/download account history to Quicken for account reconciliations.

- 3.15 SECURITY SAFEKEEPING** – Bank must provide for physical and book entry/DTC (Depository Trust Company) acceptance and safekeeping of investment securities. Securities will be held by Trust Department.

Bank Response:

The Bank will set up a Safekeeping Account with Texas Independent Bank for Webb County for the acceptance and safekeeping of investment securities.

Please indicate costs associated with a security purchase settlement.

Bank Response:

There will be no charge associated with the acceptance and safekeeping of investment securities.

CASH MANAGEMENT – On an ongoing basis, the County may require cash management advice as to how accounts and procedures should be structured. The County must be kept informed of recent developments in cash management products available from the Depository Bank.

Banks are invited to propose additional cash management services and costs associated with services that are not specified herein.

3.16 WIRE TRANSFERS – Bank must provide the ability to send wire transfers on an automated or manual basis, as well as provide the ability to receive wire transfers. This section will apply to “account to account” transfers and wire transfers for investment purchases. Emailed/Faxed requests must be accepted when initiated by the County Treasurer. Bank must provide the ability to restrict outgoing wire transfers (debits) to only those authorized by Webb County. Bank must provide notification of direct deposits.

3.17 MERCHANT SERVICES – Provide a summary of fees and service available to Webb County for Merchant Card Services if provided by Bank. Webb County currently uses 3rd party vendors to offer this service in the following County Offices: Tax Assessor-Collector, Water Utilities, Justice of the Peace Offices, Judicial Collections and Golf management. The County anticipates use of this service in other County offices as well. This is not a mandatory requirement but an optional service Webb County is considering as part of the depository contract.

Bank Response:

Merchant Services provided by 3rd Party - Harbortouch

3.18 BANK BAGS – The Bank will furnish the County with night depository services including locking bags with keys.

3.19 ATM SERVICES – Does your bank provide off-site ATM Services? Please provide a written statement explaining this service (if offered) and a list of all locations.

Bank Response:

Currently the Bank has 3 offsite ATM in Laredo, 1 in San Marcos, 2 in Eagle Pass and 1 Mobile ATM in that is used for community events. In addition to the off-site ATMs the Bank has ATMs at branch locations.

See Local ATM locations in 3.12

3.20 POSITIVE PAY – Does your bank provide for Positive Pay Services? Please provide a written statement explaining this service, any set-up fee and any transaction fees.

Bank Response:

Currently the Bank is in the process of activating Positive Pay. The services will be provided to the County at no cost.

- 3.21 COST TO COUNTY FOR CHANGING DEPOSITORY** – If your Bank is awarded the Depository Contract and you are not the current Depository, what can or will your Bank do to help defer the expense of the change? Please include in an attached summary the estimated costs of replacing and reconfiguring software programs for online PC communications link, costs of replacing all checks and deposit slip stock for all County accounts and offices and replacement costs for bank bags, endorsements, stamps, etc.

Bank Response:

Bank will reimburse the county up to \$1,000.00 for cost relating to changing depository. Reimbursement will be made upon receipt of invoices from County.

- 3.22 OTHER UNSPECIFIED SERVICES AND/OR COSTS** – Other services and/or costs not specified in this document should be listed and attached, along with a description and unit pricing of the service. The County shall not be obligated to pay for any service not specified in this Proposal unless mutually agreed upon between the County and the Bank.

- 3.23 PAYMENT FOR SERVICES** – Compensation for approved services shall be provided to the Depository Bank on a direct fee basis based on an account analysis. Interest paid to the County on the overnight investments shall not be included in the account analysis. An earnings credit on checking accounts will be applied to the direct fees paid for bank services. However, if the County does incur service charges under this contract, the account analysis will be considered an invoice for payment.

The Bank must notify The County Treasurer of any account closing.

The Bank shall also provide procedures to review checks that require dual-signatures.

Bank Response:

The process of reviewing all items for dual signatures is no longer available due to Check 21 imaging, Check Conversion to ACH, Debit Card and POS, ACH preauthorized debits, internet transactions, etc.

The County's bank accounts will generally be structured as follows

- **Non-Interest Bearing Checking Accounts** – Webb County will have accounts established under these specifications for disbursing written checks, depositing funds, processing wire, ACH and internal transfers.
- **Interest Bearing Checking Accounts** – Webb County will have accounts established under these specifications for disbursing written checks, depositing funds, processing wire, ACH and internal transfers.
- **Zero Balance Account** – Webb County may have accounts that maintain a zero balance (i.e. Payroll). The Bank will be responsible for transferring funds to cover the balance in this account.

- **Sweep Accounts (if applicable)** –If the County chooses, the bank will be responsible for automatically sweeping the balances in all accounts daily to an investment option. Describe the Bank's available sweep options.
- **Trust Funds and Court Registry Funds** – Separate Individual Savings Accounts. These accounts may house the District and County Clerks' Trust and Registry funds as mandated by the court(s). These accounts will be in the beneficiary's Social Security number, with the Clerk listed as the Trustee. There are occasions when the trust funds will not be deposited in the Depository Bank by order of the court.

The County reserves the right to invest any or all funds outside this contract.

- **Certificates of Deposit** – county operating funds and County Clerk's Trust Funds.

3.25. Conflict of Interest

The contract or contracts in this solicitation are subject to Texas Govt. Code Sec. 2261.252(b), which prohibits the Webb County from entering into contracts with certain private vendors in which certain Webb County officers and employees have a financial interest. Each respondent shall include in its proposal a statement that it is not prohibited from entering into a contract with Webb County as a result of a financial interest as defined under Texas Govt. Code Sec. 2261.252(b).

A conflict of interest may involve conflicting incentives with regard to the firm as a whole, or any employee. The conflict may arise between the provider's work under a contract entered as a result of this solicitation and a relationship involving Webb County, a construction contractor, another engineering firm, a materials testing firm, a third party affected by the project, a sub provider for any other consultant or contractor, or any other entity with an interest in a project on which work is performed under a contract entered as a result of this solicitation.

3.26 Texas Ethics Commission Requirement Notification:

In 2015, the Texas Legislature adopted House Bill 1295, which added section 2252.908 of the Government Code. The law states that a governmental entity or state agency may not enter into certain contracts with a business entity unless the business entity submits a disclosure of interested parties to the governmental entity or state agency at the time the business entity submits the signed contract to the governmental entity or state agency. The law applies only to a contract of a governmental entity or state agency that either (1) requires an action or vote by the governing body of the entity or agency before the contract may be signed or (2) has a value of at least \$1 million. The disclosure requirement applies to a contract entered into on or after January 1, 2016.

A signed and notarized Form 1295 shall be tendered to Webb County by providers selected to receive a contract prior to contract execution. Webb County will not evaluate the information provided, or respond to any questions on how to interpret the Texas Ethics Commission's rules.

For additional information, please reference the Texas Ethics Commission webpage at: <https://www.ethics.state.tx.us/tec/1295-Info.htm>

3.27 Webb County Purchasing Code of Ethics Policy

The County of Webb will ensure that it will promote and enforce proper ethical conduct by all Vendors, Procurement Officials, Elected Officials and County employees directly or indirectly involved in the procurement process. All vendors wishing to participate in any solicitation must sign and notarize the affidavit form included as part of this solicitation package and upload with your electronic submission. ***Failure to submit form will disqualify your bid or proposal package from being considered.***

The Ethics Policy can be viewed at the Webb County Purchasing Agents website listed below for vendors to read prior to signing and submitting the affidavit form.

<http://www.webbcountytx.gov/PurchasingAgent/PurchasingEthicsPolicy.pdf>

The Webb County Purchasing Board approved the Code of Ethics policy on April 19, 2018 and adopted by the Webb County Commissioners Court on May 14, 2018.

When responding to an Active Solicitation, Vendors shall be required to disclose donations and campaign contributions by the Vendor or any individual or entity acting on the Vendor's behalf to the Purchasing Agent or his designee made within six (6) months prior to the date of the Active Solicitation.

Failure by a Vendor to accurately disclose such contributions may result in the Vendor's disqualification, debarment, or contract voidance as per Section 18 of the Ethics Policy.

BID WORKSHEET A

INTEREST RATES:

Supply rate quotes for the following:

	<u>Variable Interest</u>	<u>Margin*</u>	<u>FIX Rate for</u> <u>Term of Contact</u>
Interest Bearing Checking Accounts	<u>91 Day T-Bill (less .91 bps)</u>		<u>1.50% APY</u>
Money Market Accounts	<u>91 Day T-Bill (less .91 bps)</u>		<u>1.50% APY</u>
Sweep Accounts – under \$1,000,000	<u>N/A</u>		
Sweep Accounts – over \$1,000,000	<u>N/A</u>		
Trust Fund Savings Accounts	<u>N/A</u>		
Earning Credit Rate to be Applied in Account Analysis Calculation			<u>N/A</u>

*Variable Rate = 91-Day US T-Bill Effective Rate (as determined by latest T-Bill Auction Rate) + Margin (based on basis points) and calculated on the first day of each month. Example: If a 91-day US T-Bill Effective Rate is 3.3% and basis points are 1.0, then the variable rate is 4.3%.

BID WORKSHEET B

Certificates of Deposit – Variable Interest Rate:

91-Day US T-Bill effective Rate (as determined by latest T-Bill Auction)

	Less than \$100,000	More than \$100,000
1. Maturity 7-29 days	+/- <u>Less .91</u> basis points	+/- <u>Less .91</u> basis points
2. Maturity 30-59 days	+/- <u>Less .91</u> basis points	+/- <u>Less .91</u> basis points
3. Maturity 60-89 days	+/- <u>Less .91</u> basis points	+/- <u>Less .91</u> basis points
4. Maturity 90-179 days	+/- <u>Less .91</u> basis points	+/- <u>Less .91</u> basis points
5. Maturity 180 days > one year	+/- <u>Less .91</u> basis points	+/- <u>Less .91</u> basis points
6. Maturity 1 < year	+/- <u>Less .91</u> basis points	+/- <u>Less .91</u> basis points

Rate to be determined by the above formula and fixed for the term of CD.

DEPOSITORY BANK SERVICES PROVIDED

Charge

NO

X

\$ 0.00

X

\$ 0.00

X

\$ 0.00

X

\$ 0.00

X

\$ 0.00

X

\$ 0.00

X

\$ 0.00

X

\$ 0.00

\$ 0.00

X

\$ 0.00

X

\$ 0.00

Service will be offered at NO Cost to the County

X

\$_____

X

\$_____

Coin Wrappers & Currency Straps	<u> — — </u>	<u> X </u>	\$ <u> </u>
Locked or Sealable Bags	<u> X </u>	<u> </u>	20 Free Bags
Disposable Bank Bags	<u> </u>	<u> X </u>	\$ <u> </u>
Printing and furnishing checks (laser)	<u> </u>	<u> X </u>	\$ <u> </u>

BID WORKSHEET C-1**DEPOSITORY BANK SERVICES PROVIDED**

	Service Offered		Charge
	<u>Yes</u>	<u>NO</u>	
Printing and furnishing statement binders	<u> </u>	<u> X </u>	\$ <u> </u>
Night depository services, including bags and keys	<u> X </u>	<u> </u>	20 Free Bags
Checks (images) sorted in numerical sequence	<u> X </u>	<u> </u>	\$ <u>0.00</u>
Safe Deposit Box Size <u> </u>	<u> X </u>	<u> </u>	\$ <u>0.00</u>
ACH Origination	<u> X </u>	<u> </u>	\$ <u>0.00</u>
Positive Pay Services & Related Fees (Please include any supporting information about software, training, etc. on a separate written statement)	<u> </u>	<u> </u>	\$ <u> </u>
With Name Verification?	<u> </u>	<u> X </u>	\$ <u>N/A</u>
Reverse Positive Pay	<u> X </u>	<u> </u>	\$ <u> </u>
Procurement Cards	<u> </u>	<u> X </u>	\$ <u>N/A</u>
Payroll Direct Deposit	<u> X </u>	<u> </u>	\$ <u> </u>
Plastic Payroll	<u> </u>	<u> X </u>	\$ <u>N/A</u>
Provide safe-keeping for outside purchases of securities by Webb County at a Third Party financial Institution, or with the Federal Reserve Bank	<u> X </u>	<u> </u>	\$ <u>0.00</u>
Allow eligible repurchase agreements or eligible money market mutual funds from the Bank's portfolio of U.S. Government obligations on an overnight or on a weekend basis.	<u> </u>	<u> X </u>	\$ <u> </u>
Computer telecommunications link from which Webb County accounts will be monitored by only authorized individuals in the Treasurer's Office.	<u> X </u>	<u> </u>	\$ <u>0.00</u>

BID WORKSHEET C-2**DEPOSITORY BANK SERVICES PROVIDED**

	Service Offered		Charge
	<u>Yes</u>	<u>NO</u>	
Computer export capabilities: (Explain on separate written statement)	<u> X </u>	<u> </u>	\$ <u>0.00</u>
<div>Bank Response: Using On-Line Banking, the County will be able to export account information (history of debits and credits) to Quicken.</div>			
Point of Purchase Check Conversion (POP)	<u> </u>	<u> X </u>	\$ <u> </u>
Sweep Accounts	<u> </u>	<u> X </u>	\$ <u> </u>
Zero balance accounts (ZBA)	<u> </u>	<u> X </u>	\$ <u> </u>
Cash Dispensing Machine (Cost of equipment hardware/software, cost per transaction)	<u> </u>	<u> X </u>	\$ <u> </u>
Armored Car Service	<u> </u>	<u> X </u>	\$ <u> </u>
Balance Thresholds?	<u> </u>	<u> X </u>	\$ <u> </u>
Short-term Financing			
Fixed Rate <u> </u> At Time of Request <u> </u> %			
Variable Rate <u> </u> At Time of Request <u> </u> %	<u> </u>	<u> </u>	
Interest on loans to be calculated on a 360-day basis			

BID WORKSHEET D**MERCHANT SERVICES PROVIDED**

***PROPOSAL FOR MERCHANT SERVICES PROVIDED BY 3rd Party HARBORTOUCH**

	Service Offered		Charge
	YES	NO	
Terminal Lease –	_____	<u> X </u>	\$ _____
<u>Equipment provided at NO Cost based on Partnership with Falcon Bank</u>			
Terminal Purchase	_____	<u> X </u>	\$ _____
<u>Equipment provided at NO Cost based on Partnership with Falcon Bank</u>			
Printer Lease	_____	<u> X </u>	\$ _____
<u>Equipment provided at NO Cost based on Partnership with Falcon Bank</u>			
Printer Purchase	_____	<u> X </u>	\$ _____
<u>Equipment provided at NO Cost based on Partnership with Falcon Bank</u>			
Combined Terminal/Printer Lease	_____	<u> X </u>	\$ _____
<u>Equipment provided at NO Cost based on Partnership with Falcon Bank</u>			
Pin Pad Lease	_____	<u> X </u>	\$ _____
PC Software	_____	<u> X </u>	\$ _____
Voice Authorization	<u> X </u>	_____	<u>\$1.75</u>
Set-up Fee	_____	<u> X </u>	\$ _____
Monthly Service Fee	<u> X </u>	_____	<u>\$5.00</u>
Imprinter Standard Size	<u> X </u>	_____	<u>\$35.00</u>
Terminal Support 24 hours per day	<u> X </u>	_____	<u>\$0.00</u>
Credit Card Transaction Fee	<u> X </u>	_____	Interchange plus .05
Transaction Fee (AmEx)	<u> X </u>	_____	Interchange plus .05
Debit Card Item (POS)	<u> X </u>	_____	Interchange plus .05
Chargeback Fee	<u> X </u>	_____	<u>\$19.00</u>

Discount Rate

 X

\$Interchange
plus .19

Application Submitted by:

The following person duly authorized to act on behalf of this financial institution is submitting this Request for Application titled RFA 2019-001 "Bank Depository for Webb County" to the County of Webb.

Name and address of Bank:

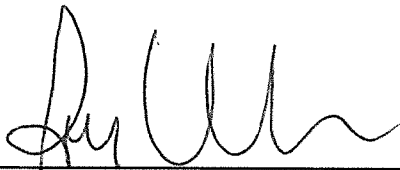
FDIC Certificate # 26856-9

Falcon International Bank

7718 McPherson Road

Laredo, Texas 78045

Office Signature:



Officer Name:

Roy J. Gonzales

Title of Officer:

Senior Executive Vice President

Telephone Number:

(956) 723-2265 x 1115

Signature indicates respondent accepts the specifications, terms and conditions of this solicitation.

References:

List three (3) references that have received similar services by your Bank. Please include a phone number and name of contact person. Other governmental units are preferred.

Business Name	Contact Person	Telephone Number
<u>Laredo College</u>	<u>Cesar Vela</u>	<u>(956) 721-5370</u>
<u>Laredo Housing Authority</u>	<u>Mary Gaona</u>	<u>(956) 722-4521</u>
<u>City of Eagle Pass Water Works</u>	<u>Jorge Barrera</u>	<u>(830) 773-2351</u>

Falcon Bancshares, Inc. and Subsidiary

Annual Financial Report

December 31, 2017

Falcon Bancshares, Inc. and Subsidiary

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Independent Auditor's Report

To the Board of Directors
Falcon Bancshares, Inc. and Subsidiary

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Falcon Bancshares Inc. and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2017 and 2016; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Falcon Bancshares, Inc. and Subsidiary as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

We have also audited, in accordance with auditing standards generally accepted in the United States of America, Falcon Bancshares, Inc. and Subsidiary's internal control over financial reporting, as of December 31, 2017, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated April 23, 2018, expressed an unqualified opinion on the effectiveness of Falcon Bancshares, Inc. and Subsidiary's internal control over financial reporting.

RSM US LLP

San Antonio, Texas
April 23, 2018

	<u>2017</u>	<u>2016</u>
Assets		
Cash and due from banks	\$ 120,553	\$ 198,816
Federal funds sold	<u>9,545</u>	<u>18,148</u>
Cash and cash equivalents	130,098	216,964
Interest-bearing time deposits in banks	11,495	15,735
Securities available for sale	102,359	94,864
Restricted investment security	679	671
Loans – net of allowance for loan losses of \$10,019 (\$9,683 in 2016)	791,619	701,375
Bank premises and equipment – net	52,247	52,728
Accrued interest receivable	2,659	2,316
Foreclosed assets – net	8,659	6,411
Cash surrender value of life insurance	16,575	16,085
Prepaid expenses and other assets	2,432	2,201
Deferred tax asset	<u>1,227</u>	<u>2,062</u>
Total assets	<u>\$ 1,120,049</u>	<u>\$ 1,111,412</u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 226,661	\$ 145,157
Interest-bearing	<u>757,390</u>	<u>837,738</u>
Total deposits	984,051	982,895
Federal Home Loan Bank borrowings	3,215	3,981
Junior subordinated debentures	15,465	15,465
Accrued interest payable and other liabilities	<u>2,757</u>	<u>4,292</u>
Total liabilities	<u>1,005,489</u>	<u>1,006,633</u>
Commitments and contingencies		
Stockholders' Equity		
Common stock – \$0.05 par value; 4,000,000 shares authorized; 2,761,877 shares issued; 2,755,349 shares outstanding (2,757,156 shares outstanding in 2016)	138	138
Surplus	8,368	8,340
Retained earnings	107,478	97,250
Accumulated other comprehensive loss	(1,191)	(792)
Treasury stock – at cost (6,528 shares in 2017; 4,721 in 2016)	<u>(233)</u>	<u>(157)</u>
Total stockholders' equity	<u>114,560</u>	<u>104,779</u>
Total liabilities and stockholders' equity	<u>\$ 1,120,049</u>	<u>\$ 1,111,412</u>

	<u>2017</u>	<u>2016</u>
Interest income:		
Loans – including fees	\$ 40,704	\$ 35,625
Securities available for sale	2,093	1,301
Federal funds sold	177	163
Interest-bearing time deposits in banks	2,010	1,157
Other	<u>19</u>	<u>17</u>
Total interest income	<u>45,003</u>	<u>38,263</u>
Interest expense:		
Deposits	4,195	3,867
Federal Home Loan Bank borrowings	63	77
Junior subordinated debentures	<u>625</u>	<u>549</u>
Total interest expense	<u>4,883</u>	<u>4,493</u>
Net interest income	40,120	33,769
Provision for loan losses	<u>-</u>	<u>-</u>
Net interest income after provision for loan losses	<u>40,120</u>	<u>33,769</u>
Noninterest income:		
Service charges, fees, and rental income	11,490	10,119
Net realized (losses) gains on sales of securities available for sale, foreclosed assets, and other assets	<u>(17)</u>	<u>2,973</u>
Total noninterest income	<u>11,473</u>	<u>13,092</u>
Noninterest expense:		
Salaries and employee benefits	17,643	15,832
Occupancy and equipment expenses	5,786	5,273
Other operating expenses	<u>9,263</u>	<u>8,653</u>
Total noninterest expense	<u>32,692</u>	<u>29,758</u>
Income before income taxes	18,901	17,104
Income tax expense	<u>6,797</u>	<u>5,642</u>
Net income	<u>\$ 12,104</u>	<u>\$ 11,461</u>

	<u>2017</u>	<u>2016</u>
Net income	\$ <u>12,104</u>	\$ <u>11,461</u>
Other items of comprehensive income:		
Unrealized holding Loss on securities available for sale	<u>(289)</u>	<u>(1,352)</u>
Total other items of comprehensive income	<u>(289)</u>	<u>(1,352)</u>
Comprehensive income before income tax expense (benefit)	11,815	10,109
Income tax benefit related to other items of comprehensive income	<u>(86)</u>	<u>(471)</u>
Comprehensive income after income tax benefit	\$ <u>11,901</u>	\$ <u>10,580</u>

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
Balance at December 31, 2015	138	8,269	87,879	88	(30)	96,344
Net income – year ended December 31, 2016	-	-	11,461	-	-	11,461
Purchase of treasury stock	-	-	-	-	(623)	(623)
Treasury stock sold	-	71	-	-	496	567
Cash dividends declared	-	-	(2,090)	-	-	(2,090)
Change in other comprehensive income – net of tax	-	-	-	(880)	-	(880)
Balance at December 31, 2016	138	8,340	97,250	(792)	(157)	104,779
Net income – year ended December 31, 2017	-	-	12,104	-	-	12,104
Purchase of treasury stock	-	-	-	-	(285)	(285)
Treasury stock sold	-	28	-	-	209	237
Cash dividends declared	-	-	(2,072)	-	-	(2,072)
Reclassification due to tax rate change			196	(196)		-
Change in other comprehensive income – net of tax	-	-		(203)	-	(203)
Balance at December 31, 2017	<u>\$ 138</u>	<u>\$ 8,368</u>	<u>\$ 107,478</u>	<u>\$ (1,191)</u>	<u>\$ (233)</u>	<u>\$ 114,560</u>

	<u>2017</u>	<u>2016</u>
Cash Flows From Operating Activities		
Net income	\$ 12,104	\$ 11,461
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	2,078	1,885
Loss (Gain) on sale of bank premises and equipment	39	(699)
Net amortization of securities	483	486
Net realized gains on sales of securities available for sale, other assets, and foreclosed assets	(22)	(2,273)
Deferred income tax expense	793	162
Increase in cash surrender value of life insurance	(490)	(519)
Net change in:		
Accrued interest receivable	(343)	(340)
Prepaid expenses and other assets	(35)	1,137
Accrued interest payable and other liabilities	(1,603)	3,008
Net cash provided by operating activities	<u>13,004</u>	<u>14,308</u>
Cash Flows From Investing Activities		
Net change in:		
Loans	(93,425)	(48,562)
Interest-bearing time deposits in banks	4,240	(9,264)
Proceeds from sales of securities available for sale	6,395	0
Recoveries of loans previously charged off	553	247
Proceeds from payments and maturities of investment securities	194,783	178,007
Purchases of investment securities	(209,425)	(209,841)
Capital expenditures	(1,899)	(5,456)
Proceeds from sales of bank premises and equipment and other assets	263	2,714
Net settlement related to branch acquisition	0	41,634
Proceeds from sales of foreclosed assets	374	5,261
Net cash used in investing activities	<u>(98,141)</u>	<u>(45,260)</u>
Cash Flows From Financing Activities		
Net change in deposits	1,157	68,148
Purchase of treasury stock	(285)	(623)
Sale of treasury stock	237	567
Repayment on Federal Home Loan Bank borrowings	(766)	(753)
Cash dividends paid	(2,072)	(2,090)
Net cash (used in) provided by financing activities	<u>(1,729)</u>	<u>65,249</u>
Net (decrease) increase in cash and cash equivalents	<u>(86,866)</u>	<u>34,297</u>
Cash and cash equivalents at beginning of year	<u>216,964</u>	<u>182,667</u>
Cash and cash equivalents at end of year	<u>\$ 130,098</u>	<u>\$ 216,964</u>
Schedules of Other Cash Flow Information		
Interest paid	<u>\$ 4,838</u>	<u>\$ 4,339</u>
Schedules of Noncash Activities		
Foreclosed assets financed by the Bank	<u>\$ 705</u>	<u>\$ 3,295</u>
Other real estate acquired by foreclosure on loans	<u>\$ 3,311</u>	<u>\$ 1,949</u>

1. Summary of Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of Falcon Bancshares, Inc., its wholly owned subsidiary, Falcon International Bank (the “Bank”), and the Bank’s wholly owned subsidiaries, Falconsure, Inc. and Falcon Outdoor Advertising, Inc. (collectively, the “Company”). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a variety of financial services to individuals and small businesses through its main bank and branches in the Texas cities of Laredo, San Antonio, McAllen, Del Rio, Buda, Eagle Pass, and Brownsville. Its primary deposit products are savings and term certificate accounts, and its primary lending products are real estate loans.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of foreclosed assets.

New and Recently Issued Accounting Standards

Accounting Standards Update (“ASU”) No. 2014-09, Revenue From Contracts With Customers – ASU No. 2014-09 implements a common revenue standard that clarifies the principles for recognizing revenue. The core principle of ASU No. 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 will be effective for public business entities in 2018 and nonpublic business entities in 2019. The Company is still evaluating the potential impact of this new ASU on its consolidated financial statements.

ASU No. 2016-01, Financial Instruments- Recognition and Measurement of Financial Assets and Liabilities- ASU No. 2016-01 is designed to improve the recognition and measurement of financial instruments through targeted changes to existing accounting standards. The new standard will require equity investments (except those that are accounted for under the equity method of accounting or result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. It also will require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the consolidated balance sheet or the accompanying notes to the financial statements. It also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for organizations that are not public business

entities. The provisions of ASU No. 2016-01 will be effective for public entities in 2018 and nonpublic entities in 2019. The Company does not anticipate the adoption of the provisions of this standard will have a material impact on its consolidated financial statements in future years.

ASU 2016-02, *Leases* - The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for public business entities in fiscal years beginning after December 15, 2018, and for non-public business entities in fiscal years beginning after December 15, 2019. The Company is currently evaluating the impact of our pending adoption of the new standard on our consolidated financial statements.

ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments*. This ASU creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct write-down. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2020 for public companies that are not SEC filers and non-public business entities. The Company is currently evaluating the impact of adopting this new guidance on its consolidated financial statements.

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within Webb, Bexar, Hidalgo, Val Verde, Hays, Maverick, and Cameron Counties and their surrounding areas, including the border region of Mexico. Note 4 discusses the types of securities in which the Company invests. Note 5 discusses the types of lending in which the Company engages. The Company does not have any significant concentrations in any one industry or customer. Commercial real estate; including land development, vacant land, and other construction loans; represented 69% and 66% of the total loan portfolio as December 31, 2017 and 2016, respectively.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. During the years ended December 31, 2017 and 2016, the Company had no securities classified as trading securities or held to maturity.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held-to-maturity and available-for-sale securities are evaluated to determine whether declines in fair value below their amortized cost are other than temporary. In estimating other-than-temporary impairment losses on debt securities, management considers a number of factors including, but not limited to, (1) the length of time and the extent to which the fair value has been less than the amortized cost; (2) the financial condition and near-term prospects of the issuer; (3) the current market conditions; and (4) the intent and ability of the Company to not sell the security or whether it is more likely than not the Company will be required to sell the security before its anticipated recovery.

Restricted Investment Security

Restricted investment securities include Federal Home Loan Bank stock, which is carried at cost on the consolidated balance sheets. These equity securities are “restricted” in that they can only be sold back to the respective institution or another member institution at par. Therefore, they are less liquid than other marketable equity securities. The Company views its investment in restricted stock as a long-term investment. Accordingly, when evaluating for impairment, the value is determined based on the ultimate recovery of the par value, rather than recognizing temporary declines in value. No other-than-temporary write-downs have been recorded on these securities.

Loans

The Company grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans within Webb, Bexar, Hidalgo, Val Verde, Hays, Maverick, and Cameron Counties. The ability of the Company’s debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

The Company has lending policies and procedures in place to grant loans to borrowers only after a full evaluation of the credit history and repayment abilities of the borrower. Commercial and residential real estate loans are subject to underwriting standards that evaluate cash flow and fair value of the collateral. The collectability of real estate loans may be adversely affected by conditions in the real estate markets or the general economy. Management monitors and evaluates real estate loans based on collateral, geography, and risk criteria.

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably. Such evaluations involve reviews of historical and cash flow projections and valuations of collateral provided by the borrower. Most commercial loans are secured by the assets being financed or other available business assets and frequently include a personal guarantee by the principal owners; however, some commercial loans may be made on an unsecured basis. The repayment of commercial loans is substantially dependent on the ability of borrowers to operate their businesses profitably and collect amounts due from their customers.

Consumer loans are originated after evaluation of the credit history and repayment ability of the borrower based on current personal income. The repayment of consumer loans can be adversely affected by economic conditions and other factors that impact the borrower’s income.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or payoff, are reported at their outstanding principal adjusted for any charge-offs and the allowance for loan losses. Interest income is accrued on the unpaid principal balance.

Loan origination fees are recognized as income and loan origination costs are expensed as incurred, as management has determined that capitalization of these items would be immaterial to the consolidated financial statements.

A loan is considered delinquent when principal and/or interest amounts are not current, in accordance with the contractual loan agreement.

The accrual of interest on real estate and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Consumer loans are typically charged off no later than 120 days past due. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not collected, for loans that are placed on nonaccrual status or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due, according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, if the loan is collateral-dependent.

Loans are fully or partially charged down to the fair value of the collateral securing the loan when management determines the asset to be uncollectible, repayment is deemed to be delayed or doubtful beyond reasonable time frames, the borrower has declared bankruptcy, or the loan is past due for an unreasonable time period. Such charge-offs are charged against the allowance for loan losses. Recoveries of previous loan charge-offs are credited to the allowance for loan losses only when the Company receives cash or other collateral in repayment of the loan.

In situations related to a borrower's financial difficulties, the Company may grant a concession to the borrower for other than an insignificant period of time that would not otherwise be considered. In such instances, the loan will be classified as a troubled debt restructuring. These concessions may include

interest rate reductions, payment forbearance, or other actions intended to minimize the economic loss and avoid foreclosure of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, the Company measures an impairment loss on the restructuring, as noted above for impaired loans.

Allowance for Loan Losses

The Company maintains an allowance for loan losses as a reserve established through a provision for possible loan losses charged to expense, which represents management's best estimate of probable losses that have been incurred within the existing portfolio of loans. The allowance, in the opinion of management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The Company's methodology for the allowance for loan losses includes allowance allocations calculated in accordance with Accounting Standards Codification ("ASC"), *Receivables*, and ASC, *Contingencies*. Accordingly, the methodology is based on historical loss experience by type of credit and internal risk grade, specific homogeneous risk pools, and specific loss allocations, with adjustments for current events and conditions.

The Company's process for determining the appropriate level of the allowance for loan losses is designed to account for credit deterioration as it occurs. Factors that influence the determination include quantifiable aspects, such as loan volume, loan concentrations, and loan quality trends, including trends in nonaccrual, past-due, and classified loans; current period loan charge-offs; and recoveries. The determination also includes qualitative aspects, such as changes in local, regional, or national economies or markets, and other factors. Such qualitative factors are highly judgmental and require constant refinement. The Company has an internal loan review function, the objective of which is to identify potential problem loans, properly classify loans by risk grade, and assist senior management in maintaining an adequate allowance for loan losses account by reviewing and refining the methodology, as needed, based on changing circumstances.

The Company's allowance for loan losses consists primarily of two elements: (1) a specific valuation allowance determined in accordance with the ASC based on probable losses on specific, individual loans and (2) a general valuation allowance determined in accordance with the ASC based on historical loan loss experience for pools of similar loans, which is then adjusted to reflect the impact of current trends and conditions.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is recognized on the straight-line method over the estimated useful lives of the assets.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Expenses from operations and changes in the valuation allowance are included in other operating expenses.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred income tax expense represents the change during the period in the deferred tax assets and deferred tax liabilities. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized.

The Company is subject to the Texas gross margin tax.

Off-Balance Sheet Credit-Related Financial Instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit, unfunded commitments under lines of credit, and commercial and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded or related fees are incurred or received.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand, amounts due from banks (including cash items in process of clearing), and federal funds sold.

Interest-Bearing Time Deposits in Banks

Interest-bearing time deposits in banks are carried at cost and mature in 2018.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income, are components of comprehensive income.

Subsequent Events

The Company has evaluated subsequent events through April 20, 2018, the date the consolidated financial statements were available to be issued.

Reclassifications

Certain amounts have been reclassified from prior presentation at December 31, 2016 to conform to classifications at December 31, 2017. There is no effect on previously reported net income or retained earnings.

2. Fair Value Measurements

The Company follows the provisions of the ASC, *Fair Value Measurements and Disclosures*. The disclosures required about fair value measurements include, among other things, (1) the amounts and reasons for certain significant transfers among the three hierarchy levels of inputs; (2) the gross, rather than net, basis for certain Level 3 rollforward information; (3) use of a “class” basis rather than a major category basis for assets and liabilities; and (4) valuation techniques and inputs used to estimate Level 2 and Level 3 fair value measurements. The ASC defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The ASC guidance establishes a fair value hierarchy for valuation inputs that prioritizes the inputs used in valuation methodologies into the following three levels:

- Level 1 – Quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access as of the measurement date.
- Level 2 – Observable inputs other than Level 1, including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 – Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The Company uses fair value to measure certain assets and liabilities on a recurring basis when fair value is the primary measure of accounting. This is done primarily for available-for-sale securities.

Fair value is used on a nonrecurring basis to measure certain assets when applying lower of cost or market accounting or when adjusting carrying values, such as impaired loans and other real estate owned. Fair value is also used when evaluating impairment on certain assets, including held-to-maturity and available-for-sale securities, goodwill, core deposits and other intangibles, long-lived assets, and for disclosures of certain financial instruments.

There were no transfers among the three hierarchy levels of inputs.

A description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities Available for Sale – Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include actively-traded government bonds, such as certain United States Treasury and other United States government and agency securities and exchange-traded equities. If quoted market prices are not available, then fair values

are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Level 2 securities generally include certain United States government and agency securities, corporate debt securities, and certain derivatives. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

The following table summarizes assets measured at fair value on a recurring basis as reported on the consolidated balance sheets as of December 31, 2017 and 2016, segregated by level within the fair value measurement hierarchy (dollars in thousands):

	Total Fair Value Measurement at December 31, 2017	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	\$ 10,081	\$ -	\$ 10,081	\$ -
Mortgage-backed securities	80,986	-	80,986	-
Other equity investments	11,292	11,292	-	-
	<u>\$ 102,359</u>	<u>\$ 11,292</u>	<u>\$ 91,067</u>	<u>\$ -</u>
	Total Fair Value Measurement at December 31, 2016	Level 1	Level 2	Level 3
Assets:				
United States government agency securities	\$ 10,100	\$ -	\$ 10,100	\$ -
Mortgage-backed securities	73,515	-	73,515	-
Other equity investments	11,249	11,249	-	-
	<u>\$ 94,864</u>	<u>\$ 11,249</u>	<u>\$ 83,615</u>	<u>\$ -</u>

A description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Foreclosed Assets

Foreclosed assets consist mainly of other real estate owned, but may include other types of assets repossessed by the Company. Foreclosed assets are adjusted to the lower of carrying value or fair value less the cost of disposal upon transfer of the loans to foreclosed assets. Fair value is generally based upon independent market prices or appraised values of the collateral.

Impaired Loans

The specific reserves for collateral-dependent impaired loans are determined based on the fair value of collateral method in accordance with ASC Topic 310. Under the fair value of collateral method, the specific reserve is equal to the difference between the carrying value of the loan and the fair value of the collateral, less estimated selling costs. When a specific reserve is required for an impaired loan, the impaired loan is essentially measured at fair value. The fair value of collateral was determined based on appraisals, with further adjustments made to the appraised values due to various factors, including the age of the appraisal, age of comparables included in the appraisal, and known changes in the market and in the collateral. The resulting fair value measurement is disclosed in the nonrecurring hierarchy table. Where adjustments made to appraisals are based on assumptions not observable in the marketplace and where estimates of fair values used for other collateral supporting commercial loans are based on assumptions not observable in the marketplace, such valuations have been classified as Level 3.

The following table summarizes assets with fair value changes during the years ended December 31, 2017 and 2016 that are measured at fair value by class on a nonrecurring basis, as follows (dollars in thousands):

	Total Fair Value Measurement at December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Foreclosed assets	2,052			2,052
Impaired loans	\$ <u>6</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6</u>
	Total Fair Value Measurement at December 31, 2016	Level 1	Level 2	Level 3
Assets:				
Foreclosed assets	1,208			1,208
Impaired loans	\$ <u>10</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>10</u>

Write-downs during the year ended December 31, 2017 related to the above foreclosed assets totaled \$81 and are included in other operating expenses in the consolidated statements of income (\$144 thousand in 2016).

3. Restrictions on Cash and Amounts Due From Banks

The Company is required to maintain average balances on hand or with the Federal Reserve Bank. At December 31, 2017 and 2016, these reserve balances totaled \$34 and \$33.9 million, respectively.

4. Investment Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, were as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2017				
United States government agency securities	\$ 10,000	\$ 81	\$ -	\$ 10,081
Mortgage-backed securities	<u>82,367</u>	<u>3</u>	<u>1,384</u>	<u>80,986</u>
Total debt securities	92,367	84	1,384	91,067
Other equity investments	<u>11,500</u>	<u>26</u>	<u>234</u>	<u>11,292</u>
	<u>\$ 103,867</u>	<u>\$ 110</u>	<u>\$ 1,618</u>	<u>\$ 102,359</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Securities Available for Sale at December 31, 2016				
United States government agency securities	\$ 10,000	\$ 100	\$ -	\$ 10,100
Mortgage-backed securities	<u>74,583</u>	<u>8</u>	<u>1,076</u>	<u>73,515</u>
Total debt securities	84,583	108	1,076	83,615
Other equity investments	<u>11,500</u>	<u>18</u>	<u>269</u>	<u>11,249</u>
	<u>\$ 96,083</u>	<u>\$ 126</u>	<u>\$ 1,345</u>	<u>\$ 94,864</u>

Investment securities carried at \$72.3 and \$73.5 million at December 31, 2017 and 2016, respectively, were pledged to secure public funds and for other purposes required or permitted by law.

The fair value of debt securities by contractual maturity at December 31, 2017 were as follows (dollars in thousands):

	<u>Amortized Cost</u>	<u>Fair Value</u>
Securities available for sale:		
Within one year	\$ -	\$ -
After one year through five years	10,000	10,081
After five years through ten years	<u>-</u>	<u>-</u>
	10,000	10,081
Mortgage-backed securities	<u>82,367</u>	<u>80,986</u>
	<u>\$ 92,367</u>	<u>\$ 91,067</u>

For the year ended December 31, 2017 there were sales of securities of \$6.4 million (\$0 in 2016). Gross realized gains amounted to \$28 thousand for December 31, 2017 (\$0 in 2016).

Information pertaining to securities with gross unrealized losses at December 31, 2017 and 2016, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows (dollars in thousands):

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Securities Available for Sale at December 31, 2017						
United States government agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	30,774	545	46,774	839	77,548	1,384
Other equity investments	<u>-</u>	<u>-</u>	<u>8,766</u>	<u>234</u>	<u>8,766</u>	<u>234</u>
	<u>\$ 30,774</u>	<u>\$ 545</u>	<u>\$ 55,540</u>	<u>\$ 1,073</u>	<u>\$ 86,314</u>	<u>\$ 1,618</u>

**Securities Available for Sale
at December 31, 2016**

United States government agency securities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	50,416	892	16,052	184	66,468	1,076
Other equity investments	<u>5,860</u>	<u>140</u>	<u>3,371</u>	<u>129</u>	<u>9,231</u>	<u>269</u>
	<u>\$ 56,276</u>	<u>\$ 1,032</u>	<u>\$ 19,423</u>	<u>\$ 313</u>	<u>\$ 75,699</u>	<u>\$ 1,345</u>

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2017 and 2016, the Company did not have any securities with other-than-temporary impairment.

5. Loans and Allowance for Loan Losses

The components of loans in the consolidated balance sheets were as follows (dollars in thousands):

	December 31,	
	2017	2016
Real estate:		
Commercial	\$ 397,661	\$ 339,225
Residential	111,338	115,457
Land development, vacant land, and other construction	155,802	127,376
Commercial	107,792	102,377
Consumer	20,381	17,697
Other	8,664	8,926
	<u>801,638</u>	<u>711,058</u>
Allowance for loan losses	<u>10,019</u>	<u>9,683</u>
	<u>\$ 791,619</u>	<u>\$ 701,375</u>

During the years ended December 31, 2017 and 2016, the Company purchased loans from other nonrelated banks totaling \$40.6 million and \$15.9 million, respectively. During the years ended December 31, 2017 and 2016, the Company did not sell any significant amount of loans to other nonrelated banks.

As part of its on-going monitoring of the credit quality of the Company's loan portfolio, management assigns risk grades to loans as follows:

- **Pass** – loans to borrowers with acceptable credit quality and risk.
- **Pass/Watch** – loans to borrowers having potential weaknesses that deserve management's close attention, which, if left uncorrected, will likely result in the asset becoming inadequately protected. A loan can be rated as "Pass/Watch" even though the performance is adequate.

- **Substandard** – loans to borrowers with well-defined credit quality weaknesses, which make payment default or principal exposure possible, but not yet certain. Such loans are individually evaluated for a specific valuation allowance.
- **Doubtful** – loans to borrowers in which payment default or principal exposure is probable. Such loans are individually evaluated for a specific valuation allowance.

At December 31, 2017 and 2016, the Company's loan portfolio risk grades by loan segment were as follows (dollars in thousands):

	<u>Pass</u>	<u>Pass/ Watch</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total Loans</u>
December 31, 2017					
Real estate:					
Commercial	\$ 383,905	\$ 8,200	\$ 5,556	\$ -	\$ 397,661
Residential	108,091	1,435	1,811	-	111,338
Land development, vacant land, and other construction	154,877	816	109	-	155,802
Commercial	107,705	-	87	-	107,792
Consumer	20,369	-	13	-	20,381
Other	8,664	-	-	-	8,664
	<u>\$ 783,611</u>	<u>\$ 10,451</u>	<u>\$ 7,576</u>	<u>\$ -</u>	<u>\$ 801,638</u>
December 31, 2016					
Real estate:					
Commercial	\$ 321,631	\$ 5,790	\$ 11,804	\$ -	\$ 339,225
Residential	111,759	714	2,984	-	115,457
Land development, vacant land, and other construction	125,951	1,343	82	-	127,376
Commercial	102,336	-	41	-	102,377
Consumer	17,679	-	18	-	17,697
Other	8,926	-	-	-	8,926
	<u>\$ 688,282</u>	<u>\$ 7,847</u>	<u>\$ 14,929</u>	<u>\$ -</u>	<u>\$ 711,058</u>

An aged analysis of past-due loans, segregated by class of loans, as of December 31, 2017 and 2016 is as follows (dollars in thousands):

	Loans 30-89 Days Past Due	Loans 90 or More Days Past Due	Total Past-Due Loans	Current Loans	Total Loans	Accruing Loans 90 Days or More Past Due
December 31, 2017						
Real estate:						
Commercial	\$ 910	\$ 146	\$ 1,056	\$ 396,605	\$ 397,661	\$ -
Residential	811	263	1,074	110,264	111,338	-
Land development, vacant land, and other construction	154	-	154	155,648	155,802	-
Commercial	70	-	70	107,722	107,792	-
Consumer	102	1	103	20,278	20,381	1
Other	21	1	22	8,642	8,664	1
	<u>\$ 2,068</u>	<u>\$ 411</u>	<u>\$ 2,479</u>	<u>\$ 799,159</u>	<u>\$ 801,638</u>	<u>\$ 2</u>
December 31, 2016						
Real estate:						
Commercial	\$ 619	\$ 2,061	\$ 2,680	\$ 336,545	\$ 339,225	\$ -
Residential	1,035	702	1,737	113,720	115,457	-
Land development, vacant land, and other construction	4	0	4	127,372	127,376	-
Commercial	24	-	24	102,353	102,377	-
Consumer	90	0	90	17,607	17,697	-
Other	14	-	14	8,912	8,926	-
	<u>\$ 1,786</u>	<u>\$ 2,763</u>	<u>\$ 4,549</u>	<u>\$ 706,509</u>	<u>\$ 711,058</u>	<u>\$ -</u>

Loans are considered impaired and placed on nonaccrual status when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement. Loans may be placed on impaired and nonaccrual status regardless of whether or not such loans are considered past due. An analysis of impaired and nonaccrual loans, segregated by class of loans, as of December 31, 2017 and 2016 is as follows (dollars in thousands):

	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment and Unpaid Balance	Related Allowance	Average Recorded Investment
December 31, 2017					
Real estate:					
Commercial	\$ 7,168	\$ -	\$ 7,168	\$ -	\$ 8,867
Residential	2,196	-	2,196	-	2,423
Land development, vacant land, and other construction	25	-	25	-	44
Commercial	-	21	21	15	31
Consumer	-	-	0	-	-
Other	-	-	-	-	-
	<u>\$ 9,389</u>	<u>\$ 21</u>	<u>\$ 9,410</u>	<u>\$ 15</u>	<u>\$ 11,365</u>
December 31, 2016					
Real estate:					
Commercial	\$ 10,565	\$ 0	\$ 10,565	\$ 0	\$ 10,177
Residential	2,650	-	2,650	-	2,567
Land development, vacant land, and other construction	63	0	63	0	2,453
Commercial	15	26	41	16	57
Consumer	-	0	0	0	27
Other	-	-	-	-	-
	<u>\$ 13,293</u>	<u>\$ 26</u>	<u>\$ 13,319</u>	<u>\$ 16</u>	<u>\$ 15,281</u>

During the years ended December 31, 2017 and 2016, the Company recognized no interest income on impaired and nonaccrual loans.

Included in the impaired loan table above are loans totaling \$6.7 million and \$10.8 million at December 31, 2017 and 2016, respectively, that have been modified in a troubled debt restructuring ("TDR"), of which \$5.8 million are considered performing TDRs and \$851 thousand are past due and on nonaccrual at December 31, 2017 (\$8.1 million are considered performing and \$2.7 million are considered past due and on nonaccrual in 2016) and mainly consist of other construction, land development, and other land loans. There are no specific reserves related to these loans at December 31, 2017 and 2016. These loans are generally modified by allowing the borrower concessions that delay the payment of principal or interest beyond contractual requirements, but not the forgiveness of either principal or interest.

The Bank has evaluated any possible impairment loss on such loans consistent with its accounting for impaired loans and recognized such loss through a charge-off to the allowance for loan loss account.

Changes in the allowance for loan losses, by portfolio segment, for the years ended December 31, 2017 and 2016 were as follows (dollars in thousands):

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Year Ended December 31, 2017							
Balance at beginning of year	\$ 4,353	\$ 1,617	\$ 1,870	\$ 1,340	\$ 498	\$ 5	\$ 9,683
Provision (credit) for loan losses	977	(150)	494	(1,100)	(218)	(3)	-
Charge-offs	-	-	-	(4)	(213)	-	(217)
Recoveries	8	6	26	422	91	-	553
Net (charge-offs) recoveries	8	6	26	418	(122)	-	336
Balance at end of year	<u>\$ 5,338</u>	<u>\$ 1,473</u>	<u>\$ 2,390</u>	<u>\$ 658</u>	<u>\$ 158</u>	<u>\$ 2</u>	<u>\$ 10,019</u>
Allocation:							
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ 15
Collectively evaluated for impairment	\$ 5,338	\$ 1,473	\$ 2,390	\$ 643	\$ 158	\$ 2	\$ 10,004
	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Year Ended December 31, 2016							
Balance at beginning of year	\$ 4,566	\$ 1,686	\$ 1,996	\$ 1,065	\$ 439	\$ 11	\$ 9,763
Provision (credit) for loan losses	(223)	(79)	(101)	237	171	(6)	0
Charge-offs	(2)	-	(31)	(93)	(200)	-	(327)
Recoveries	12	10	6	131	88	-	247
Net (charge-offs) recoveries	10	10	(25)	38	(112)	-	(80)
Balance at end of year	<u>\$ 4,353</u>	<u>\$ 1,617</u>	<u>\$ 1,870</u>	<u>\$ 1,340</u>	<u>\$ 498</u>	<u>\$ 5</u>	<u>\$ 9,683</u>
Allocation:							
Individually evaluated for impairment	\$ 0	\$ -	\$ 0	\$ 16	\$ 0	\$ -	\$ 16
Collectively evaluated for impairment	\$ 4,353	\$ 1,617	\$ 1,870	\$ 1,324	\$ 498	\$ 5	\$ 9,667

During the year ended December 31, 2017, the Company did not implement any significant changes to its allowance for loan loss methodology.

The Company's recorded investment in loans as of December 31, 2017 and 2016 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Years Ended December 31, 2017							
Loans individually evaluated for impairment	\$ 7,169	\$ 2,196	\$ 24	\$ 21	\$ -	\$ -	\$ 9,410
Loans collectively evaluated for impairment	<u>390,492</u>	<u>109,141</u>	<u>155,778</u>	<u>107,771</u>	<u>20,382</u>	<u>8,664</u>	<u>792,228</u>
Ending balance	<u>\$ 397,661</u>	<u>\$ 111,337</u>	<u>\$ 155,802</u>	<u>\$ 107,792</u>	<u>\$ 20,382</u>	<u>\$ 8,664</u>	<u>\$ 801,638</u>
	Commercial Real Estate	Residential Real Estate	Land Development, Vacant Land, and Other Construction	Commercial	Consumer	Other	Total
Years Ended December 31, 2016							
Loans individually evaluated for impairment	\$ 10,565	\$ 2,650	\$ 63	\$ 41	\$ -	\$ -	\$ 13,319
Loans collectively evaluated for impairment	<u>328,660</u>	<u>112,807</u>	<u>127,313</u>	<u>102,336</u>	<u>17,697</u>	<u>8,926</u>	<u>697,739</u>
Ending balance	<u>\$ 339,225</u>	<u>\$ 115,457</u>	<u>\$ 127,376</u>	<u>\$ 102,377</u>	<u>\$ 17,697</u>	<u>\$ 8,926</u>	<u>\$ 711,058</u>

6. Premises and Equipment

Components of premises and equipment included in the consolidated balance sheets were as follows (dollars in thousands):

	December 31,	
	2017	2016
Land	\$ 21,426	\$ 21,426
Equipment and furniture	13,826	13,127
Building	35,267	34,211
Building improvements	2,948	2,728
Leasehold improvements	1,022	1,022
Computer software	2,445	2,236
Construction in progress	176	979
	<u>77,110</u>	<u>75,729</u>
Less accumulated depreciation	<u>24,863</u>	<u>23,001</u>
	<u>\$ 52,247</u>	<u>\$ 52,728</u>

Depreciation expense for the years ended December 31, 2017 and 2016 totaled \$2.1 and \$1.9 million respectively.

The Company has several noncancellable lease agreements in effect at December 31, 2017 and 2016 pertaining to Company premises. The operating leases vary from a one-year term to a five-year term with an option for additional years.

In 2012, the Bank also entered into additional lease agreements that included its wholly owned subsidiary, Falcon Outdoor Advertising, Inc. These lease agreements were obtained for the sole purpose of erecting, placing, and maintaining outdoor advertising sign structures on specified premises. The initial terms of the leases are five years, and each automatically renews for successive like terms unless terminated.

The future minimum rental commitments under these leases are as follows (dollars in thousands):

Year ending December 31,	
2018	\$ 269
2019	38
2020	33
2021	32
2022	<u>6</u>
	<u>\$ 378</u>

Rental expense for the years ended December 31, 2017 and 2016 totaled \$309 and \$392 thousand, respectively.

7. Deposits

The aggregate amount of certificates of deposit (“CDs”) in denominations of \$250 thousand or more was approximately \$174 million at December 31, 2017.

At December 31, 2017, the scheduled maturities of CDs are as follows (dollars in thousands):

Year ending December 31,	
2018	\$ 316,971
2019	18,066
2020	22,403
2021	768
2022	<u>213</u>
	<u>\$ 358,421</u>

Included in total deposits on the consolidated balance sheets are \$297.5 million and \$285.6 million of foreign deposits at December 31, 2017 and 2016, respectively.

At December 31, 2017, the Bank held deposits for one customer totaling \$139.2 million, or approximately 14.1% of total deposits (\$164.7 million, or 16.8% of total deposits in 2016).

8. Federal Home Loan Bank Borrowings

The Bank executed fixed rate long-term borrowings with the Federal Home Loan Bank (“FHLB”) of Dallas. Advances are received pursuant to a collateral pledge and security agreements giving FHLB a lien in certain of the Bank’s loans, including 1-4 family mortgage loans; multifamily mortgage loans; home equity loans; and other commercial real estate loans with a carrying value of approximately \$31.9 million at December 31, 2017 (\$41.5 million in 2016). Repayments in 2017 and 2016 totaled \$766 thousand and \$752 thousand, respectively.

FHLB borrowings totaled \$3.2 million at December 31, 2017 (\$4.0 million in 2016). Advances on the debt were made with varying terms at rates ranging from 1.32% to 3.85%.

The contractual maturities of FHLB borrowings are as follows (dollars in thousands):

Year ending December 31,	
2018	\$ 633
2019	668
2020	288
2021	162
2022	<u>1,464</u>
	<u>\$ 3,215</u>

At December 31, 2017, the Bank had been issued \$137 million in standby letters of credit from FHLB (\$160 million in 2016). These letters of credit expire in varying amounts during 2017. There were no funds advanced on these letters of credit during 2017 and 2016. The letters of credit are secured by the same collateral as the long-term borrowings indicated above.

9. Junior Subordinated Debentures

On March 28, 2003, the Company established the Falcon Capital Trust I ("Trust I") with capital of \$310 thousand. Trust I issued \$10.0 million in Floating Capital Securities ("Trust Preferred Securities") to private market investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR plus 3.25% at December 31, 2016. The Trust Preferred Securities mature and are payable on April 24, 2033.

On May 23, 2005, the Company established the Falcon Capital Trust II ("Trust II") with capital of \$155 thousand. Trust II issued \$5.0 million in Trust Preferred Securities to private market investors. The Trust Preferred Securities bear interest at a floating rate equal to the three-month LIBOR plus 1.90% at December 31, 2016. The Trust Preferred Securities mature and are payable on August 23, 2035.

The Company issued the Trust Preferred Securities as a method of increasing regulatory capital. Trust Preferred Securities are includable in regulatory capital, with certain limitations.

The Company entered into guarantee agreements to pay in full investors of the Trust Preferred Securities.

In connection with the transactions, the Company issued Floating Rate Junior Subordinated Deferrable Interest Debentures ("Debentures") to Trust I for \$10.3 million, to Trust II for \$5.1 million, and to Trust III for \$6.2 million with interest and maturity terms identical to the Trust Preferred Securities.

The Company incurred issuance costs of \$300 thousand for Trust I and \$155 thousand for Trust II, which have been capitalized and are being amortized over the term of the Trust Preferred Securities. There were no issuance costs related to Trust III.

In accordance with the ASC, the Trusts are not consolidated in the accompanying consolidated financial statements. Instead, the investments in the Trust are included in "prepaid expenses and other assets" and the Debentures are shown as "junior subordinated debentures" on the consolidated balances sheets. Interest expense on the Debentures is reported in the consolidated statements of income.

10. Federal Income Taxes

The provision (benefit) for federal income taxes consists of and represents the tax effect of the following (dollars in thousands):

	Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
Currently paid or payable	\$ 6,004	\$ 5,480
Deferred income tax expense	<u>793</u>	<u>162</u>
	<u>\$ 6,797</u>	<u>\$ 5,642</u>

The provision (benefit) for federal income tax differs from the amount which would be provided by applying the statutory federal income tax rates as indicated in the following analysis (dollars in thousands):

	Years Ended December 31,	
	<u>2017</u>	<u>2016</u>
Computed at the expected statutory rate of 34%	\$ 6,426	\$ 5,815
Effect of tax-exempt income	(214)	(222)
Interest and other nondeductible expenses	89	76
Effect of rate change	760	-
Other	<u>(264)</u>	<u>(27)</u>
	<u>\$ 6,797</u>	<u>\$ 5,642</u>

Cash paid for federal income taxes was \$6.3 million for the year ended December 31, 2017 (\$5.6 million for 2016).

As a result of the enactment of the Tax Cut and Jobs Act (TCJA) in December 2017, the Company revalued its deferred tax assets and liabilities arising from temporary differences and unrealized gains and losses on available for sale securities using the new corporate tax rate of 21% that takes effect on January 1, 2018. The effect of this revaluation was a one-time charge to income tax expense of \$760 thousand for the year ended December 31, 2017.

On February 14, 2018, ASU No. 2018-02 was issued, allowing for a one-time reclassification of certain deferred tax items that had been stranded in accumulated other comprehensive income or loss as a result of tax adjustments made in connection with the enactment of the TCJA. The ASU allowed early adoption of its provisions for those companies which had not yet issued their 2017 financial statements. Accordingly, the Company early adopted its provisions and recorded a reclassification of \$196 thousand which increased retained earnings and decreased accumulated other comprehensive loss as of December 31, 2017.

Management believes it is more likely than not the full tax benefit of deferred tax assets will be realized; therefore no valuation allowance was and considered necessary at December 31, 2017 and 2016. The tax effects of temporary differences that give rise to the significant portions of deferred tax assets and deferred tax liabilities are presented below (dollars in thousands):

	December 31,	
	2017	2016
Deferred tax assets related to:		
Allowance for loan losses	\$ 2,104	\$ 3,295
Nonaccrual loan interest	126	178
Foreclosed assets	93	217
Net unrealized depreciation on securities available for sale	316	427
Total deferred tax assets	<u>2,639</u>	<u>4,117</u>
Deferred tax liabilities related to:		
Depreciation	(857)	(1,235)
FHLB stock	0	(16)
Net unrealized appreciation on securities available for sale	-	-
Prepaid expenses	(201)	(211)
Deferred gain on sale of other real estate	(350)	(568)
Other	(4)	(25)
Total deferred tax liabilities	<u>(1,412)</u>	<u>(2,055)</u>
Net deferred tax asset	<u>\$ 1,227</u>	<u>\$ 2,062</u>

11. Off-Balance Sheet Activities

Credit-Related Financial Instruments

The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, unfunded commitments under lines of credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following financial instruments, whose contract amounts represent credit risk, were outstanding (dollars in thousands):

	Contract Amount	
	December 31,	
	2017	2016
Unfunded commitments under lines of credit	\$ 75,184	\$ 79,263
Unfunded commitments under credit card arrangements	2,033	2,356
Commitments to extend credit	14,317	12,035
Commercial and standby letters of credit	2,694	1,254

Commitments to extend credit include commitments to lend under corporate lines of credit and are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Unfunded commitments under lines of credit include revolving credit lines, straight credit lines, interim construction loans, and overdraft protection agreements, which are commitments for possible future extensions of credit to existing customers. These lines of credit may not be drawn upon to the total extent to which the Company is committed.

To reduce credit risk related to the use of credit-related financial instruments, the Company might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Company's credit evaluation of the customer. Collateral held varies but may include cash; securities; accounts receivable; inventory; property, plant, and equipment; and real estate.

Commercial and standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

12. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates. Annual activity as of and for the years ended December 31, 2017 and 2016 consisted of the following (dollars in thousands):

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 10,540	\$ 13,181
New loans	2,932	1,311
Repayments	<u>(2,724)</u>	<u>(3,952)</u>
Ending balance	<u>\$ 10,748</u>	<u>\$ 10,540</u>

Deposits from related parties held by the Company totaled \$11.3 and \$7.2 million at December 31, 2017 and 2016, respectively.

13. Employee Benefits

The Company has a 401(k) plan (the "Plan") designed to benefit substantially all its employees. Annual matching and profit sharing contributions are at the Company's discretion and are determined by the Board of Directors each year. For the year ended December 31, 2017, the Company's expense under the plan was \$113 thousand (\$94 thousand in 2016).

During 2004, the Company adopted a partially self-funded medical insurance plan for its full-time employees that is administered by a third party. Included in accrued interest payable and other liabilities is an accrual of \$4 and \$8 thousand at December 31, 2017 and 2016, respectively. During 2017, there were premiums collected of \$1.8 million (\$1.6 million in 2016) and payments of \$1.8 million (\$1.6 million in 2016). The Bank also has stop-loss insurance for additional coverage.

During 2014 and 2015, the Company purchased life insurance policies for certain officers in an effort to offset benefit costs and obligations, including health insurance. These policies had an aggregate cash surrender value of \$16.6 million at December 31, 2017 (\$16.1 million at 2016).

14. Legal Contingencies

The Company is party to litigation arising in the normal course of business. Management, after consultation with legal counsel, believes the liabilities, if any, arising from such litigation and claims will not be material to the Company's financial position.

15. Capital and Regulatory Matters

The Company (on a consolidated basis) and FIB (individually) is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance sheet items

calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about component classification, risk weighting, and other factors.

The Basel III capital rules became effective for the Company and FIB on January 1, 2015, subject to a four-year phase-in period. Quantitative measures established by the Basel III capital rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 Capital, Tier 1 Capital, and Total Capital to Risk-Weighted Assets, and of Tier 1 Capital to Average Assets. In connection with the adoption of the Basel III capital rules, the Company and FIB elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1 Capital.

Management believes, as of December 31, 2017 and 2016, that the Company and FIB met all capital adequacy requirements to which it is subject. As of December 31, 2017, the most recent notification from the primary regulatory agency of the Bank categorized the Bank as well capitalized under the regulatory framework for prompt corrective action.

The following table presents actual and required capital ratios as of December 31, 2017 for the Company and FIB under the Basel III capital rules. The minimum required capital amounts present the minimum required levels as of December 31, 2017 based on the phase-in of the Basel III capital rules and the minimum required as of January 1, 2019 when the phase-in is complete. Capital levels to be considered well capitalized under prompt corrective action regulations are also presented.

	Actual		Minimum Required Basel III Current Phase-In		Minimum Required Basel III Full Phase-In		Minimum Required to be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017								
Common Equity Tier 1 Capital to Risk-Weighted Assets								
Company	\$114,584	13.9%	\$47,805	5.8%	\$57,696	7.0%	N/A	N/A
FIB	\$130,302	15.8%	\$47,383	5.8%	\$57,684	7.0%	\$53,564	6.5%
Tier 1 Capital to Risk-Weighted Assets								
Company	\$129,584	15.7%	\$60,168	7.3%	\$70,059	8.5%	N/A	N/A
FIB	\$130,302	15.8%	\$59,744	7.3%	\$70,045	8.5%	\$65,925	8.0%
Total Capital to Risk-Weighted Assets								
Company	\$139,603	16.9%	\$76,653	9.3%	\$86,544	10.5%	N/A	N/A
Bank	\$140,321	17.0%	\$76,225	9.3%	\$86,526	10.5%	\$82,406	10.0%
Tier 1 Capital to Average Assets								
Company	\$129,584	11.6%	\$44,869	4.0%	\$44,869	4.0%	N/A	N/A
FIB	\$130,302	11.6%	\$44,869	4.0%	\$44,869	4.0%	\$56,086	5.0%

The following table presents actual and required capital ratios as of December 31, 2016 for the Bank under regulatory capital rules then in effect:

	Actual		Basel III Current Phase-In		Basel III Full Phase-In		Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2016								
Common Equity Tier 1 Capital to Risk-Weighted Assets								
Company	\$105,320	14.3%	\$33,119	4.5%	\$51,518	7.0%	N/A	N/A
FIB	\$120,158	16.3%	\$37,711	5.1%	\$51,508	7.0%	\$47,829	6.5%
Tier 1 Capital to Risk- Weighted Assets								
Company	\$120,320	16.3%	\$44,158	6.0%	\$62,557	8.5%	N/A	N/A
FIB	\$120,158	16.3%	\$48,749	6.6%	\$62,545	8.5%	\$58,866	8.0%
Total Capital to Risk- Weighted Assets								
Company	\$129,526	17.6%	\$58,878	8.0%	\$77,277	10.5%	N/A	N/A
FIB	\$129,362	17.6%	\$63,465	8.6%	\$77,262	10.5%	\$73,583	10.0%
Tier 1 Capital to Average Assets								
Company	\$120,320	11.3%	\$42,575	4.0%	\$42,575	4.0%	N/A	N/A
FIB	\$120,158	11.3%	\$42,543	4.0%	\$42,543	4.0%	\$53,179	5.0%

EXHIBIT "A" – ACCOUNT ANALYSIS SUMMARY REPORT – JANUARY OF 2019

Account Analysis Relationship Summary

The following accounts are included in this relationship summary:

Account	Customer	Investable Balance
54404	WEBB COUNTY1	\$ 17,458,385.53
54412	WEBB COUNTY 3	285,630.20
54420	WEBB COUNTY3	3,475,377.48
54471	WEBB COUNTY8	583,314.96
54498	WEBB COUNTY9	5,290,444.98
54519	WEBB COUNTY11	1,086,745.98
54594	WEBB COUNTY17	1,205.83
54607	WEBB COUNTY18	227,543.62
54615	PATRICIA A BARR	172.85
54623	PATRICIA A BAR1	3.85
54631	PATRICIA A BAR2	290.62
54658	PATRICIA A BA12	255,037.54
54666	PATRICIA A BA11	25,115.18
54674	PATRICIA A BA15	926.04
54690	PATRICIA A BA14	5.52
54703	PATRICIA A BA13	0.04
54711	WEBB COUNTY MAR	1,574,214.37
54738	WEBB COUNTY MAR	10,375,843.64
54949	DISTRICT ATTOR1	3,290,962.43
54957	DISTRICT ATTOR1	2,312.23
54965	DISTRICT ATTOR1	66,638.01
54981	WEBB COUNTY21	559,316.10
55001	MARGIE RAMIREZ	832,796.23
55028	JUAN GARZA	387,123.20
55044	JUAN GARZA1	36,671.27
2210074584	WEBB COUNTY CAS	1,754.69
2210252857	WEBB COUNTY5	238,649.05
2210267927	WEBB COUNTY1	92,308.65
2210267935	WEBB COUNTY1	424,796.47
2210448417	WEBB COUNTY	6,437,631.96

Account	Customer	Investable Balance
2210448433	WEBB COUNTY6	1,492,255.39
2210654173	WEBB COUNTY10	520,678.21
2210654238	WEBB COUNTY12	90,351.58
2210654262	WEBB COUNTY7	731,293.26
2210654343	WEBB COUNTY7	22,381.12
2210753244	WEBB COUNTY	77,236.90
2210753260	WEBB COUNTY	234,247.56
2210753279	WEBB COUNTY	42,250.63
2210753287	WEBB COUNTY	33,031.66
2210753295	WEBB COUNTY	117,189.80
2210753309	WEBB COUNTY	6,683.21
2210753317	WEBB COUNTY	2,291.64
2210753325	WEBB COUNTY	955,185.40
2210753333	WEBB COUNTY	596,861.44
2210753341	WEBB COUNTY	2,659,800.76
2210753368	WEBB COUNTY	816,309.75
3210771110	WEBB COUNTY	22,832,791.42
6000277555	WEBB COUNTY MO1	97,486.98
6000277741	WEBB COUNTY	781,454.72
6001477590	WEBB COUNT SHE1	421,469.65
6002034943	PATRICIA A BAR3	969.25
6002034951	PATRICIA A BA10	2.18
6002490019	WEBB COUNTY	96,391.03
		\$ 85,639,832.06

Balance Information

Activity 01/01/2019 Thru 01/31/2019 31 Days in Cycle

Average Ledger Balance	\$ 96,512,831.03
Less: Uncollected Funds	1,357,462.09
Average Collected Balance	95,155,368.94
Less: Reserves (10.0000%)	9,515,536.89
Investable Balance	85,639,832.05
Earnings Credit Allowance (0.0000%)	\$ 0.00

Service Charge Recap

WEBB COUNTY
POLICY FOR THE INVESTMENT OF COUNTY FUNDS
(2018)

This policy for the investment of funds of Webb County is adopted by the Webb County Commissioners Court pursuant to Section 116.112 of the Texas Local Government Code, Chapter 2256 of the Texas Government Code, and Chapter 2257 of the Texas Government Code. This policy will be reviewed and adopted by order at least annually, in accordance with Section. 2256.005 (e) of the Texas Government Code.

ARTICLE I. DEFINITIONS

Unless the context requires otherwise, the following terms and phrases used shall mean the following:

- A. "Authorized Investment" -- the types of investments authorized for the investment of the County's funds listed in Article IV hereof.
- B. "Commissioners Court" -- the Webb County Commissioners Court. Composed of four (4) Commissioners and a County Judge.
- C. "County" -- Webb County.
- D. "FDIC" -- The Federal Deposit Insurance Corporation.
- E. "Funds" -- all funds and accounts containing money, investments, or other financial assets belonging to the County, the investment of which is governed by the Public Funds Investment Act.
- F. "Investment Officer" -- the County Treasurer and a County Treasurer's employee designated as the County's Investment Officer by the Commissioners Court; such person(s) is/are responsible for the investment of the County's funds.
- G. "Investment Policy" -- this policy for the funds of Webb County.
- H. "Public Funds Collateral Act" -- Chapter 2257 of the Texas Government Code.
- I. "Public Funds Investment Act" -- Chapter 2256 of the Texas Government Code.

ARTICLE II. INVESTMENT POLICY

Section 2.01 Applicability. This Investment Policy applies to all funds. See Sections 3.02 through 3.04.

Section 2.02 Purpose. The Commissioners Court desires to adopt this Investment Policy in order to comply with the Public Funds Investment Act and to set forth the general policies governing investment of the Funds, the specific investment strategies applicable to each particular Fund, the guidelines for the investment of the Funds, including the types of investments authorized for the Funds, and the investment management policies of the County.

Section 2.03 Investment Policy. The primary concern of the Investment Officer in the investment of the Funds shall be the preservation and safety of the principal. To the extent that the principal is protected, the secondary concern of the Investment Officer in investing the Funds shall be the liquidity of the County's investments. Finally, to the extent that principal is protected and there is liquidity, the Investment Officer shall invest the Funds to yield the market rate of return in accordance with this Investment Policy. The investment of all of the Funds shall be undertaken in accordance with the provisions of the Investment Policy.

Section 2.04 Standard of Care. The Investment Officer shall invest the Funds with the judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of the principal and probable income to be derived.

Section 2.05 Investment Diversification. Investments shall be diversified by security type and issuer. The investments shall also be diversified as to maturity as described in the investment strategies in Article III.

Section 2.06 Investment Yield. To the extent that the principal is protected and there is liquidity of the investments, the Funds shall be invested to yield the market rate of return of comparable maturity, taking into consideration the strength of any insured financial institution selling investments to the County, and complying with all applicable laws, rules, or regulations and any bond resolutions or orders adopted from time to time by the Commissioners Court requiring yield restrictions.

Section 2.07 Investment Maturities. The Funds shall be invested to mature to meet the County's cash requirements, but when cash requirements are met, the Funds shall be invested in accordance with the investment strategies developed for individual Funds, as described in Article III.

ARTICLE III. INVESTMENT STRATEGIES

Section 3.01 Purpose. The purpose of this Article III is to describe the investment objectives for each separate Fund and to provide investment strategies to obtain such objectives in order to ensure that investments in a particular Fund are suitable for and meet the objectives of the Fund.

Section 3.02 General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, and Fiduciary Funds.

A. The same investment objectives apply to each of the following funds: General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds. They are: (1) preserving the safety of the principal; (2) ensuring that money is available as needed to meet the liabilities of each fund, as estimated on its annual operating budget or cash flow; and (3) ensuring that the investments can be readily liquidated in the event there are unexpected additional operating costs.

B. The Investment Officer shall invest money of the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds in any Authorized Investment; provided that, however, for money needed for the County's monthly operating expenses, as determined by the annual operating budget and cash flow, investments will mature no later than the date the money will be needed to pay such operating expenses. For any operating reserve, no investment will have a maturity greater than 12 months from date of purchase, unless the Commissioners Court authorizes an investment with a longer maturity. At no time will investments of 12 months or more constitute more than 15% of the portfolios of the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds and Fiduciary Funds.

Section 3.03 Capital Projects Funds.

A. The investment objectives of the Capital Projects Funds are: (1) preserving the safety of the principal; (2) ensuring that money is available as needed to meet the construction needs of the County; and (3) to the extent principal is protected and there is adequate liquidity, obtaining the maximum yield on investments as permitted by market conditions.

B. When applicable, the engineer/architect for a project shall submit to the Commissioners Court and the Investment Officer semi-annual written reports stating the anticipated construction needs of the County for the succeeding 12 months. Unless otherwise directed by the Commissioners Court, the written reports shall be submitted two months prior to the end of the County's fiscal year and six months thereafter.

C. The Investment Officer shall invest money of the Capital Projects Funds in any Authorized Investment; provided, however, that for money needed to meet the construction needs of the County, investments will mature no later than the date the money is expected to be needed to pay for the project. For other monies, investments will mature no later than 12 months after the date of purchase, unless the Commissioners Court authorizes an investment with a longer maturity. At no time will investments with maturities of 12 months or more constitute more than 25% of the Capital Projects Funds portfolio.

Section 3.04 Debt Service Funds.

A. The Investment objectives of the Debt Service Funds are: (1) preserving the safety of the principal; (2) ensuring that money is available as necessary to meet the debt service needs of the County; and (3) to the extent that principal is protected and there is adequate liquidity, obtaining the maximum yield as permitted by market conditions.

B. The Investment Officer shall invest money in the Debt Service Funds in any Authorized Investment for such Funds, and in accordance with any covenants made regarding the investment of these Funds as provided in any applicable bond order or resolution; provided, however, that for money needed for the County's next debt service payments, the investments will mature no later than the date the debt service payment is due. Once the immediate succeeding debt service payment is funded, investments will be purchased for the next debt service payment. If the next two debt service payments are fully funded, excess funds can be used for investments with maturity dates not to exceed two years from date of purchase unless otherwise authorized by the Commissioners Court. At no time will investments with maturities of two years or more constitute more than 20% of the Debt Service Fund portfolio.

ARTICLE IV. INVESTMENT GUIDELINES

Section 4.01 Purpose. The purpose of this Article IV is to set forth the types of Authorized Investments in which the Funds may be invested and the manner in which certain investments may be made.

Section 4.02 Authorized Investments. The Investment Officer is authorized to invest the Funds in the following types of investments:

1. Obligations of, or Guaranteed by, the United States Government. The Funds may be invested in obligations of, or guaranteed by, the United States or one of its agencies or instrumentalities. Authorized Investments in obligations of, or guaranteed by, the United States shall not constitute more than 75% of the portfolio. This includes "pass-through" mortgage-backed securities issued by such agencies or instrumentalities, with the exception of mortgage-backed securities listed in Section 4.03.

2. Certificates of Deposit. The Funds may be invested in certificates of deposit issued by a federally insured state or national bank domiciled in Texas or by a savings bank domiciled in Texas. Principal and accrued interest on certificates issued by a savings bank shall not exceed FDIC limits. Principal and accrued interest on certificates issued by a state or national bank domiciled in Texas shall not exceed FDIC limits and /or the collateral pledged as security for the County's investments as set forth in Section 4.04. Authorized Investments in certificates of deposit shall not constitute more than 20% of the portfolio.

3. Investment Pools. The Funds may be invested in investment pools authorized by the Public Funds Investment Act, Section 2256.016 ("eligible investment pools"), if the Commissioners Court by resolution or order authorizes investment in the particular eligible investment pool. An eligible investment pool shall invest the funds it receives from the County in authorized investments permitted by the Public Funds Investment Act. The County by contract may delegate to an eligible investment pool the authority to hold legal

title as custodian of investments purchased with its local funds. Authorized Investments in eligible investments pool may constitute up to 100% of the portfolio.

4. Mutual Funds and Money Market Mutual Funds. The Funds may be invested in mutual funds and AAA-rated money market mutual funds permitted by and in conformance with the Public Funds Investment Act, Section 2256.014, Texas Government Code. Authorized Investments in mutual funds are restricted to 15% of the monthly average fund balance in accordance with the Public Funds Investment Act, Section 2256.014 (c) (1). No more than 80% of the County's monthly average fund balance may be invested in the aggregate separately or collectively in money market funds and mutual funds. In accordance with the Public Funds Investment Act, Section 2256.014 (c) (3), no bond proceeds, reserves or debt service funds may be placed in mutual funds.

5. Repurchased Agreements. The Funds may be invested in fully collateralized repurchase agreements if the repurchase agreement 1) has a defined termination date; 2) is secured by obligations described by Section 2256.009 (a) (1) of the Public Funds Investment Act; 3) requires the securities being purchased by the County to be pledged to the County, held in the County's name, and deposited at the time the investment is made with the County or with a third party selected and approved by the County; and 4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state. In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified period of time, and sell back at a future date, obligations described by Section 2256.009 (a) (1) of the Public Funds Investment Act, at a market value at the time funds are disbursed of not less than the principal amount of the funds disbursed. Authorized investments in repurchase agreements shall not constitute more than 50% of the portfolio.

Section 4.03 Prohibited Investments. The Funds are strictly prohibited from being invested in any of the following investment instruments:

1. Obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal.
2. Obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest.
3. Collateralized mortgage obligations that have a stated final maturity date of greater than 10 years.
4. Collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Section 4.04 Security of Funds/Collateral Policy.

A. All Funds held by an insured state or national bank domiciled in Texas in demand deposits or in certificates of deposit shall be secured by the FDIC and /or by 102% in pledged collateral. All Funds held in certificates of deposit by a savings bank domiciled in Texas must be fully secured by the FDIC. The County recognizes that the FDIC insurance is only available up to a maximum of \$250,000 per public unit.

B. To the extent the Funds held by banks domiciled in Texas are not insured by the FDIC, they shall be secured in the manner provided by law for the security of funds by the Public Funds Collateral Act. There shall be pledged as collateral for such funds, at a rate of 102% collateral, any of the following book entry securities: (1) government securities or obligations issued by the State of Texas, its agencies or political subdivisions, and approved by the Attorney General of Texas, payable from taxes; or (2) obligations of the United States or its agencies and instrumentalities, excluding mortgage backed securities; or (3) any other obligations or securities authorized to be collateral securing the funds of counties under the laws of the State of Texas that are approved by the Commissioners Court. All collateral shall be placed with an independent third party financial institution for safekeeping, with original safekeeping receipts issued to the County.

Section 4.05 Competitive Bidding. At least three bids/offers shall be solicited for each investment. Bids/offers may be solicited orally, in writing, electronically, or in any combination thereof.

Section 4.06 Authorized Financial Dealers and Institutions. A list will be maintained by the Investment Officer of creditworthy financial institutions and dealers authorized to sell investments to the County. All financial institutions and dealers who would like to become qualified to bid/offer on investments other than certificates of deposit and repurchase agreements must submit the following to the investment officer: (1) audited financial statements; (2) proof of National Association of Securities Dealers (NASD) certification, or for financial institutions, a statement from a senior bank official that the institution is registered as a government securities dealer; (3) proof of state registration; and (4) certification required by the Public Funds Investment Act. Compliance with these requirements must be verified by the Investment Officer before any transaction can be completed. An annual review of the financial condition and registration of qualified dealers and institutions will be conducted by the Investment Officer.

Section 4.07 Electronic Wire Transfers. Electronic means may be used to transfer or invest all Funds.

Section 4.08 Delivery vs. Payment. All investments, except certificates of deposit, investment pool funds and mutual funds, will be executed by delivery vs. payment (DVP) to ensure that investments purchased are deposited in the County's financial institution prior to the release of money in payment therefore.

Section 4.09 Loss of Required Rating. An investment under Section 4.02 that requires a minimum rating does not qualify as an Authorized Investment during the period that the investment does not have the minimum rating. The Investment Officer shall take all prudent measures that are consistent with this Investment Policy to liquidate any investment that does not comply with a minimum rating requirement.

ARTICLE V. INVESTMENT MANAGEMENT

Section 5.01 Designation of Investment Officer. The Commissioners Court may designate the County Treasurer, and/or one or more County Treasurer's employees to serve as the Investment Officer for the County. The Investment Officer has the authority to invest the Funds in accordance with this Investment Policy and applicable law.

Section 5.02 Investment Training. The Investment Officer (s) shall attend at least one training session relating to such person's responsibilities under the Public Funds Investment Act within 12 months after taking office or assuming duties and attend an investment training yearly to obtain not less than 10 hours of instruction relating to investment responsibilities from an independent source approved by the Webb County Commissioners Court. Training must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

Section 5.03 Compliance Audit. The County, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to this Investment Policy.

Section 5.04 Internal Management Reports. Not less than quarterly, the Investment Officer shall prepare and submit to the Commissioners Court a written report of investment transactions for all Funds as required by the Public Funds Investment Act, Section 2256.023 (b), Texas Government Code.

Section 5.05 Conflicts of Interest. In the event that the Investment Officer has a personal business relationship with an entity seeking to sell an investment to the County, the Investment Officer shall file a statement with the Commissioners Court and the Texas Ethics Commission disclosing that personal business relationship prior to purchasing such investment. An Investment Officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573 of the Texas Government Code, to an individual seeking to

sell an investment to the County shall file a statement with the Commissioners Court and the Texas Ethics Commission disclosing that relationship.

Section 5.06 Disclosure of Investment Policies.

A. The Investment Officer shall provide a copy of this Investment Policy to any person offering to engage in an investment transaction with the County. The qualified representative of the business organization or senior bank official offering to engage in an investment transaction with the County shall execute a written acknowledgment in the form set forth in Appendix "A" hereto, to the effect that the qualified representative or senior bank official has received and reviewed the Investment Policy of the County and acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude the investment transactions conducted between the County and the organization that are not authorized by the County's investment policy. The Investment Officer shall not acquire or otherwise obtain any authorized investment described in the investment policy of the County from a person who has not delivered to the County a written acknowledgement substantially to the effect as set forth in Appendix "A".

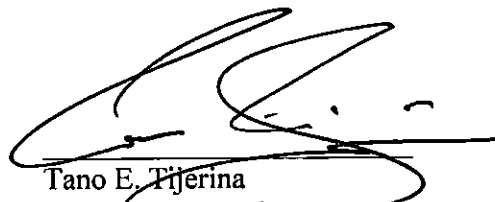
B. The County shall present the Investment Officer with a copy of this Investment Policy and the Investment Officer shall execute a written statement in the form set forth in Appendix "B" to the effect that the Investment Officer has reviewed the Investment Policy and has implemented procedures and controls to comply with this Investment Policy.

ARTICLE VI. MISCELLANEOUS

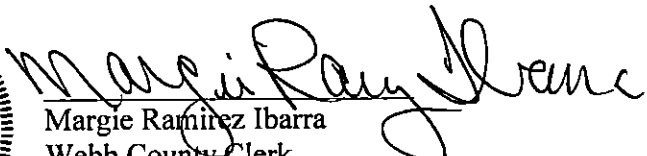
Section 6.01 Open Meeting. The Commissioners Court officially finds, determines, and declares that this Investment Policy was reviewed, carefully considered, and adopted at a regular meeting of the Commissioners Court beginning at 9:00 a.m. on August 27, 2018 and that a sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place readily accessible and convenient to the public within the County and on a bulletin board located at a place convenient to the public in the Webb County Courthouse for the time required by law preceding this meeting, as required by the Open Meetings Act, Texas Government Code, Section 551, etsecy. as amended, and that this meeting had been open to the public as required by law at all times during which this Investment Policy was discussed, considered, and acted upon. The Commissioners Court further ratifies, approves and confirms such written notice and the contents and posting thereof.

Section 6.02. Effective Date. This Investment Policy shall be effective as of August 27, 2018.

(SEAL)


Tano E. Tijerina
Webb County Judge




Margie Ramirez Ibarra
Webb County Clerk

**WEBB COUNTY COMMISSIONERS COURT
ORDER**

WHEREAS, the Commissioners Court of Webb County, Texas, desires to adopt an Investment Policy in order to comply with the Public Funds Investment Act as outlined under chapter 2256 of the Texas Government Code; and


WHEREAS, the Commissioners Court of Webb County, Texas, is desirous in its Investment Policy to set forth the general policies governing investment of Public Funds, the specific investment strategies applicable to each particular Fund, the guidelines for the investment of the Funds, and the investment management policies of Webb County; and

WHEREAS, the Commissioners Court of Webb County, pursuant to Texas Government Code section 2256.005, must review its Investment Policy on annual basis; and

WHEREAS, the Commissioners Court of Webb County, Texas has reviewed its Investment Policy and Investment Strategies for Fiscal Year 2018.

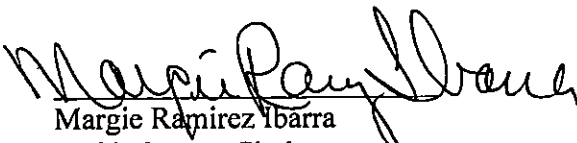
NOW THEREFORE, be it **ORDERED** that the Commissioners Court of Webb County, Texas adopts Webb County Investment Policy for fiscal year 2018.

Passed and Approved on this the 27th day of August, 2018.



Honorable Tano E. Tijerina
Webb County Judge

ATTESTED:


Margie Ramirez Ibarra
Webb County Clerk



APPENDIX “A”



Delia Perales
Webb County Treasurer

August 27, 2018

AUTHORIZED LOCAL BANK FOR SHORT TERM CD'S, FDIC OR NCUA National Credit Union Administration:

COMPASS BANK

TEXAS COMMUNITY BANK

WELLS FARGO

COMMERCE BANK

CHASE BANK

LAREDO FEDERAL CREDIT UNION



Federated

WORLD-CLASS INVESTMENT MANAGER[®]

**TEXAS PUBLIC FUNDS INVESTMENT ACT
ACKNOWLEDGEMENT AND CERTIFICATION
OF INVESTMENT POLICIES**

This Acknowledgement and Certification is executed on behalf of the Texas Local Government Investment Pools, TexPool and TexPool Prime (collectively, "TexPool"), and Federated Investment Counseling, as investment adviser to TexPool ("Adviser"), pursuant to Section 2256.005(k), Texas Government Code, in connection with investment transactions conducted between the Webb County ("Investing Entity") and TexPool.

The undersigned, who is a qualified representative of both TexPool and Adviser (the "Qualified Representative") hereby certifies on behalf of TexPool and Adviser that, as of the date of this letter:

- (i.) The Qualified Representative is duly authorized to execute this Acknowledgment and Certification on behalf of TexPool and Adviser; and
- (ii.) The Qualified Representative has received and reviewed the Investing Entity's investment policy attached hereto as Exhibit A (the "Policy"); and
- (iii.) TexPool and Adviser have implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the Investing Entity and TexPool that are not authorized by the Policy, except to the extent that this authorization is dependent on an analysis of the makeup of the Investing Entity's entire portfolio or requires an interpretation of subjective investment standards.

TEXPOOL

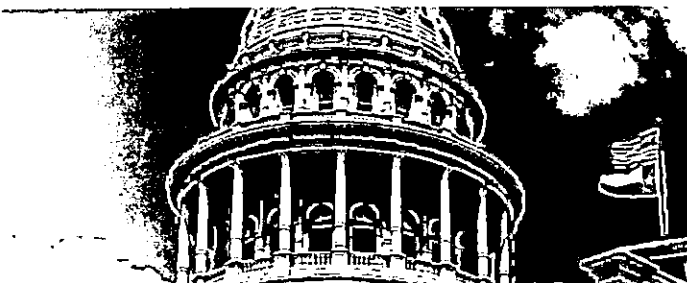
FEDERATED INVESTMENT
COUNSELING

Signature: Steven A. Friedman
Authorized Signatory

Date: June 14, 2018

Signature: Steven A. Friedman
Vice President

Date: June 14, 2018



Monthly Newsletter: July 2018

ANNOUNCEMENTS

We welcome the following entities who joined TexPool in June 2018:

TexPool

Travis County ESD 4
KI Charter Academy
Rowlett Housing Finance Corporation
Harris County WCID 161
City of Colleyville
Dewitt County Drainage District No. 1
Brazoria County ESD 2
Shepherd ISD

TexPool Prime

Travis County ESD 4
Rowlett Housing Finance Corporation
Upper Brushy Creek WCID
Winkler County
Dewitt County Drainage District No. 1
Florence ISD
Shepherd ISD

Upcoming Events

Jul 08, 2018 - Jul 10, 2018, Gaylord Texan Resort & Convention Center, Grapevine
2018 TASSCUBO Summer Conference

Aug 29, 2018 - Aug 31, 2018, Fairmont, Austin
2018 TAC Legislative Conference

Sep 28, 2018 - Sep 30, 2018, Austin Convention Center, Austin
2018 TASA/TASB Annual Convention

Oct 10, 2018 - Oct 12, 2018, Fort Worth Convention Center, Ft. Worth
2018 Texas Municipal League Conference

TexPool Advisory Board Members

Jose Elizondo, Jr.	Vivian Wood
Belinda Weaver	Jerry Dale
Patrick Krishock	Sharon Matthews
Michele Tuttle	David Landeros

Overseen by the State of Texas Comptroller of Public Accounts Glenn Hegar.

Operated under the supervision of the Texas Treasury Safekeeping Trust Company

Economic and Market Commentary: No more normal?

July 1, 2018

For the Federal Reserve over the last 2½ years, business as normal has been the business of normalizing policy. It looks as if the Fed has finally shifted to tightening.

In mid-June, it raised rates to a target range of 1.75-2%, closer than the Fed has been in more than a decade to its comfort zone. With its summary of economic projections now indicating two more hikes in 2018 (our house call, as well) and three in 2019, quantitative tapering (QT) set to expand to \$40 billion per month in July and Chair Jerome Powell's upbeat assessment of the economy, it appears expansionary policy will soon run its course. We likely are near a bona-fide tightening cycle.

In addition to gushing about the economy, Powell announced that starting in July, he would be holding press conferences after every Federal Open Market Committee meeting instead of every other one. This is the culmination of years of trying to make the Fed's decision-making transparent, a far cry from its tradition of keeping monetary policy a secret. Powell's reasoning is that the markets have stopped even considering rate action in meetings when he doesn't speak. That is true, but the extra pressers could result in occasional unintentional transmitting of information. Case in point: June's hike. While the committee simply indicated it expected

(continued page 6)

Performance as of June 30, 2018

	TexPool	TexPool Prime
Current Invested Balance	\$18,198,612,856.87	\$4,975,084,306.61
Weighted Average Maturity	24	35
Weighted Average Life	81	65
Net Asset Value	1.00000	1.00006
Total Number of Participants	2486	321
Management Fee on Invested Balance	0.0473%	0.0638%
Interest Distributed	\$27,562,003.66	\$8,971,476.92
Management Fee Collected	\$679,558.72	\$247,375.80
Standard & Poor's Current Rating	AAAm	AAAm
Month Averages		
Average Invested Balance	\$18,541,382,394.06	\$5,197,744,473.26
Average Monthly Rate	1.81%	2.10%
Average Weighted Average Maturity	27	28
Average Weighted Average Life	81	57

*This average monthly rate for TexPool Prime for each date may reflect a waiver of some portion or all of each of the management fees.

**See page 2 for definitions.

Past performance is no guarantee of future results.

Managed and
Serviced by **Federated®**

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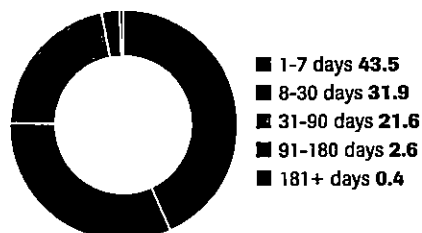
TexPool Participant Services
1001 Texas Avenue, Suite 1400 • Houston, TX 77002
Phone: 1-866-TEXPOOL (839-7665) • Fax: 1-866-839-3291 • TexPool.com

Addendum A to
Webb County Banking Services Primary Depository Contract with Falcon International Bank



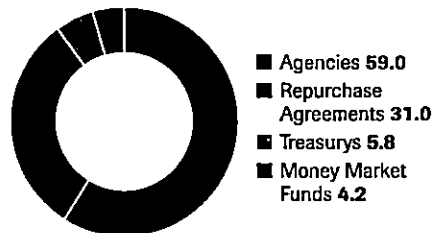
Portfolio by Maturity (%)

As of June 30, 2018



Portfolio by Type of Investment (%)

As of June 30, 2018



Portfolio Asset Summary as of June 30, 2018

	Book Value	Market Value
Uninvested Balance	\$502,384.54	\$502,384.54
Receivable for Investments Sold	0.00	0.00
Accrual of Interest Income	10,187,786.00	10,187,786.00
Interest and Management Fees Payable	-27,562,047.26	-27,562,047.26
Payable for Investments Purchased	-78,500,000.00	-78,500,000.00
Accrued Expenses & Taxes	-44,418.20	-44,418.20
Repurchase Agreements	5,671,101,000.00	5,671,101,000.00
Mutual Fund Investments	776,022,103.88	776,022,103.88
Government Securities	10,789,947,224.15	10,789,978,701.20
U.S. Treasury Inflation Protected Securities	79,993,367.43	79,985,714.40
US Treasury Bills	727,104,547.22	727,197,501.77
US Treasury Notes	249,860,909.11	249,708,672.00
Total	\$18,198,612,856.87	\$18,198,577,398.33

Market value of collateral supporting the Repurchase Agreements is at least 102% of the Book Value. The portfolio is managed by Federated Investment Counseling and the assets are safe kept in a separate custodial account at State Street Bank in the name of TexPool. The only source of payment to the Participants is the assets of TexPool. There is no secondary source of payment for the pool such as insurance or State guarantee. Should you require a copy of the portfolio, please contact TexPool Participant Services.

Participant Summary

	Number of Participants	Balance
School District	586	\$5,971,145,027.66
Higher Education	57	\$787,903,102.82
Healthcare	82	\$648,473,644.69
Utility District	790	\$2,728,490,816.76
City	460	\$4,238,892,265.04
County	185	\$1,998,979,961.45
Other	326	\$1,824,448,001.72

**Definition of Weighted Average Maturity and Weighted Average Life

WAM is the mean average of the periods of time remaining until the securities held in TexPool (a) are scheduled to be repaid, (b) would be repaid upon a demand by TexPool, or (c) are scheduled to have their interest rate readjusted to reflect current market rates. Securities with adjustable rates payable upon demand are treated as maturing on the earlier of the two dates set forth in (b) and (c) if their scheduled maturity is 397 days or less; and the later of the two dates set forth in (b) and (c) if their scheduled maturity is more than 397 days. The mean is weighted based on the percentage of the amortized cost of the portfolio invested in each period.

WAL is calculated in the same manner as WAM, but is based solely on the periods of time remaining until the securities held in TexPool (a) are scheduled to be repaid or (b) would be repaid upon a demand by TexPool, without reference to when interest rates of securities within TexPool are scheduled to be readjusted.



Daily Summary

Date	Money Mkt. Fund Equiv. (SEC Std.)	Dividend Factor	TexPool Invested Balance	NAV	WAM Days	WAL Days
6/1	1.7671%	0.000048414	\$18,743,106,312.49	0.99994	30	84
6/2	1.7671%	0.000048414	\$18,743,106,312.49	0.99994	30	84
6/3	1.7671%	0.000048414	\$18,743,106,312.49	0.99994	30	84
6/4	1.7686%	0.000048454	\$18,749,308,172.42	0.99994	27	82
6/5	1.7542%	0.000048061	\$18,699,261,017.05	0.99994	28	81
6/6	1.7526%	0.000048016	\$18,686,145,432.81	0.99993	28	85
6/7	1.7535%	0.000048040	\$18,572,962,463.30	0.99995	28	85
6/8	1.7479%	0.000047887	\$18,737,471,846.41	0.99995	28	84
6/9	1.7479%	0.000047887	\$18,737,471,846.41	0.99995	28	84
6/10	1.7479%	0.000047887	\$18,737,471,846.41	0.99995	28	84
6/11	1.7464%	0.000047846	\$18,793,401,300.40	0.99995	26	81
6/12	1.7440%	0.000047781	\$18,788,749,727.87	0.99996	26	81
6/13	1.7561%	0.000048113	\$18,674,602,441.40	0.99995	26	80
6/14	1.8207%	0.000049881	\$18,574,912,382.02	0.99997	27	81
6/15	1.8295%	0.000050123	\$18,491,842,249.70	0.99997	29	83
6/16	1.8295%	0.000050123	\$18,491,842,249.70	0.99997	29	83
6/17	1.8295%	0.000050123	\$18,491,842,249.70	0.99997	29	83
6/18	1.8302%	0.000050142	\$18,492,040,345.51	0.99997	26	81
6/19	1.8387%	0.000050376	\$18,511,529,756.83	0.99996	27	80
6/20	1.8326%	0.000050208	\$18,490,812,253.91	0.99996	27	80
6/21	1.8338%	0.000050241	\$18,404,673,750.30	0.99996	27	80
6/22	1.8564%	0.000050859	\$18,327,229,408.47	0.99997	27	80
6/23	1.8564%	0.000050859	\$18,327,229,408.47	0.99997	27	80
6/24	1.8564%	0.000050859	\$18,327,229,408.47	0.99997	27	80
6/25	1.8593%	0.000050939	\$18,495,834,185.00	0.99997	25	77
6/26	1.8574%	0.000050888	\$18,454,355,360.38	0.99998	24	76
6/27	1.8672%	0.000051155	\$18,260,776,248.68	0.99998	25	80
6/28	1.8716%	0.000051277	\$18,295,931,819.01	0.99998	24	79
6/29	1.9206%	0.000052620	\$18,198,612,856.87	1.00000	24	81
6/30	1.9206%	0.000052620	\$18,198,612,856.87	1.00000	24	81
Average	1.8110%	0.000049617	\$18,541,382,394.06	.99996	27	81

APPENDIX “B”

TEXPOOL BANK ACCOUNTS

Investment Account #	Fund Number	Fund Name
TEXPOOL		
Bank Acct: 24022000:		
005	5200	PERMANENT SCHOOL FUND
006	1001	GENERAL FUND
016	4100	DEBT SERVICE
018	2004	HOTEL MOTEL OCCUPANCY TAX
020	7200	WATER UTILITY
027	2180	CONST. PCT. 1 FED FORFEIT
030	5100	AVAILABLE SCHOOL FUND
031	2151	SHERIFF STATE FORFEITURE
032	2153	SHERIFF FEDERAL FORFEITURE
033	2160	DISTRICT ATTORNEY STATE FORFEITURE
047	2827	TJPC-P JJAEP TEXAS EDUCATION
048	2909	CHILD WELFARE UNIT
068	3015	CONTINGENCY RESERVE FUND
078	2170	COUNTY ATTORNEY STATE FORFEITURE
079	2007	OLD MILWAUKEE DEPOSITED FUNDS (ROAD & BRIDGE)
087	2171	COUNTY ATTORNEY FEDERAL FORFEITURE
088	2152	SHERIFF JUSTICE FEDERAL FORFEITURE
089	2023	DETENTION PROPERTY FUND
090	2172	COUNTY ATTY FEDERAL TREASURY FORFEITURE
091	3866	INTEREST INCOME SERIES 2016
	3864	JUDICIAL & PUBLIC SAFETY 2016
	7220	WATER UTILITY IMPROVEMENT SERIES 2016
	3865	CAMPUS CHILLER SERIES 2016
092	3140	JUVENILE DRUG REHAB & DETOX 2013
	3175	LAND & BUILDING PURCHASE 2013
	3190	CAPITAL OUTLAY SERIES 2013
	3200	INTEREST INCOME SERIES 2013

EXHIBITS

EXHIBIT I

CHAPTER 2256. GOVERNMENT CODE PUBLIC FUNDS INVESTMENT

GOVERNMENT CODE CHAPTER 2256. PUBLIC FUNDS INVESTMENT

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2256. PUBLIC FUNDS INVESTMENT

SUBCHAPTER A. AUTHORIZED INVESTMENTS FOR GOVERNMENTAL ENTITIES

Sec. 2256.001. SHORT TITLE. This chapter may be cited as the Public Funds Investment Act.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.002. DEFINITIONS. In this chapter:

(1) "Bond proceeds" means the proceeds from the sale of bonds, notes, and other obligations issued by an entity, and reserves and funds maintained by an entity for debt service purposes.

(2) "Book value" means the original acquisition cost of an investment plus or minus the accrued amortization or accretion.

(3) "Funds" means public funds in the custody of a state agency or local government that:

- (A) are not required by law to be deposited in the state treasury; and
- (B) the investing entity has authority to invest.

(4) "Institution of higher education" has the meaning assigned by Section 61.003, Education Code.

(5) "Investing entity" and "entity" mean an entity subject to this chapter and described by Section 2256.003.

(6) "Investment pool" means an entity created under this code to invest public funds jointly on behalf of the entities that participate in the pool and whose investment objectives in order of priority are:

- (A) preservation and safety of principal;
- (B) liquidity; and
- (C) yield.

(7) "Local government" means a municipality, a county, a school district, a district or authority created under Section 52(b)(1) or (2), Article III, or Section 59, Article XVI, Texas Constitution, a fresh water supply district, a hospital district, and any political subdivision, authority, public corporation, body politic, or instrumentality of the State of Texas, and any nonprofit corporation acting on behalf of any of those entities.

(8) "Market value" means the current face or par value of an investment multiplied by the net selling price of the security as quoted by a recognized market pricing source quoted on the valuation date.

(9) "Pooled fund group" means an internally created fund of an investing entity in which one or more institutional accounts of the investing entity are invested.

(10) "Qualified representative" means a person who holds a position with a business organization, who is authorized to act on behalf of the business organization, and who is one of the following:

- (A) for a business organization doing business that is regulated by or registered with a securities commission, a person who is registered under the rules of the National Association of Securities Dealers;

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(B) for a state or federal bank, a savings bank, or a state or federal credit union, a member of the loan committee for the bank or branch of the bank or a person authorized by corporate resolution to act on behalf of and bind the banking institution;

(C) for an investment pool, the person authorized by the elected official or board with authority to administer the activities of the investment pool to sign the written instrument on behalf of the investment pool; or

(D) for an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or, if not subject to registration under that Act, registered with the State Securities Board, a person who is an officer or principal of the investment management firm.

(11) "School district" means a public school district.

(12) "Separately invested asset" means an account or fund of a state agency or local government that is not invested in a pooled fund group.

(13) "State agency" means an office, department, commission, board, or other agency that is part of any branch of state government, an institution of higher education, and any nonprofit corporation acting on behalf of any of those entities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 1, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 1, eff. Sept. 1, 1999.

Sec. 2256.003. AUTHORITY TO INVEST FUNDS; ENTITIES SUBJECT TO THIS CHAPTER. (a) Each governing body of the following entities may purchase, sell, and invest its funds and funds under its control in investments authorized under this subchapter in compliance with investment policies approved by the governing body and according to the standard of care prescribed by Section 2256.006:

- (1) a local government;
- (2) a state agency;
- (3) a nonprofit corporation acting on behalf of a local government or a state agency; or
- (4) an investment pool acting on behalf of two or more local governments, state agencies, or a combination of those entities.

(b) In the exercise of its powers under Subsection (a), the governing body of an investing entity may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control. A contract made under authority of this subsection may not be for a term longer than two years. A renewal or extension of the contract must be made by the governing body of the investing entity by order, ordinance, or resolution.

(c) This chapter does not prohibit an investing entity or investment officer from using the entity's employees or the services of a contractor of the entity to aid the investment officer in the execution of the officer's duties under this chapter.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 2, eff. Sept. 1, 1999.

Sec. 2256.004. APPLICABILITY. (a) This subchapter does not apply to:

- (1) a public retirement system as defined by Section 802.001;
- (2) state funds invested as authorized by Section 404.024;
- (3) an institution of higher education having total endowments of at least \$95 million in book value on May 1, 1995;

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(4) funds invested by the Veterans' Land Board as authorized by Chapter 161, 162, or 164, Natural Resources Code;

(5) registry funds deposited with the county or district clerk under Chapter 117, Local Government Code; or

(6) a deferred compensation plan that qualifies under either Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Section 1 et seq.), as amended.

(b) This subchapter does not apply to an investment donated to an investing entity for a particular purpose or under terms of use specified by the donor.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 505, Sec. 24, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 2, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 8.21, eff. Sept. 1, 1999; Acts 1999, 76th Leg., ch. 1454, Sec. 3, eff. Sept. 1, 1999.

Sec. 2256.005. INVESTMENT POLICIES; INVESTMENT STRATEGIES; INVESTMENT OFFICER. (a) The governing body of an investing entity shall adopt by rule, order, ordinance, or resolution, as appropriate, a written investment policy regarding the investment of its funds and funds under its control.

(b) The investment policies must:

(1) be written;

(2) primarily emphasize safety of principal and liquidity;

(3) address investment diversification, yield, and maturity and the quality and capability of investment management; and

(4) include:

(A) a list of the types of authorized investments in which the investing entity's funds may be invested;

(B) the maximum allowable stated maturity of any individual investment owned by the entity;

(C) for pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio;

(D) methods to monitor the market price of investments acquired with public funds;

(E) a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis; and

(F) procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the provisions of Section 2256.021.

(c) The investment policies may provide that bids for certificates of deposit be solicited:

(1) orally;

(2) in writing;

(3) electronically; or

(4) in any combination of those methods.

(d) As an integral part of an investment policy, the governing body shall adopt a separate written investment strategy for each of the funds or group of funds under its control. Each investment strategy must describe the investment objectives for the particular fund using the following priorities in order of importance:

(1) understanding of the suitability of the investment to the financial requirements of the entity;

(2) preservation and safety of principal;

(3) liquidity;

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(4) marketability of the investment if the need arises to liquidate the investment before maturity;

(5) diversification of the investment portfolio; and

(6) yield.

(e) The governing body of an investing entity shall review its investment policy and investment strategies not less than annually. The governing body shall adopt a written instrument by rule, order, ordinance, or resolution stating that it has reviewed the investment policy and investment strategies and that the written instrument so adopted shall record any changes made to either the investment policy or investment strategies.

(f) Each investing entity shall designate, by rule, order, ordinance, or resolution, as appropriate, one or more officers or employees of the state agency, local government, or investment pool as investment officer to be responsible for the investment of its funds consistent with the investment policy adopted by the entity. If the governing body of an investing entity has contracted with another investing entity to invest its funds, the investment officer of the other investing entity is considered to be the investment officer of the first investing entity for purposes of this chapter. Authority granted to a person to invest an entity's funds is effective until rescinded by the investing entity, until the expiration of the officer's term or the termination of the person's employment by the investing entity, or if an investment management firm, until the expiration of the contract with the investing entity. In the administration of the duties of an investment officer, the person designated as investment officer shall exercise the judgment and care, under prevailing circumstances, that a prudent person would exercise in the management of the person's own affairs, but the governing body of the investing entity retains ultimate responsibility as fiduciaries of the assets of the entity. Unless authorized by law, a person may not deposit, withdraw, transfer, or manage in any other manner the funds of the investing entity.

(g) Subsection (f) does not apply to a state agency, local government, or investment pool for which an officer of the entity is assigned by law the function of investing its funds.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 685, Sec. 1

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be an investment officer for the commission under Subsection (f) if the officer or employee is an investment officer designated under Subsection (f) for another local government.

Text of subsec. (h) as amended by Acts 1997, 75th Leg., ch. 1421, Sec. 3

(h) An officer or employee of a commission created under Chapter 391, Local Government Code, is ineligible to be designated as an investment officer under Subsection (f) for any investing entity other than for that commission.

(i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity. For purposes of this subsection, an investment officer has a personal business relationship with a business organization if:

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(1) the investment officer owns 10 percent or more of the voting stock or shares of the business organization or owns \$5,000 or more of the fair market value of the business organization;

(2) funds received by the investment officer from the business organization exceed 10 percent of the investment officer's gross income for the previous year; or

(3) the investment officer has acquired from the business organization during the previous year investments with a book value of \$2,500 or more for the personal account of the investment officer.

(j) The governing body of an investing entity may specify in its investment policy that any investment authorized by this chapter is not suitable.

(k) A written copy of the investment policy shall be presented to any person offering to engage in an investment transaction with an investing entity or to an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. For purposes of this subsection, a business organization includes investment pools and an investment management firm under contract with an investing entity to invest or manage the entity's investment portfolio. Nothing in this subsection relieves the investing entity of the responsibility for monitoring the investments made by the investing entity to determine that they are in compliance with the investment policy. The qualified representative of the business organization offering to engage in an investment transaction with an investing entity shall execute a written instrument in a form acceptable to the investing entity and the business organization substantially to the effect that the business organization has:

(1) received and reviewed the investment policy of the entity; and

(2) acknowledged that the business organization has implemented reasonable procedures and controls in an effort to preclude investment transactions conducted between the entity and the organization that are not authorized by the entity's investment policy, except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio or requires an interpretation of subjective investment standards.

(l) The investment officer of an entity may not acquire or otherwise obtain any authorized investment described in the investment policy of the investing entity from a person who has not delivered to the entity the instrument required by Subsection (k).

(m) An investing entity other than a state agency, in conjunction with its annual financial audit, shall perform a compliance audit of management controls on investments and adherence to the entity's established investment policies.

(n) Except as provided by Subsection (o), at least once every two years a state agency shall arrange for a compliance audit of management controls on investments and adherence to the agency's established investment policies. The compliance audit shall be performed by the agency's internal auditor or by a private auditor employed in the manner provided by Section 321.020. Not later than January 1 of each even-numbered year a state agency shall report the results of the most recent audit performed under this subsection to the state auditor. Subject to a risk assessment and to the legislative audit committee's approval of including a review by the state auditor in the audit plan under Section 321.013, the state auditor may review information provided under this section. If review by the state auditor is approved by the legislative audit committee, the state auditor may, based on its review, require a state agency to also report to the state auditor other information the state auditor determines necessary to assess compliance with laws and policies applicable to state agency investments. A report under this subsection shall be prepared in a manner the state auditor prescribes.

(o) The audit requirements of Subsection (n) do not apply to assets of a state agency that are invested by the comptroller under Section 404.024.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 685, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 3, eff. Sept. 1,

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1997; Acts 1999, 76th Leg., ch. 1454, Sec. 4, eff. Sept. 1, 1999; Acts 2003, 78th Leg., ch. 785, Sec. 41, eff. Sept. 1, 2003.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 1, eff. June 17, 2011.

Sec. 2256.006. STANDARD OF CARE. (a) Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority:

- (1) preservation and safety of principal;
- (2) liquidity; and
- (3) yield.

(b) In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

(1) the investment of all funds, or funds under the entity's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and

(2) whether the investment decision was consistent with the written investment policy of the entity.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.007. INVESTMENT TRAINING; STATE AGENCY BOARD MEMBERS AND OFFICERS. (a) Each member of the governing board of a state agency and its investment officer shall attend at least one training session relating to the person's responsibilities under this chapter within six months after taking office or assuming duties.

(b) The Texas Higher Education Coordinating Board shall provide the training under this section.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) An investment officer shall attend a training session not less than once each state fiscal biennium and may receive training from any independent source approved by the governing body of the state agency. The investment officer shall prepare a report on this subchapter and deliver the report to the governing body of the state agency not later than the 180th day after the last day of each regular session of the legislature.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 73, Sec. 1, eff. May 9, 1997; Acts 1997, 75th Leg., ch. 1421, Sec. 4, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 5, eff. Sept. 1, 1999.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 2, eff. June 17, 2011.

Sec. 2256.008. INVESTMENT TRAINING; LOCAL GOVERNMENTS.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. 1148), Sec. 1

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(a) Except as provided by Subsections (b) and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) except as provided by Subsections (b), (e), and (f), attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

Text of subsection as amended by Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. 870), Sec. 1

(a) Except as provided by Subsections (a-1), (b), and (e), the treasurer, the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a local government shall:

(1) attend at least one training session from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government and containing at least 10 hours of instruction relating to the treasurer's or officer's responsibilities under this subchapter within 12 months after taking office or assuming duties; and

(2) attend an investment training session not less than once in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than 10 hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the local government or a designated investment committee advising the investment officer as provided for in the investment policy of the local government.

(a-1) In addition to the requirements of Subsection (a)(1), the treasurer, or the chief financial officer if the treasurer is not the chief financial officer, and the investment officer of a school district or a municipality shall attend an investment training session not less than once in a two-year period that begins on the first day of the school district's or municipality's fiscal year and consists of the two consecutive fiscal years after that date, and receive not less than eight hours of instruction relating to investment responsibilities under this subchapter from an independent source approved by the governing body of the school district or municipality, or by a designated investment committee advising the investment officer as provided for in the investment policy of the school district or municipality.

(b) An investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, that has contracted with an investment management firm under Section 2256.003(b) and has fewer than five full-time employees or an investing entity that has contracted with another investing entity to invest the entity's funds may satisfy the training requirement provided by Subsection (a)(2) by having an officer of the governing body attend four hours of appropriate instruction in a two-year period that begins on the first day of that local government's fiscal year and consists of the two consecutive

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fiscal years after that date. The treasurer or chief financial officer of an investing entity created under authority of Section 52(b), Article III, or Section 59, Article XVI, Texas Constitution, and that has fewer than five full-time employees is not required to attend training required by this section unless the person is also the investment officer of the entity.

(c) Training under this section must include education in investment controls, security risks, strategy risks, market risks, diversification of investment portfolio, and compliance with this chapter.

(d) Not later than December 31 each year, each individual, association, business, organization, governmental entity, or other person that provides training under this section shall report to the comptroller a list of the governmental entities for which the person provided required training under this section during that calendar year. An individual's reporting requirements under this subsection are satisfied by a report of the individual's employer or the sponsoring or organizing entity of a training program or seminar.

(e) This section does not apply to a district governed by Chapter 36 or 49, Water Code.

(f) Subsection (a)(2) does not apply to an officer of a municipality if the municipality:

- (1) does not invest municipal funds; or
- (2) only deposits municipal funds in:
 - (A) interest-bearing deposit accounts; or
 - (B) certificates of deposit as authorized by Section 2256.010.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 5, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 6, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 69, Sec. 4, eff. May 14, 2001.

Amended by:

- Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 3, eff. June 17, 2011.
Acts 2015, 84th Leg., R.S., Ch. 222 (H.B. 1148), Sec. 1, eff. September 1, 2015.
Acts 2015, 84th Leg., R.S., Ch. 1248 (H.B. 870), Sec. 1, eff. September 1, 2015.

Sec. 2256.009. AUTHORIZED INVESTMENTS: OBLIGATIONS OF, OR GUARANTEED BY GOVERNMENTAL ENTITIES. (a) Except as provided by Subsection (b), the following are authorized investments under this subchapter:

(1) obligations, including letters of credit, of the United States or its agencies and instrumentalities;

(2) direct obligations of this state or its agencies and instrumentalities;

(3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States;

(4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, this state or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States;

(5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and

(6) bonds issued, assumed, or guaranteed by the State of Israel.

(b) The following are not authorized investments under this section:

(1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal;

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(2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest;

(3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; and

(4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1999, 76th Leg., ch. 1454, Sec. 7, eff. Sept. 1, 1999; Acts 2001, 77th Leg., ch. 558, Sec. 1, eff. Sept. 1, 2001.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 4, eff. June 17, 2011.

Sec. 2256.010. AUTHORIZED INVESTMENTS: CERTIFICATES OF DEPOSIT AND SHARE CERTIFICATES.

(a) A certificate of deposit or share certificate is an authorized investment under this subchapter if the certificate is issued by a depository institution that has its main office or a branch office in this state and is:

(1) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor;

(2) secured by obligations that are described by Section 2256.009(a), including mortgage backed securities directly issued by a federal agency or instrumentality that have a market value of not less than the principal amount of the certificates, but excluding those mortgage backed securities of the nature described by Section 2256.009(b); or

(3) secured in any other manner and amount provided by law for deposits of the investing entity.

(b) In addition to the authority to invest funds in certificates of deposit under Subsection (a), an investment in certificates of deposit made in accordance with the following conditions is an authorized investment under this subchapter:

(1) the funds are invested by an investing entity through:

(A) a broker that has its main office or a branch office in this state and is selected from a list adopted by the investing entity as required by Section 2256.025; or

(B) a depository institution that has its main office or a branch office in this state and that is selected by the investing entity;

(2) the broker or the depository institution selected by the investing entity under Subdivision (1) arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the investing entity;

(3) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and

(4) the investing entity appoints the depository institution selected by the investing entity under Subdivision (1), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the investing entity.

Amended by Acts 1995, 74th Leg., ch. 32, Sec. 1, eff. April 28, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 6, eff. Sept. 1, 1997.

Amended by:

Acts 2005, 79th Leg., Ch. 128 (H.B. 256), Sec. 1, eff. September 1, 2005.

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Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 5, eff. June 17, 2011.

Sec. 2256.011. AUTHORIZED INVESTMENTS: REPURCHASE AGREEMENTS. (a) A fully collateralized repurchase agreement is an authorized investment under this subchapter if the repurchase agreement:

- (1) has a defined termination date;
- (2) is secured by a combination of cash and obligations described by Section 2256.009(a)(1); and
- (3) requires the securities being purchased by the entity or cash held by the entity to be pledged to the entity, held in the entity's name, and deposited at the time the investment is made with the entity or with a third party selected and approved by the entity; and
- (4) is placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in this state.

(b) In this section, "repurchase agreement" means a simultaneous agreement to buy, hold for a specified time, and sell back at a future date obligations described by Section 2256.009(a)(1), at a market value at the time the funds are disbursed of not less than the principal amount of the funds disbursed. The term includes a direct security repurchase agreement and a reverse security repurchase agreement.

(c) Notwithstanding any other law, the term of any reverse security repurchase agreement may not exceed 90 days after the date the reverse security repurchase agreement is delivered.

(d) Money received by an entity under the terms of a reverse security repurchase agreement shall be used to acquire additional authorized investments, but the term of the authorized investments acquired must mature not later than the expiration date stated in the reverse security repurchase agreement.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 6, eff. June 17, 2011.

Sec. 2256.0115. AUTHORIZED INVESTMENTS: SECURITIES LENDING PROGRAM. (a) A securities lending program is an authorized investment under this subchapter if it meets the conditions provided by this section.

(b) To qualify as an authorized investment under this subchapter:

(1) the value of securities loaned under the program must be not less than 100 percent collateralized, including accrued income;

(2) a loan made under the program must allow for termination at any time;

(3) a loan made under the program must be secured by:

(A) pledged securities described by Section 2256.009;

(B) pledged irrevocable letters of credit issued by a bank that is:

(i) organized and existing under the laws of the United States or any other state; and

(ii) continuously rated by at least one nationally recognized investment rating firm at not less than A or its equivalent; or

(C) cash invested in accordance with Section:

(i) 2256.009;

(ii) 2256.013;

(iii) 2256.014; or

(iv) 2256.016;

(4) the terms of a loan made under the program must require that the securities being held as collateral be:

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- (A) pledged to the investing entity;
 - (B) held in the investing entity's name; and
 - (C) deposited at the time the investment is made with the entity or with a third party selected by or approved by the investing entity;
- (5) a loan made under the program must be placed through:
- (A) a primary government securities dealer, as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003; or
 - (B) a financial institution doing business in this state; and
- (6) an agreement to lend securities that is executed under this section must have a term of one year or less.

Added by Acts 2003, 78th Leg., ch. 1227, Sec. 1, eff. Sept. 1, 2003.

Sec. 2256.012. AUTHORIZED INVESTMENTS: BANKER'S ACCEPTANCES. A bankers' acceptance is an authorized investment under this subchapter if the bankers' acceptance:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance;
- (2) will be, in accordance with its terms, liquidated in full at maturity;
- (3) is eligible for collateral for borrowing from a Federal Reserve Bank; and
- (4) is accepted by a bank organized and existing under the laws of the United States or any state, if the short-term obligations of the bank, or of a bank holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or an equivalent rating by at least one nationally recognized credit rating agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.013. AUTHORIZED INVESTMENTS: COMMERCIAL PAPER. Commercial paper is an authorized investment under this subchapter if the commercial paper:

- (1) has a stated maturity of 270 days or fewer from the date of its issuance; and
- (2) is rated not less than A-1 or P-1 or an equivalent rating by at least:
 - (A) two nationally recognized credit rating agencies; or
 - (B) one nationally recognized credit rating agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.014. AUTHORIZED INVESTMENTS: MUTUAL FUNDS. (a) A no-load money market mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with and regulated by the Securities and Exchange Commission;
- (2) provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.);
- (3) has a dollar-weighted average stated maturity of 90 days or fewer; and
- (4) includes in its investment objectives the maintenance of a stable net asset value of \$1 for each share.

(b) In addition to a no-load money market mutual fund permitted as an authorized investment in Subsection (a), a no-load mutual fund is an authorized investment under this subchapter if the mutual fund:

- (1) is registered with the Securities and Exchange Commission;
- (2) has an average weighted maturity of less than two years;
- (3) is invested exclusively in obligations approved by this subchapter;

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(4) is continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent; and

(5) conforms to the requirements set forth in Sections 2256.016(b) and (c) relating to the eligibility of investment pools to receive and invest funds of investing entities.

(c) An entity is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, in mutual funds described in Subsection (b);

(2) invest any portion of bond proceeds, reserves and funds held for debt service, in mutual funds described in Subsection (b); or

(3) invest its funds or funds under its control, including bond proceeds and reserves and other funds held for debt service, in any one mutual fund described in Subsection (a) or (b) in an amount that exceeds 10 percent of the total assets of the mutual fund.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 7, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 8, eff. Sept. 1, 1999.

Sec. 2256.015. AUTHORIZED INVESTMENTS: GUARANTEED INVESTMENT CONTRACTS. (a) A guaranteed investment contract is an authorized investment for bond proceeds under this subchapter if the guaranteed investment contract:

(1) has a defined termination date;

(2) is secured by obligations described by Section 2256.009(a)(1), excluding those obligations described by Section 2256.009(b), in an amount at least equal to the amount of bond proceeds invested under the contract; and

(3) is pledged to the entity and deposited with the entity or with a third party selected and approved by the entity.

(b) Bond proceeds, other than bond proceeds representing reserves and funds maintained for debt service purposes, may not be invested under this subchapter in a guaranteed investment contract with a term of longer than five years from the date of issuance of the bonds.

(c) To be eligible as an authorized investment:

(1) the governing body of the entity must specifically authorize guaranteed investment contracts as an eligible investment in the order, ordinance, or resolution authorizing the issuance of bonds;

(2) the entity must receive bids from at least three separate providers with no material financial interest in the bonds from which proceeds were received;

(3) the entity must purchase the highest yielding guaranteed investment contract for which a qualifying bid is received;

(4) the price of the guaranteed investment contract must take into account the reasonably expected drawdown schedule for the bond proceeds to be invested; and

(5) the provider must certify the administrative costs reasonably expected to be paid to third parties in connection with the guaranteed investment contract.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 8, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 1454, Sec. 9, 10, eff. Sept. 1, 1999.

Sec. 2256.016. AUTHORIZED INVESTMENTS: INVESTMENT POOLS. (a) An entity may invest its funds and funds under its control through an eligible investment pool if the governing body of the entity by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. An investment pool shall invest the funds it receives from entities in

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authorized investments permitted by this subchapter. An investment pool may invest its funds in money market mutual funds to the extent permitted by and consistent with this subchapter and the investment policies and objectives adopted by the investment pool.

(b) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity an offering circular or other similar disclosure instrument that contains, at a minimum, the following information:

- (1) the types of investments in which money is allowed to be invested;
- (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool;
- (3) the maximum stated maturity date any investment security within the portfolio has;
- (4) the objectives of the pool;
- (5) the size of the pool;
- (6) the names of the members of the advisory board of the pool and the dates their terms expire;
- (7) the custodian bank that will safekeep the pool's assets;
- (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation;
- (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment;
- (10) the name and address of the independent auditor of the pool;
- (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; and
- (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios.

(c) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must furnish to the investment officer or other authorized representative of the entity:

- (1) investment transaction confirmations; and
- (2) a monthly report that contains, at a minimum, the following information:
 - (A) the types and percentage breakdown of securities in which the pool is invested;
 - (B) the current average dollar-weighted maturity, based on the stated maturity date, of the pool;
 - (C) the current percentage of the pool's portfolio in investments that have stated maturities of more than one year;
 - (D) the book value versus the market value of the pool's portfolio, using amortized cost valuation;
 - (E) the size of the pool;
 - (F) the number of participants in the pool;
 - (G) the custodian bank that is safekeeping the assets of the pool;
 - (H) a listing of daily transaction activity of the entity participating in the pool;
 - (I) the yield and expense ratio of the pool, including a statement regarding how yield is calculated;
 - (J) the portfolio managers of the pool; and
 - (K) any changes or addenda to the offering circular.

(d) An entity by contract may delegate to an investment pool the authority to hold legal title as custodian of investments purchased with its local funds.

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(e) In this section, "yield" shall be calculated in accordance with regulations governing the registration of open-end management investment companies under the Investment Company Act of 1940, as promulgated from time to time by the federal Securities and Exchange Commission.

(f) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005. In addition to the requirements of its investment policy and any other forms of reporting, a public funds investment pool created to function as a money market mutual fund shall report yield to its investors in accordance with regulations of the federal Securities and Exchange Commission applicable to reporting by money market funds.

(g) To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public funds investment pool must have an advisory board composed:

(1) equally of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for a public funds investment pool created under Chapter 791 and managed by a state agency; or

(2) of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, for other investment pools.

(h) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

(i) If the investment pool operates an Internet website, the information in a disclosure instrument or report described in Subsections (b), (c)(2), and (f) must be posted on the website.

(j) To maintain eligibility to receive funds from and invest funds on behalf of an entity under this chapter, an investment pool must make available to the entity an annual audited financial statement of the investment pool in which the entity has funds invested.

(k) If an investment pool offers fee breakpoints based on fund balances invested, the investment pool in advertising investment rates must include either all levels of return based on the breakpoints provided or state the lowest possible level of return based on the smallest level of funds invested.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1421, Sec. 9, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 7, eff. June 17, 2011.

Sec. 2256.017. EXISTING INVESTMENTS. An entity is not required to liquidate investments that were authorized investments at the time of purchase.

Added by Acts 1995, 74th Leg., ch. 76, Sec. 5.46(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 10, eff. Sept. 1, 1997.

Sec. 2256.019. RATING OF CERTAIN INVESTMENT POOLS. A public funds investment pool must be continuously rated no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service.

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Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 11, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 8, eff. June 17, 2011.

Sec. 2256.020. AUTHORIZED INVESTMENTS: INSTITUTIONS OF HIGHER EDUCATION. In addition to the authorized investments permitted by this subchapter, an institution of higher education may purchase, sell, and invest its funds and funds under its control in the following:

(1) cash management and fixed income funds sponsored by organizations exempt from federal income taxation under Section 501(f), Internal Revenue Code of 1986 (26 U.S.C. Section 501(f));

(2) negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency; and

(3) corporate bonds, debentures, or similar debt obligations rated by a nationally recognized investment rating firm in one of the two highest long-term rating categories, without regard to gradations within those categories.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.0201. AUTHORIZED INVESTMENTS; MUNICIPAL UTILITY. (a) A municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may enter into a hedging contract and related security and insurance agreements in relation to fuel oil, natural gas, coal, nuclear fuel, and electric energy to protect against loss due to price fluctuations. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the Securities and Exchange Commission. If there is a conflict between the municipal charter of the municipality and this chapter, this chapter prevails.

(b) A payment by a municipally owned electric or gas utility under a hedging contract or related agreement in relation to fuel supplies or fuel reserves is a fuel expense, and the utility may credit any amounts it receives under the contract or agreement against fuel expenses.

(c) The governing body of a municipally owned electric or gas utility or the body vested with power to manage and operate the municipally owned electric or gas utility may set policy regarding hedging transactions.

(d) In this section, "hedging" means the buying and selling of fuel oil, natural gas, coal, nuclear fuel, and electric energy futures or options or similar contracts on those commodities and related transportation costs as a protection against loss due to price fluctuation.

Added by Acts 1999, 76th Leg., ch. 405, Sec. 48, eff. Sept. 1, 1999.

Amended by:

Acts 2007, 80th Leg., R.S., Ch. 7 (S.B. 495), Sec. 1, eff. April 13, 2007.

Sec. 2256.0202. AUTHORIZED INVESTMENTS: MUNICIPAL FUNDS FROM MANAGEMENT AND DEVELOPMENT OF MINERAL RIGHTS. (a) In addition to other investments authorized under this subchapter, a municipality may invest funds received by the municipality from a lease or contract for the management and development of land owned by the municipality and leased for oil, gas, or other mineral development in any investment authorized to be made by a trustee under Subtitle B, Title 9, Property Code (Texas Trust Code).

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(b) Funds invested by a municipality under this section shall be segregated and accounted for separately from other funds of the municipality.

Added by Acts 2009, 81st Leg., R.S., Ch. 1371 (S.B. 894), Sec. 1, eff. September 1, 2009.

Sec. 2256.0203. AUTHORIZED INVESTMENTS: PORTS AND NAVIGATION DISTRICTS. (a) In this section, "district" means a navigation district organized under Section 52, Article III, or Section 59, Article XVI, Texas Constitution.

(b) In addition to the authorized investments permitted by this subchapter, a port or district may purchase, sell, and invest its funds and funds under its control in negotiable certificates of deposit issued by a bank that has a certificate of deposit rating of at least 1 or the equivalent by a nationally recognized credit rating agency or that is associated with a holding company having a commercial paper rating of at least A-1, P-1, or the equivalent by a nationally recognized credit rating agency.

Added by Acts 2011, 82nd Leg., R.S., Ch. 804 (H.B. 2346), Sec. 1, eff. September 1, 2011.

Sec. 2256.0204. AUTHORIZED INVESTMENTS: INDEPENDENT SCHOOL DISTRICTS. (a) In this section, "corporate bond" means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a debt obligation that:

(1) on conversion, would result in the holder becoming a stockholder or shareholder in the entity, or any affiliate or subsidiary of the entity, that issued the debt obligation; or

(2) is an unsecured debt obligation.

(b) This section applies only to an independent school district that qualifies as an issuer as defined by Section 1371.001.

(c) In addition to authorized investments permitted by this subchapter, an independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased.

(d) An independent school district subject to this section is not authorized by this section to:

(1) invest in the aggregate more than 15 percent of its monthly average fund balance, excluding bond proceeds, reserves, and other funds held for the payment of debt service, in corporate bonds; or

(2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity.

(e) An independent school district subject to this section may purchase, sell, and invest its funds and funds under its control in corporate bonds if the governing body of the district:

(1) amends its investment policy to authorize corporate bonds as an eligible investment;

(2) adopts procedures to provide for:

(A) monitoring rating changes in corporate bonds acquired with public funds;

and

(B) liquidating the investment in corporate bonds; and

(3) identifies the funds eligible to be invested in corporate bonds.

(f) The investment officer of an independent school district, acting on behalf of the district, shall sell corporate bonds in which the district has invested its funds not later than the seventh day after the date a nationally recognized investment rating firm:

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(1) issues a release that places the corporate bonds or the domestic business entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or

(2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent.

(g) Corporate bonds are not an eligible investment for a public funds investment pool.

Added by Acts 2011, 82nd Leg., R.S., Ch. 1347 (S.B. 1543), Sec. 1, eff. June 17, 2011.

Sec. 2256.0205. AUTHORIZED INVESTMENTS; DECOMMISSIONING TRUST. (a) In this section:

(1) "Decommissioning trust" means a trust created to provide the Nuclear Regulatory Commission assurance that funds will be available for decommissioning purposes as required under 10 C.F.R. Part 50 or other similar regulation.

(2) "Funds" includes any money held in a decommissioning trust regardless of whether the money is considered to be public funds under this subchapter.

(b) In addition to other investments authorized under this subchapter, a municipality that owns a municipal electric utility that is engaged in the distribution and sale of electric energy or natural gas to the public may invest funds held in a decommissioning trust in any investment authorized by Subtitle B, Title 9, Property Code.

Added by Acts 2005, 79th Leg., Ch. 121 (S.B. 1464), Sec. 1, eff. September 1, 2005.

Sec. 2256.021. EFFECT OF LOSS OF REQUIRED RATING. An investment that requires a minimum rating under this subchapter does not qualify as an authorized investment during the period the investment does not have the minimum rating. An entity shall take all prudent measures that are consistent with its investment policy to liquidate an investment that does not have the minimum rating.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.022. EXPANSION OF INVESTMENT AUTHORITY. Expansion of investment authority granted by this chapter shall require a risk assessment by the state auditor or performed at the direction of the state auditor, subject to the legislative audit committee's approval of including the review in the audit plan under Section 321.013.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 2003, 78th Leg., ch. 785, Sec. 42, eff. Sept. 1, 2003.

Sec. 2256.023. INTERNAL MANAGEMENT REPORTS. (a) Not less than quarterly, the investment officer shall prepare and submit to the governing body of the entity a written report of investment transactions for all funds covered by this chapter for the preceding reporting period.

(b) The report must:

(1) describe in detail the investment position of the entity on the date of the report;

(2) be prepared jointly by all investment officers of the entity;

(3) be signed by each investment officer of the entity;

(4) contain a summary statement of each pooled fund group that states the:

(A) beginning market value for the reporting period;

(B) ending market value for the period; and

(C) fully accrued interest for the reporting period;

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(5) state the book value and market value of each separately invested asset at the end of the reporting period by the type of asset and fund type invested;

(6) state the maturity date of each separately invested asset that has a maturity date;

(7) state the account or fund or pooled group fund in the state agency or local government for which each individual investment was acquired; and

(8) state the compliance of the investment portfolio of the state agency or local government as it relates to:

(A) the investment strategy expressed in the agency's or local government's investment policy; and

(B) relevant provisions of this chapter.

(c) The report shall be presented not less than quarterly to the governing body and the chief executive officer of the entity within a reasonable time after the end of the period.

(d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995. Amended by Acts 1997, 75th Leg., ch. 1421, Sec. 12, eff. Sept. 1, 1997.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 1004 (H.B. 2226), Sec. 9, eff. June 17, 2011.

Sec. 2256.024. SUBCHAPTER CUMULATIVE. (a) The authority granted by this subchapter is in addition to that granted by other law. Except as provided by Subsection (b), this subchapter does not:

(1) prohibit an investment specifically authorized by other law; or

(2) authorize an investment specifically prohibited by other law.

(b) Except with respect to those investing entities described in Subsection (c), a security described in Section 2256.009(b) is not an authorized investment for a state agency, a local government, or another investing entity, notwithstanding any other provision of this chapter or other law to the contrary.

(c) Mortgage pass-through certificates and individual mortgage loans that may constitute an investment described in Section 2256.009(b) are authorized investments with respect to the housing bond programs operated by:

(1) the Texas Department of Housing and Community Affairs or a nonprofit corporation created to act on its behalf;

(2) an entity created under Chapter 392, Local Government Code; or

(3) an entity created under Chapter 394, Local Government Code.

Added by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.025. SELECTION OF AUTHORIZED BROKERS. The governing body of an entity subject to this subchapter or the designated investment committee of the entity shall, at least annually, review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the entity.

Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

Sec. 2256.026. STATUTORY COMPLIANCE. All investments made by entities must comply with this subchapter and all federal, state, and local statutes, rules, or regulations.

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Added by Acts 1997, 75th Leg., ch. 1421, Sec. 13, eff. Sept. 1, 1997.

SUBCHAPTER B. MISCELLANEOUS PROVISIONS

Sec. 2256.051. ELECTRONIC FUNDS TRANSFER. Any local government may use electronic means to transfer or invest all funds collected or controlled by the local government.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.052. PRIVATE AUDITOR. Notwithstanding any other law, a state agency shall employ a private auditor if authorized by the legislative audit committee either on the committee's initiative or on request of the governing body of the agency.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995.

Sec. 2256.053. PAYMENT FOR SECURITIES PURCHASED BY STATE. The comptroller or the disbursing officer of an agency that has the power to invest assets directly may pay for authorized securities purchased from or through a member in good standing of the National Association of Securities Dealers or from or through a national or state bank on receiving an invoice from the seller of the securities showing that the securities have been purchased by the board or agency and that the amount to be paid for the securities is just, due, and unpaid. A purchase of securities may not be made at a price that exceeds the existing market value of the securities.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.67, eff. Sept. 1, 1997.

Sec. 2256.054. DELIVERY OF SECURITIES PURCHASED BY STATE. A security purchased under this chapter may be delivered to the comptroller, a bank, or the board or agency investing its funds. The delivery shall be made under normal and recognized practices in the securities and banking industries, including the book entry procedure of the Federal Reserve Bank.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.68, eff. Sept. 1, 1997.

Sec. 2256.055. DEPOSIT OF SECURITIES PURCHASED BY STATE. At the direction of the comptroller or the agency, a security purchased under this chapter may be deposited in trust with a bank or federal reserve bank or branch designated by the comptroller, whether in or outside the state. The deposit shall be held in the entity's name as evidenced by a trust receipt of the bank with which the securities are deposited.

Amended by Acts 1995, 74th Leg., ch. 402, Sec. 1, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 1423, Sec. 8.69, eff. Sept. 1, 1997.

EXHIBIT II

CHAPTER 2257. GOVERNMENT CODE COLLATERAL FOR PUBLIC FUNDS

GOVERNMENT CODE CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

GOVERNMENT CODE

TITLE 10. GENERAL GOVERNMENT

SUBTITLE F. STATE AND LOCAL CONTRACTS AND FUND MANAGEMENT

CHAPTER 2257. COLLATERAL FOR PUBLIC FUNDS

SUBCHAPTER A. GENERAL PROVISIONS

Sec. 2257.001. SHORT TITLE. This chapter may be cited as the Public Funds Collateral Act.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.002. DEFINITIONS. In this chapter:

(1) "Bank holding company" has the meaning assigned by Section 31.002(a), Finance Code.

(2) "Control" has the meaning assigned by Section 31.002(a), Finance Code.

(3) "Deposit of public funds" means public funds of a public entity that:

(A) the comptroller does not manage under Chapter 404; and

(B) are held as a demand or time deposit by a depository institution expressly authorized by law to accept a public entity's demand or time deposit.

(4) "Eligible security" means:

(A) a surety bond;

(B) an investment security;

(C) an ownership or beneficial interest in an investment security, other than an option contract to purchase or sell an investment security;

(D) a fixed-rate collateralized mortgage obligation that has an expected weighted average life of 10 years or less and does not constitute a high-risk mortgage security;

(E) a floating-rate collateralized mortgage obligation that does not constitute a high-risk mortgage security; or

(F) a letter of credit issued by a federal home loan bank.

(5) "Investment security" means:

(A) an obligation that in the opinion of the attorney general of the United States is a general obligation of the United States and backed by its full faith and credit;

(B) a general or special obligation issued by a public agency that is payable from taxes, revenues, or a combination of taxes and revenues; or

(C) a security in which a public entity may invest under Subchapter A, Chapter 2256.

(6) "Permitted institution" means:

(A) a Federal Reserve Bank;

(B) a clearing corporation, as defined by Section 8.102, Business & Commerce Code;

(C) a bank eligible to be a custodian under Section 2257.041; or

(D) a state or nationally chartered bank that is controlled by a bank holding company that controls a bank eligible to be a custodian under Section 2257.041.

(7) "Public agency" means a state or a political or governmental entity, agency, instrumentality, or subdivision of a state, including a municipality, an institution of higher education, as defined by Section 61.003, Education Code, a junior college, a district created under Article XVI, Section 59, of the Texas Constitution, and a public hospital.

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(8) "Public entity" means a public agency in this state, but does not include an institution of higher education, as defined by Section 61.003, Education Code.

(9) "State agency" means a public entity that:

(A) has authority that is not limited to a geographic portion of the state; and

(B) was created by the constitution or a statute.

(10) "Trust receipt" means evidence of receipt, identification, and recording, including:

(A) a physical controlled trust receipt; or

(B) a written or electronically transmitted advice of transaction.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 76, Sec. 5.48(a), eff. Sept. 1, 1995; Acts 1995, 74th Leg., ch. 914, Sec. 5, eff. Sept. 1, 1995; Acts 1997, 75th Leg., ch. 254, Sec. 1, eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 891, Sec. 3.22(4), eff. Sept. 1, 1997; Acts 1997, 75th Leg., ch. 1423, Sec. 8.70, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 62, Sec. 7.63, eff. Sept. 1, 1999.

Amended by:

Acts 2011, 82nd Leg., R.S., Ch. 783 (H.B. 2103), Sec. 1, eff. June 17, 2011.

Sec. 2257.0025. HIGH-RISK MORTGAGE SECURITY. (a) For purposes of this chapter, a fixed-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) has an average life sensitivity with a weighted average life that:

(A) extends by more than four years, assuming an immediate and sustained parallel shift in the yield curve of plus 300 basis points; or

(B) shortens by more than six years, assuming an immediate and sustained parallel shift in the yield curve of minus 300 basis points; and

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

(b) For purposes of this chapter, a floating-rate collateralized mortgage obligation is a high-risk mortgage security if the security:

(1) bears an interest rate that is equal to the contractual cap on the instrument; or

(2) is price sensitive; that is, the estimated change in the price of the mortgage derivative product is more than 17 percent, because of an immediate and sustained parallel shift in the yield curve of plus or minus 300 basis points.

Added by Acts 1997, 75th Leg., ch. 254, Sec. 2, eff. Sept. 1, 1997.

Sec. 2257.003. CHAPTER NOT APPLICABLE TO DEFERRED COMPENSATION PLANS. This chapter does not apply to funds that a public entity maintains or administers under a deferred compensation plan, the federal income tax treatment of which is governed by Section 401(k) or 457 of the Internal Revenue Code of 1986 (26 U.S.C. Sections 401(k) and 457).

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.004. CONFLICT WITH OTHER LAW. This chapter prevails over any other law relating to security for a deposit of public funds to the extent of any conflict.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

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Sec. 2257.005. CONTRACT GOVERNS LEGAL ACTION. A legal action brought by or against a public entity that arises out of or in connection with the duties of a depository, custodian, or permitted institution under this chapter must be brought and maintained as provided by the contract with the public entity.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER B. DEPOSITORY; SECURITY FOR DEPOSIT OF PUBLIC FUNDS

Sec. 2257.021. COLLATERAL REQUIRED. A deposit of public funds shall be secured by eligible security to the extent and in the manner required by this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.022. AMOUNT OF COLLATERAL. (a) Except as provided by Subsection (b), the total value of eligible security to secure a deposit of public funds must be in an amount not less than the amount of the deposit of public funds:

- (1) increased by the amount of any accrued interest; and
- (2) reduced to the extent that the United States or an instrumentality of the United States insures the deposit.

(b) The total value of eligible security described by Section 45.201(4)(D), Education Code, to secure a deposit of public funds of a school district must be in an amount not less than 110 percent of the amount of the deposit as determined under Subsection (a). The total market value of the eligible security must be reported at least once each month to the school district.

(c) The value of a surety bond is its face value.

(d) The value of an investment security is its market value.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 2003, 78th Leg., ch. 201, Sec. 46, eff. Sept. 1, 2003.

Sec. 2257.023. COLLATERAL POLICY. (a) In accordance with a written policy approved by the governing body of the public entity, a public entity shall determine if an investment security is eligible to secure deposits of public funds.

(b) The written policy may include:

- (1) the security of the institution that obtains or holds an investment security;
- (2) the substitution or release of an investment security; and
- (3) the method by which an investment security used to secure a deposit of public funds is valued.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.024. CONTRACT FOR SECURING DEPOSIT OF PUBLIC FUNDS. (a) A public entity may contract with a bank that has its main office or a branch office in this state to secure a deposit of public funds.

(b) The contract may contain a term or condition relating to an investment security used as security for a deposit of public funds, including a term or condition relating to the:

- (1) possession of the collateral;
- (2) substitution or release of an investment security;
- (3) ownership of the investment securities of the bank used to secure a deposit of public funds; and

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(4) method by which an investment security used to secure a deposit of public funds is valued.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1999, 76th Leg., ch. 344, Sec. 5.006, eff. Sept. 1, 1999.

Sec. 2257.025. RECORDS OF DEPOSITORY. (a) A public entity's depository shall maintain a separate, accurate, and complete record relating to a pledged investment security, a deposit of public funds, and a transaction related to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a depository maintains under this section.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.16, eff. Sept. 1, 1997.

Sec. 2257.026. CHANGE IN AMOUNT OR ACTIVITY OF DEPOSITS OF PUBLIC FUNDS. A public entity shall inform the depository for the public entity's deposit of public funds of a significant change in the amount or activity of those deposits within a reasonable time before the change occurs.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER C. CUSTODIAN; PERMITTED INSTITUTION

Sec. 2257.041. DEPOSIT OF SECURITIES WITH CUSTODIAN. (a) In addition to other authority granted by law, a depository for a public entity other than a state agency may deposit with a custodian a security pledged to secure a deposit of public funds.

(b) At the request of the public entity, a depository for a public entity other than a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds.

(c) A depository for a state agency shall deposit with a custodian a security pledged to secure a deposit of public funds. The custodian and the state agency shall agree in writing on the terms and conditions for securing a deposit of public funds.

(d) A custodian must be approved by the public entity and be:

(1) a state or national bank that:

(A) is designated by the comptroller as a state depository;

(B) has its main office or a branch office in this state; and

(C) has a capital stock and permanent surplus of \$5 million or more;

(2) the Texas Treasury Safekeeping Trust Company;

(3) a Federal Reserve Bank or a branch of a Federal Reserve Bank;

(4) a federal home loan bank; or

(5) a financial institution authorized to exercise fiduciary powers that is designated by the comptroller as a custodian pursuant to Section 404.031(e).

(e) A custodian holds in trust the securities to secure the deposit of public funds of the public entity in the depository pledging the securities.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1995, 74th Leg., ch. 1010, Sec. 1, eff. June 17, 1995; Acts 1997, 75th Leg., ch. 891, Sec. 3.17, eff. Sept. 1, 1997; Acts 1999, 76th Leg., ch. 344, Sec. 5.007, eff. Sept. 1, 1999.

Amended by:

Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 3, eff. September 1, 2009.

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Sec. 2257.042. DEPOSIT OF SECURITIES WITH PERMITTED INSTITUTION. (a) A custodian may deposit with a permitted institution an investment security the custodian holds under Section 2257.041.

(b) If a deposit is made under Subsection (a):

(1) the permitted institution shall hold the investment security to secure funds the public entity deposits in the depository that pledges the investment security;

(2) the trust receipt the custodian issues under Section 2257.045 shall show that the custodian has deposited the security in a permitted institution; and

(3) the permitted institution, on receipt of the investment security, shall immediately issue to the custodian an advice of transaction or other document that is evidence that the custodian deposited the security in the permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.043. DEPOSITORY AS CUSTODIAN OR PERMITTED INSTITUTION. (a) A public entity other than a state agency may prohibit a depository or an entity of which the depository is a branch from being the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds.

(b) A depository or an entity of which the depository is a branch may not be the custodian of or permitted institution for a security the depository pledges to secure a deposit of public funds by a state agency.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.044. CUSTODIAN AS BAILEE. (a) A custodian under this chapter or a custodian of a security pledged to an institution of higher education, as defined by Section 61.003, Education Code, whether acting alone or through a permitted institution, is for all purposes the bailee or agent of the public entity or institution depositing the public funds with the depository.

(b) To the extent of any conflict, Subsection (a) prevails over Chapter 8 or 9, Business & Commerce Code.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.045. RECEIPT OF SECURITY BY CUSTODIAN. (a) On receipt of an investment security, a custodian shall immediately identify on its books and records, by book entry or another method, the pledge of the security to the public entity.

(b) For a deposit of public funds under Subchapter F, the custodian shall issue and deliver to the comptroller a trust receipt for the pledged security.

(c) For any other deposit of public funds under this chapter, at the written direction of the appropriate public entity officer, the custodian shall:

(1) issue and deliver to the appropriate public entity officer a trust receipt for the pledged security; or

(2) issue and deliver a trust receipt for the pledged security to the public entity's depository and instruct the depository to deliver the trust receipt to the public entity officer immediately.

(d) The custodian shall issue and deliver the trust receipt as soon as practicable on the same business day on which the investment security is received.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 434 (S.B. 581), Sec. 1, eff. June 14, 2013.

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Sec. 2257.046. BOOKS AND RECORDS OF CUSTODIAN; INSPECTION. (a) A public entity's custodian shall maintain a separate, accurate, and complete record relating to each pledged investment security and each transaction relating to a pledged investment security.

(b) The comptroller or the public entity may examine and verify at any reasonable time a pledged investment security or a record a custodian maintains under this section. The public entity or its agent may inspect at any time an investment security evidenced by a trust receipt.

(c) The public entity's custodian shall file a collateral report with the comptroller in the manner and on the dates prescribed by the comptroller.

(d) At the request of the appropriate public entity officer, the public entity's custodian shall provide a current list of all pledged investment securities. The list must include, for each pledged investment security:

- (1) the name of the public entity;
- (2) the date the security was pledged to secure the public entity's deposit;
- (3) the Committee on Uniform Security Identification Procedures (CUSIP) number of the security;
- (4) the face value and maturity date of the security; and
- (5) the confirmation number on the trust receipt issued by the custodian.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.18, eff. Sept. 1, 1997.

Amended by:

Acts 2013, 83rd Leg., R.S., Ch. 434 (S.B. 581), Sec. 2, eff. June 14, 2013.

Sec. 2257.047. BOOKS AND RECORDS OF PERMITTED INSTITUTION. (a) A permitted institution may apply book entry procedures when an investment security held by a custodian is deposited under Section 2257.042.

(b) A permitted institution's records must at all times state the name of the custodian that deposits an investment security in the permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.048. ATTACHMENT AND PERFECTION OF SECURITY INTEREST. (a) A security interest that arises out of a depository's pledge of a security to secure a deposit of public funds by a public entity or an institution of higher education, as defined by Section 61.003, Education Code, is created, attaches, and is perfected for all purposes under state law from the time that the custodian identifies the pledge of the security on the custodian's books and records and issues the trust receipt.

(b) A security interest in a pledged security remains perfected in the hands of a subsequent custodian or permitted institution.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER D. AUDITS AND EXAMINATIONS; PENALTIES

Sec. 2257.061. AUDITS AND EXAMINATIONS. As part of an audit or regulatory examination of a public entity's depository or custodian, the auditor or examiner shall:

- (1) examine and verify pledged investment securities and records maintained under Section 2257.025 or 2257.046; and
- (2) report any significant or material noncompliance with this chapter to the comptroller.

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Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.062. PENALTIES. (a) The comptroller may revoke a depository's designation as a state depository for one year if, after notice and a hearing, the comptroller makes a written finding that the depository, while acting as either a depository or a custodian:

- (1) did not maintain reasonable compliance with this chapter; and
- (2) failed to remedy a violation of this chapter within a reasonable time after receiving written notice of the violation.

(b) The comptroller may permanently revoke a depository's designation as a state depository if the comptroller makes a written finding that the depository:

- (1) has not maintained reasonable compliance with this chapter; and
- (2) has acted in bad faith by not remedying a violation of this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.063. MITIGATING CIRCUMSTANCES. (a) The comptroller shall consider the total circumstances relating to the performance of a depository or custodian when the comptroller makes a finding required by Section 2257.062, including the extent to which the noncompliance is minor, isolated, temporary, or nonrecurrent.

(b) The comptroller may not find that a depository or custodian did not maintain reasonable compliance with this chapter if the noncompliance results from the public entity's failure to comply with Section 2257.026.

(c) This section does not relieve a depository or custodian of the obligation to secure a deposit of public funds with eligible security in the amount and manner required by this chapter within a reasonable time after the public entity deposits the deposit of public funds with the depository.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

Sec. 2257.064. REINSTATEMENT. The comptroller may reinstate a depository's designation as a state depository if:

(1) the comptroller determines that the depository has remedied all violations of this chapter; and

(2) the depository assures the comptroller to the comptroller's satisfaction that the depository will maintain reasonable compliance with this chapter.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 891, Sec. 3.19, eff. Sept. 1, 1997.

SUBCHAPTER E. EXEMPT INSTITUTIONS

Sec. 2257.081. DEFINITION. In this subchapter, "exempt institution" means:

- (1) a public retirement system, as defined by Section 802.001; or
- (2) the permanent school fund, as described by Section 43.001, Education Code.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993. Amended by Acts 1997, 75th Leg., ch. 165, Sec. 6.31, eff. Sept. 1, 1997.

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Sec. 2257.082. FUNDS OF EXEMPT INSTITUTION. An exempt institution is not required to have its funds fully insured or collateralized at all times if:

- (1) the funds are held by:
 - (A) a custodian of the institution's assets under a trust agreement; or
 - (B) a person in connection with a transaction related to an investment; and
- (2) the governing body of the institution, in exercising its fiduciary responsibility, determines that the institution is adequately protected by using a trust agreement, special deposit, surety bond, substantial deposit insurance, or other method an exempt institution commonly uses to protect itself from liability.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

Sec. 2257.083. INVESTMENT; SELECTION OF DEPOSITORY. This chapter does not:

- (1) prohibit an exempt institution from prudently investing in a certificate of deposit; or
- (2) restrict the selection of a depository by the governing body of an exempt institution in accordance with its fiduciary duty.

Added by Acts 1993, 73rd Leg., ch. 268, Sec. 1, eff. Sept. 1, 1993.

SUBCHAPTER F. POOLED COLLATERAL TO SECURE

DEPOSITS OF CERTAIN PUBLIC FUNDS

Sec. 2257.101. DEFINITION. In this subchapter, "participating institution" means a financial institution that holds one or more deposits of public funds and that participates in the pooled collateral program under this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.102. POOLED COLLATERAL PROGRAM. (a) As an alternative to collateralization under Subchapter B, the comptroller by rule shall establish a program for centralized pooled collateralization of deposits of public funds and for monitoring collateral maintained by participating institutions. The rules must provide that deposits of public funds of a county are not eligible for collateralization under the program. The comptroller shall provide for a separate collateral pool for any single participating institution's deposits of public funds.

(b) Under the pooled collateral program, the collateral of a participating institution pledged for a public deposit may not be combined with, cross-collateralized with, aggregated with, or pledged to another participating institution's collateral pools for pledging purposes.

(c) A participating institution may pledge its pooled securities to more than one participating depositor under contract with that participating institution.

(d) The pooled collateral program must provide for:

- (1) participation in the program by a participating institution and each affected public entity to be voluntary;
- (2) uniform procedures for processing all collateral transactions that are subject to an approved security agreement described by Section 2257.103; and
- (3) the pledging of a participating institution's collateral securities using a single custodial account instead of an account for each depositor of public funds.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

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Sec. 2257.103. PARTICIPATION IN POOLED COLLATERAL PROGRAM. A financial institution may participate in the pooled collateral program only if:

- (1) the institution has entered into a binding collateral security agreement with a public agency for a deposit of public funds and the agreement permits the institution's participation in the program;
- (2) the comptroller has approved the institution's participation in the program; and
- (3) the comptroller has approved or provided the collateral security agreement form used.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.104. COLLATERAL REQUIRED; CUSTODIAN TRUSTEE. (a) Each participating institution shall secure its deposits of public funds with eligible securities the total value of which equals at least 102 percent of the amount of the deposits of public funds covered by a security agreement described by Section 2257.103 and deposited with the participating institution, reduced to the extent that the United States or an instrumentality of the United States insures the deposits. For purposes of determining whether collateral is sufficient to secure a deposit of public funds, Section 2257.022(b) does not apply to a deposit of public funds held by the participating institution and collateralized under this subchapter.

(b) A participating institution shall provide for the collateral securities to be held by a custodian trustee, on behalf of the participating institution, in trust for the benefit of the pooled collateral program. A custodian trustee must qualify as a custodian under Section 2257.041.

(c) The comptroller by rule shall regulate a custodian trustee under the pooled collateral program in the manner provided by Subchapter C to the extent practicable. The rules must ensure that a custodian trustee depository does not own, is not owned by, and is independent of the financial institution or institutions for which it holds the securities in trust, except that the rules must allow the following to be a custodian trustee:

- (1) a federal reserve bank;
- (2) a banker's bank, as defined by Section 34.105, Finance Code; and
- (3) a federal home loan bank.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.105. MONITORING COLLATERAL. (a) Each participating institution shall file the following reports with the comptroller electronically and as prescribed by rules of the comptroller:

- (1) a daily report of the aggregate ledger balance of deposits of public agencies participating in the pooled collateral program that are held by the institution, with each public entity's funds held itemized;
- (2) a weekly summary report of the total market value of securities held by a custodian trustee on behalf of the participating institution;
- (3) a monthly report listing the collateral securities held by a custodian trustee on behalf of the participating institution, together with the value of the securities; and
- (4) as applicable, a participating institution's annual report that includes the participating institution's financial statements.

(b) The comptroller shall provide the participating institution an acknowledgment of each report received.

(c) The comptroller shall provide a daily report of the market value of the securities held in each pool.

(d) The comptroller shall post each report on the comptroller's Internet website.

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Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.106. ANNUAL ASSESSMENT. (a) Once each state fiscal year, the comptroller shall impose against each participating institution an assessment in an amount sufficient to pay the costs of administering this subchapter. The amount of an assessment must be based on factors that include the number of public entity accounts a participating institution maintains, the number of transactions a participating institution conducts, and the aggregate average weekly deposit amounts during that state fiscal year of each participating institution's deposits of public funds collateralized under this subchapter. The comptroller by rule shall establish the formula for determining the amount of the assessments imposed under this subsection.

(b) The comptroller shall provide to each participating institution a notice of the amount of the assessment against the institution.

(c) A participating institution shall remit to the comptroller the amount assessed against it under this section not later than the 45th day after the date the institution receives the notice under Subsection (b).

(d) Money remitted to the comptroller under this section may be appropriated only for the purposes of administering this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.107. PENALTY FOR REPORTING VIOLATION. The comptroller may impose an administrative penalty against a participating institution that does not timely file a report required by Section 2257.105.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.108. NOTICE OF COLLATERAL VIOLATION; ADMINISTRATIVE PENALTY. (a) The comptroller may issue a notice to a participating institution that the institution appears to be in violation of collateral requirements under Section 2257.104 and rules of the comptroller.

(b) The comptroller may impose an administrative penalty against a participating institution that does not maintain collateral in an amount and in the manner required by Section 2257.104 and rules of the comptroller if the participating institution has not remedied the violation before the third business day after the date a notice is issued under Subsection (a).

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.109. PENALTY FOR FAILURE TO PAY ASSESSMENT. The comptroller may impose an administrative penalty against a participating institution that does not pay an assessment against it in the time provided by Section 2257.106(c).

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.110. PENALTY AMOUNT; PENALTIES NOT EXCLUSIVE. (a) The comptroller by rule shall adopt a formula for determining the amount of a penalty under this subchapter. For each violation and for each day of a continuing violation, a penalty must be at least \$100 per day and not more than \$1,000 per day. The penalty must be based on factors that include:

- (1) the aggregate average weekly deposit amounts during the state fiscal year of the institution's deposits of public funds;
- (2) the number of violations by the institution during the state fiscal year;

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(3) the number of days of a continuing violation; and

(4) the average asset base of the institution as reported on the institution's year-end report of condition."

(b) The penalties provided by Sections 2257.107-2257.109 are in addition to those provided by Subchapter D or other law.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.111. PENALTY PROCEEDING CONTESTED CASE. A proceeding to impose a penalty under Section 2257.107, 2257.108, or 2257.109 is a contested case under Chapter 2001.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.112. SUIT TO COLLECT PENALTY. The attorney general may sue to collect a penalty imposed under Section 2257.107, 2257.108, or 2257.109.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.113. ENFORCEMENT STAYED PENDING REVIEW. Enforcement of a penalty imposed under Section 2257.107, 2257.108, or 2257.109 may be stayed during the time the order is under judicial review if the participating institution pays the penalty to the clerk of the court or files a supersedeas bond with the court in the amount of the penalty. A participating institution that cannot afford to pay the penalty or file the bond may stay the enforcement by filing an affidavit in the manner required by the Texas Rules of Civil Procedure for a party who cannot afford to file security for costs, subject to the right of the comptroller to contest the affidavit as provided by those rules.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Sec. 2257.114. USE OF COLLECTED PENALTIES. Money collected as penalties under this subchapter may be appropriated only for the purposes of administering this subchapter.

Added by Acts 2009, 81st Leg., R.S., Ch. 486 (S.B. 638), Sec. 1, eff. September 1, 2009.

Total Analysis of Bank Accounts (January 2019)

Account Ending In:	Interest Earned	ACH Deposit Count	ACH Deposit Amount	ACH PYMT Count	ACH PYMT Amount	Analysis Charge	Cashed Checks Count	Cashed Checks Amount	Check Reversal Count	Check Reversal Amount	Deposit Count	Deposit Amount	Interest from Other Accts.	Transfer Deposit Count	Transfer Deposit Amount	Transfer Withdrawal Count	Transfer Withdrawal Amount	Wire Count	Wire Amount
4173	\$ 565.06			11	\$ 1,237,761.96									21	\$ 1,698,818.95				
4238	\$ 98.05													1	\$ 5,291.88			1	\$ 2,042.62
4262	\$ 793.62	6	\$ 43,638.43															2	\$ 15,948.01
4300																			
4343	\$ 24.29																		
8433	\$ 1,619.45																		
0019		44	\$ 63,929.50															2	\$ 108,323.75
1110	\$ 22,878.23										78	\$ 39,273,883.92						118	\$ 42,934,518.21
2857	\$ 258.99																	1	\$ 9,948.93
3244	\$ 80.09	33	\$ 354,257.73				32	\$ 268,698.23											
3260	\$ 242.52	23	\$ 317,210.05	2	\$ 2,977.58		17	\$ 307,155.95											
3279	\$ 43.37										1	\$ 1.83		11	\$ 20,381.66				
3287	\$ 33.67						1	\$ 2,857.50						4	\$ 4,915.00				
3295	\$ 124.79						5	\$ 147.54						11	\$ 172,904.67				
3309	\$ 6.97						1	\$ 15,239.33			1	\$ 151.27		10	\$ 25,703.18				
3317	\$ 2.44						4	\$ 46,195.69			1	\$ 336.08		10	\$ 63,798.92				
3325	\$ 972.45													9	\$ 138,811.30				
3333	\$ 628.23			4	\$ 1,657,682.40						2	\$ 10,913.34		10	\$ 2,254,521.99				
3341	\$ 2,766.04						95	\$ 15,209.13			3	\$ 2,341.92		13	\$ 17,833,790.77			1	\$ 16,452,310.71
3368	\$ 836.92	52	\$ 278,788.73	19	\$ 1,533,417.46		37	\$ 232,873.46						11	\$ 1,529,805.98				
4404	\$ 18,946.44	283	\$ 3,757,335.96	34	\$ 8,765,355.15	\$ 6,517.33	1,062	\$ 3,883,645.34	3	\$ 139.96	635	\$ 1,103,416.02	\$ 2,442.24	40	\$ 19,680,085.84	13	\$ 3,981,024.11	7	\$ 1,172,973.26
4412		3	\$ 1,035.24	2	\$ 3,821,143.53		11	\$ 4,616.10						6	\$ 3,826,385.87	3	\$ 1,162.43		
4420	\$ 3,771.60										3	\$ 281.77		14	\$ 1,910,062.51	1	\$ 6,416.21	3	\$ 3,547,269.00
4471	\$ 633.03										15	\$ 1,198,508.53				22	\$ 1,785,477.01		
4498	\$ 5,741.37										2	\$ 95,044.94				3	\$ 30,114.72		
4519	\$ 1,179.37	38	\$ 24,519.36				72	\$ 29,590.39			25	\$ 100,627.98				2	\$ 194,785.28		
4584	\$ 1.90	12	\$ 493.51	9	\$ 23,456.86									2	\$ 23,637.89	2	\$ 675.66		
4594	\$ 1.31										25	\$ 1,325.00		1	\$ 100.00	2	\$ 2,418.86		
4607							198	\$ 3,667.00											
4615	\$ 0.19																		
4623																			
4631	\$ 0.32																		
4658	\$ 276.78	1	\$ 71.00																
4666	\$ 27.26						1	\$ 7.50											
4674																			
4690	\$ 0.01																		
4703																			
4711		40	\$ 88,060.99				194	\$ 247,316.70			42	\$ 153,893.32							
4738							60	\$ 263,202.36			7	\$ 142,265.45							
4943	\$ 1.05																		
4949	\$ 3,571.47						54	\$ 2,084,949.74			5	\$ 72,157.75							
4951																			
4957	\$ 2.51			1	\$ 458.69		2	\$ 1,748.17						1	\$ 7,500.00				
4965							7	\$ 3,520.69			2	\$ 1,722.35							
4981	\$ 606.99						14	\$ 5,107.33			4	\$ 3,007.84		1	\$ 2,755.25				
5001							7	\$ 72,207.43			3	\$ 1,637.00							
5028							302	\$ 70,123.50			23	\$ 81,416.56							
5044							2	\$ 2,370.73			9	\$ 4,607.92							
7555	\$ 105.80			1	\$ 30.00														
7590							1	\$ 2,155.76			14	\$ 13,173.10							
7741	\$ 846.06	1	\$ 4,232.31															2	\$ 3,192.84
7927	\$ 100.18																		
7935	\$ 461.00																	2	\$ 138,533.29
2671						\$ 57.49	66	\$ 20,188.74						2	\$ 15,854.69				
8417																			
4200																		2	\$ 544.42
4788																			
4796																			
4853																			
7350																			
TOTALS:	\$ 68,249.82	536	\$ 4,933,572.81	83	\$ 17,042,283.63	\$ 6,574.82	2,245	\$ 7,582,794.31	3	\$ 139.96	900	\$ 42,260,713.89	\$ 2,442.24	178	\$ 49,215,126.35	178	\$ 49,215,126.35	11	\$ 21,172,552.97

Friday
Consolidated For 04/11/2019

Account Number Account Title	Yesterday's Balance	Current Balance	Daily Balance Change	Current Month Bal Change	LYR Ending Balance
ASSETS					
CASH & DUE FROM BANKS	173,737,089.38	172,750,157.04	986,932.34-	894,219.37-	144,188,463.32
FED FUNDS SOLD & DUE FROM TIME	34,165,000.00	31,277,000.00	2,888,000.00-	1,687,000.00-	21,702,000.00
SEC AVAILABLE FOR SALE	129,081,429.75	133,041,303.99	3,959,874.24	3,959,874.24	102,300,165.50
SEC HELD TO MATURITY	0.00	0.00	0.00	0.00	0.00
NET LOANS	780,672,771.48	781,315,780.00	643,008.52	1,188,076.26-	795,830,221.51
EQUIP & LEASHOLD IMPROVEMENTS	51,279,944.09	51,279,944.09	0.00	179,518.58	51,493,059.50
ACCRUED INTEREST RECEIVABLE	2,856,824.36	2,852,697.95	4,126.41-	68,622.80-	2,712,722.23
OTHER REAL ESTATE OWNED	6,141,414.40	6,141,414.40	0.00	95,415.76	6,845,263.39
PREPAIDS AND OTHER ASSETS	20,056,286.06	20,056,854.14	568.08	455.81-	20,292,089.30
TOTAL ASSETS	1,197,990,759.52	1,198,715,151.61	724,392.09	396,434.34	1,145,363,984.75
LIABILITIES					
DEMAND DEPOSITS	287,200,060.34	286,126,058.06	1,074,002.28-	533,831.75-	234,139,099.36
SAVINGS AND NOW DEPOSITS	375,142,894.25	376,469,746.59	1,326,852.34	1,156,103.11	407,377,618.28
CDARS	0.00	0.00	0.00	0.00	0.00
CERTIFICATES OF DEPOSITS	376,998,704.32	377,169,537.67	170,833.35	948,079.99-	364,443,779.76
TOTAL DEPOSITS	1,039,341,658.91	1,039,765,342.32	423,683.41	325,808.63-	1,005,960,497.40
OTHER BORROWED FUNDS	2,359,996.76	2,359,996.76	0.00	0.00	2,966,391.18
ACC INT. PAYABLE & OTHER LIAB	5,088,331.59	5,316,541.05	228,209.46	401,408.37	2,488,855.53
TOTAL LIABILITIES	1,046,789,987.26	1,047,441,880.13	651,892.87	75,599.74	1,011,415,744.11
EQUITY					
COMMON STOCK	1,417,666.60	1,417,666.60	0.00	0.00	1,417,666.60
SURPLUS	66,997,333.40	66,997,333.40	0.00	0.00	66,997,333.40
RETAINED EARNINGS	83,192,313.35	83,264,812.57	72,499.22	320,834.60	67,859,724.49
UNREALIZED GAIN/(LOSS) AFS SEC	406,541.09-	406,541.09-	0.00	0.00	2,326,483.85-
TOTAL EQUITY CAPITAL	151,200,772.26	151,273,271.48	72,499.22	320,834.60	133,948,240.64
TOTAL LIAB. & EQUITY CAPITAL	1,197,990,759.52	1,198,715,151.61	724,392.09	396,434.34	1,145,363,984.75

Friday
Consolidated For 04/11/2019

Account Number Account Title	Yesterday's Balance	Current Month Balance	Daily Balance Change	Current Month Bal Change	LYR Ending Balance
INCOME					
INTEREST ON LOANS	12,986,477.98	13,109,260.45	122,782.47	1,416,874.64	14,162,926.44
INTEREST ON INVESTMENTS	781,449.97	781,449.97	0.00	0.00	736,617.61
INTEREST FED FUNDS/CDS	1,162,893.71	1,164,241.35	1,347.64	19,625.13	845,930.64
TOTAL INTEREST INCOME	14,930,821.66	15,054,951.77	124,130.11	1,436,499.77	15,745,474.69
INTEREST EXPENSE	2,357,301.92	2,383,650.94	26,349.02	288,604.42	1,726,157.58
INTEREST MARGIN	12,573,519.74	12,671,300.83	97,781.09	1,147,895.35	14,019,317.11
TOTAL NON INTEREST INCOME	4,102,498.86	4,134,319.48	31,820.62	372,359.88	4,567,673.59
TOTAL INCOME	16,676,018.60	16,805,620.31	129,601.71	1,520,255.23	18,586,990.70
EXPENSES					
EMPLOYEE SALARIES & BENEFITS	4,746,024.52	4,746,024.52	0.00	603,411.19	4,693,045.85
MEDICAL LIFE INSURANCE	796,864.11	811,043.31	14,179.20	156,104.89	681,038.91
EDUCATIONAL EXPENSES	55,024.30	55,599.30	575.00	4,656.96	53,826.32
OTHER EMPLOYEE BENEFITS	480,196.03	480,196.03	0.00	60,855.15	472,473.44
ADVERTISING	93,699.20	94,699.20	1,000.00	5,179.57	147,364.65
AUTOMATION	549,031.13	549,031.13	0.00	70,339.41	633,301.48
REPAIRS & MAINTENANCE	386,692.99	389,661.96	2,968.97	48,695.47	439,962.55
DEPRECIATION & AMORTIZATION	458,863.77	458,863.77	0.00	0.00	587,686.74
LEASEHOLD RENTS	102,916.09	103,491.09	575.00	20,358.33	101,958.57
AUDIT & EXAMINATION	56,100.00	56,100.00	0.00	0.00	68,000.00
REGULATORY ASSESSMENTS	113,378.11	113,378.11	0.00	0.00	163,113.27
LEGAL & PROFESSIONAL FEES	22,333.05	25,159.25	2,826.20	6,494.64	92,463.35
POSTAGE & FREIGHT	33,467.37	33,467.37	0.00	430.51	29,706.88
SUPPLIES EXPENSE	89,382.20	95,000.79	5,618.59	9,003.65	105,444.53
TELEPHONE	192,578.58	192,578.58	0.00	47,683.48	158,757.67
TRAVEL	36,117.27	36,391.47	274.20	1,560.44	58,021.13
UTILITIES	153,163.85	155,135.16	1,971.31	15,938.34	197,192.42
BUSINESS PROMOTION	270,744.60	277,834.50	7,089.90	23,385.97	352,395.44
OTHER OUTSIDE SERVICES	684,482.97	692,001.30	7,518.33	93,820.48	720,409.38
CASH SHORTAGES	733.67	733.67	0.00	160.30	2,922.79
LOSSES	13,576.09	13,566.09	10.00	1,152.18	34,892.84
FRANCHISE TAX	39,000.00	39,000.00	0.00	0.00	48,000.00
REAL ESTATE TAXES	337,545.00	337,545.00	0.00	0.00	424,480.00
OREO EXPENSES	272,597.38	283,297.38	10,700.00	15,442.43	380,833.26
RECORDING & FILING FEES	2,217.33	2,427.83	210.50	35.50	1,407.80
OTHER	430,704.87	432,310.16	1,605.29	18,516.10	526,285.13
PROVISION FOR ALLL	0.00	0.00	0.00	0.00	0.00
TOTAL NONINTEREST EXPENSES	10,417,434.48	10,474,536.97	57,102.49	1,200,920.63	11,174,984.40
INCOME (LOSS) BEFORE TAXES & GAINS ON SALES OF ASSETS	6,258,584.12	6,331,083.34	72,499.22	319,334.60	7,412,006.30
INCOME TAX EXPENSE	1,637,788.83	1,637,788.83	0.00	0.00	1,614,906.73
TOTAL GAIN/LOSS - FIXED ASSETS	1,932,860.33	1,932,860.33	0.00	1,500.00	466,982.47
TOTAL INCOME	6,553,655.62	6,626,154.84	72,499.22	320,834.60	6,264,082.04



7718 McPherson Rd
Laredo, TX 78045

March 2019

Reporting Activity 03/01 - 03/31

Page 1 of 6

ADDRESS SERVICE REQUESTED

SAMPLE STATEMENT
ADDRESS
CITY/ST/ZIP

Managing Your Accounts

-  Phone (956) 723-2265
-  Tele-Banking (888) 944-2611
-  Lost/Stolen Debit Card (800) 472-3272
-  Online www.falconbank.com
-  Mailing 7718 McPherson Rd
Laredo, TX 78045



**Pick Up
your personalized
chip card today!**

Member
FDIC



Summary of Accounts

Account Type	Account Number	Beginning Balance	Ending Balance
Business Checking	XXXXXXXX999	\$7,628.84	\$1,182.88



ERROR RESOLUTION NOTICE FOR CONSUMER ACCOUNTS

Telephone or write us as soon as you can, if you think your statement is wrong or if you need more information about a transfer on the statement. We must hear from you no later than 60 days after we sent you the first statement on which the error or problem appeared.

1. Tell us your name and account number.
2. Describe the error or the transfer you are unsure about, and explain as clearly as you can why you believe there is an error or why you need more information.
3. Tell us the dollar amount of the suspected error.

We will investigate your complaint and will correct any error promptly. If we take more than 10 business days to do this, we will recredit your account for the amount you think is in error, so that you will have use of the money during the time it takes us to complete our investigation. If you have arranged to have direct deposits made by Electronic Funds Transfer to your account at least once every 60 days from the same person or company, you can call us during normal business hours to find out whether or not the deposit is made. Normally this will apply to members on direct deposit of Social Security or pension checks or allocations between different members accounts, where the payer has not provided positive notice to you that the transfer was initiated.

Falcon International Bank
5219 McPherson Road
Laredo, Tx 78041
(956) 723-2265

TO REQUEST COPIES OF CHECKS CALL (956) 723-9798

The Easy Way To Balance Your Checkbook:

1. Sort cancelled checks and any automatic deductions by number or date.
2. Mark off the corresponding entries on your checkbook record verifying each amount.
3. Add to your checkbook balance the amount of any deposits or other credits recorded on this statement which you may not have added. This would include credits for any interest you have earned.
4. Subtract from your checkbook balance the amount of any checks or other charges (automatic loan payments, automatic withdrawals, savings transfers, service charges, etc.) recorded on this statement which you may not have subtracted.
5. List on the record at the right the number and/or date and amount of each check or automatic deduction you have written or authorized which is not included on this statement. Total them.

Record of checks not returned			
Check #	Date	Amount	
Total of checks not returned			

6. Enter the ENDING BALANCE as shown in the "Ending Balance."
7. Enter and add any deposits to your account after the STATEMENT ENDING DATE shown in the heading "STATEMENT DATE."
8. Enter and subtract the TOTAL OF CHECKS Not RETURNED from above.

This total should be the same as the balance in your checkbook.

+		
Subtotal		
-		
Total		

PREMIER FREE CHECKING

*Annual Percentage Yield (APY) is effective as of 02-06-19 and is subject to change without notice. \$100 minimum opening deposit. No minimum balance required to earn interest. † Transaction Requirements: 1) Receive one ACH debit or credit and 2) Have at least 25 POS or debit card transactions POSTED to your account per statement cycle (excluding ATM transactions and recurring debit card transactions). Transactions may not POST to account on the same day the transaction is conducted. When the transaction requirements are not met .50% APY will be paid on entire balance. Fees may reduce earnings.

Member FDIC



Earn Up to

2.00%

Annual Percentage Yield

When transaction requirements are met †



Business Checking - XXXXXXXX9999

Account Summary

Date	Description	Amount
03/01/2019	Beginning Balance	\$7,628.84
	12 Debit(s) This Period	\$26,298.36
	14 Credit(s) This Period	\$19,852.40
03/31/2019	Ending Balance	\$1,182.88

With Falcon's automated 24 hour teller, you can access your account information 24 hours a day, 7 days a week simply by calling: **(956) 718-2611 – Laredo or 1-888-944-2611- All Markets**

Account Activity

Transaction Date	Description	Debits	Credits	Balance
03/01/2019	Beginning Balance			\$7,628.84
03/01/2019	ACH Deposit ABC COMPANY EFT		\$136.32	\$7,765.16
03/04/2019	ACH Payment ABC COMPANY	\$407.51		\$7,357.65
03/05/2019	ACH Deposit DFG COMPANY		\$1,257.87	\$8,615.52
03/05/2019	Cashed Check 1916	\$2,159.88		\$6,455.64
03/05/2019	Inclosing Check 1915	\$4,750.60		\$1,705.04
03/07/2019	ACH Deposit ABC COMPANY		\$75.70	\$1,780.74
03/07/2019	ACH Deposit ABC COMPANY		\$168.76	\$1,949.50
03/07/2019	Internet Withdrawal Funds Transfer via Online	\$1,000.00		\$949.50
03/11/2019	ACH Payment DFG COMPANY	\$18.91		\$930.59
03/12/2019	ACH Deposit ABC COMPANY		\$2,397.59	\$3,328.18
03/14/2019	ACH Deposit ABC COMPANY		\$344.00	\$3,672.18
03/14/2019	International IWT QPA SA DE C		\$3,372.80	\$7,044.98
03/14/2019	International IWT QPA SA DE C		\$5,581.34	\$12,626.32
03/14/2019	Wire Fee QPA SA DE C	\$20.00		\$12,606.32

**March 2019**

Reporting Activity 03/01 - 03/31

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Business Checking - XXXXXXXXX9999 (continued)**Account Activity (continued)**

Transaction Date	Description	Debits	Credits	Balance
03/14/2019	Wire Fee QPA SA DE C	\$20.00		\$12,586.32
03/19/2019	ACH Deposit ABC COMPANY		\$1,688.34	\$14,274.66
03/19/2019	ACH Payment INSURANCE PREM BRANCH DEBIT ACH	\$214.17		\$14,060.49
03/20/2019	ACH Deposit ABC COMPANY		\$2,275.25	\$16,335.74
03/20/2019	Inclosing Check 1917	\$8,563.15		\$7,772.59
03/22/2019	ACH Deposit ABC COMPANY		\$77.90	\$7,850.49
03/26/2019	ACH Deposit ABC COMPANY		\$2,093.62	\$9,944.11
03/26/2019	Cashed Check 1919	\$340.00		\$9,604.11
03/27/2019	ACH Deposit ABC COMPANY		\$97.37	\$9,701.48
03/27/2019	Inclosing Check 1920	\$30.00		\$9,671.48
03/29/2019	ACH Deposit ABC COMPANY		\$285.54	\$9,957.02
03/29/2019	Inclosing Check 1918	\$8,774.14		\$1,182.88
03/31/2019	Ending Balance			\$1,182.88

Checks Cleared

Check Nbr	Date	Amount	Check Nbr	Date	Amount
1915	03/05/2019	\$4,750.60	1918	03/29/2019	\$8,774.14
1916	03/05/2019	\$2,159.88	1919	03/26/2019	\$340.00
1917	03/20/2019	\$8,563.15	1920	03/27/2019	\$30.00

* Indicates skipped check number

Overdraft and Returned Item Fees

	Total for this period	Total year-to-date
Total Overdraft Fees	\$0.00	\$35.61
Total Returned Item Fees	\$0.00	\$0.00

CERTIFICATION
REGARDING DEBARMENT, SUSPENSION, INELIGIBILITY AND VOLUNTARY
EXCLUSION FOR COVERED CONTRACTS

PART A.

Federal Executive Orders 12549 and 12689 require the Texas Department of Agriculture (TDA) to screen each covered potential contractor to determine whether each has a right to obtain a contract in accordance with federal regulations on debarment, suspension, ineligibility, and voluntary exclusion. Each covered contractor must also screen each of its covered subcontractors.

In this certification "contractor" refers to both contractor and subcontractor; "contract" refers to both contract and subcontract.

By signing and submitting this certification the potential contractor accepts the following terms:

1. The certification herein below is a material representation of fact upon which reliance was placed when this contract was entered into. If it is later determined that the potential contractor knowingly rendered an erroneous certification, in addition to other remedies available to the federal government, the Department of Health and Human Services, United States Department of Agriculture or other federal department or agency, or the TDA may pursue available remedies, including suspension and/or debarment.
2. The potential contractor will provide immediate written notice to the person to which this certification is submitted if at any time the potential contractor learns that the certification was erroneous when submitted or has become erroneous by reason of changed circumstances.
3. The words "covered contract", "debarred", "suspended", "ineligible", "participant", "person", "principal", "proposal", and "voluntarily excluded", as used in this certification have meanings based upon materials in the Definitions and Coverage sections of federal rules implementing Executive Order 12549. Usage is as defined in the attachment.
4. The potential contractor agrees by submitting this certification that, should the proposed covered contract be entered into, it will not knowingly enter into any subcontract with a person who is debarred, suspended, declared ineligible, or voluntarily excluded from participation in this covered transaction, unless authorized by the Department of Health and Human Services, United States Department of Agriculture or other federal department or agency, and/or the TDA, as applicable.

Do you have or do you anticipate having subcontractors under this proposed contract?

☐ Yes

☒ No

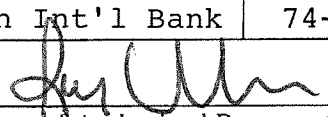
5. The potential contractor further agrees by submitting this certification that it will include this certification titled "Certification Regarding Debarment, Suspension, Ineligibility, and Voluntary Exclusion for Covered Contracts" without modification, in all covered subcontracts and in solicitations for all covered subcontracts.
6. A contractor may rely upon a certification of a potential subcontractor that it is not debarred, suspended, ineligible, or voluntarily excluded from the covered contract, unless it knows that the certification is erroneous. A contractor must, at a minimum, obtain certifications from its covered subcontractors upon each subcontract's initiation and upon each renewal.
7. Nothing contained in all the foregoing will be construed to require establishment of a system of records in order to render in good faith the certification required by this certification document. The knowledge and information of a contractor is not required to exceed that which is normally possessed by a prudent person in the ordinary course of business dealings.
8. Except for contracts authorized under paragraph 4 of these terms, if a contractor in a covered contract knowingly enters into a covered subcontract with a person who is suspended, debarred, ineligible, or voluntarily excluded from participation in this transaction, in addition to other remedies available to the federal government, Department of Health and Human Services, United States Department of Agriculture, or other federal department or agency, as applicable, and/or the TDA may pursue available remedies, including suspension and/or debarment.

**PART B. CERTIFICATION REGARDING DEBARMENT, SUSPENSION,
INELIGIBILITY AND VOLUNTARY EXCLUSION FOR COVERED CONTRACTS**

Indicate in the appropriate box which statement applies to the covered potential contractor:

- ☒ The potential contractor certifies, by submission of this certification, that neither it nor its principals is presently debarred, suspended, proposed for debarment, declared ineligible, or voluntarily excluded from participation in this contract by any federal department or agency or by the State of Texas.
- ☐ The potential contractor is unable to certify to one or more of the terms in this certification. In this instance, the potential contractor must attach an explanation for each of the above terms to which he is unable to make certification. Attach the explanation(s) to this certification.

Name of Contractor	Vendor ID No. or Social Security No.	Program No.
Falcon Int'l Bank	74-2382841	


Signature of Authorized Representative

4-10-19
Date

Roy J. Gonzales
Printed/Typed Name and Title of
Authorized Representative

CONFLICT OF INTEREST QUESTIONNAIRE

For vendor doing business with local governmental entity

FORM CIQ

This questionnaire reflects changes made to the law by H.B. 23, 84th Leg., Regular Session.

This questionnaire is being filed in accordance with Chapter 176, Local Government Code, by a vendor who has a business relationship as defined by Section 176.001(1-a) with a local governmental entity and the vendor meets requirements under Section 176.006(a).

By law this questionnaire must be filed with the records administrator of the local governmental entity not later than the 7th business day after the date the vendor becomes aware of facts that require the statement to be filed. See Section 176.006(a-1), Local Government Code.

A vendor commits an offense if the vendor knowingly violates Section 176.006, Local Government Code. An offense under this section is a misdemeanor.

OFFICE USE ONLY

Date Received

1 Name of vendor who has a business relationship with local governmental entity.

2 ☐ Check this box if you are filing an update to a previously filed questionnaire. (The law requires that you file an updated completed questionnaire with the appropriate filing authority not later than the 7th business day after the date on which you became aware that the originally filed questionnaire was incomplete or inaccurate.)

3 Name of local government officer about whom the information is being disclosed.

Name of Officer

4 Describe each employment or other business relationship with the local government officer, or a family member of the officer, as described by Section 176.003(a)(2)(A). Also describe any family relationship with the local government officer. Complete subparts A and B for each employment or business relationship described. Attach additional pages to this Form CIQ as necessary.

A. Is the local government officer or a family member of the officer receiving or likely to receive taxable income, other than investment income, from the vendor?

☐ Yes

☐ No

B. Is the vendor receiving or likely to receive taxable income, other than investment income, from or at the direction of the local government officer or a family member of the officer AND the taxable income is not received from the local governmental entity?

☐ Yes

☐ No

5 Describe each employment or business relationship that the vendor named in Section 1 maintains with a corporation or other business entity with respect to which the local government officer serves as an officer or director, or holds an ownership interest of one percent or more.

6 ☐ Check this box if the vendor has given the local government officer or a family member of the officer one or more gifts as described in Section 176.003(a)(2)(B), excluding gifts described in Section 176.003(a-1).

7

Signature of vendor doing business with the governmental entity

Date

CONFLICT OF INTEREST QUESTIONNAIRE

For vendor doing business with local governmental entity

A complete copy of Chapter 176 of the Local Government Code may be found at <http://www.statutes.legis.state.tx.us/Docs/LG/htm/LG.176.htm>. For easy reference, below are some of the sections cited on this form.

Local Government Code § 176.001(1-a): "Business relationship" means a connection between two or more parties based on commercial activity of one of the parties. The term does not include a connection based on:

- (A) a transaction that is subject to rate or fee regulation by a federal, state, or local governmental entity or an agency of a federal, state, or local governmental entity;
- (B) a transaction conducted at a price and subject to terms available to the public; or
- (C) a purchase or lease of goods or services from a person that is chartered by a state or federal agency and that is subject to regular examination by, and reporting to, that agency.

Local Government Code § 176.003(a)(2)(A) and (B):

(a) A local government officer shall file a conflicts disclosure statement with respect to a vendor if:

(2) the vendor:

(A) has an employment or other business relationship with the local government officer or a family member of the officer that results in the officer or family member receiving taxable income, other than investment income, that exceeds \$2,500 during the 12-month period preceding the date that the officer becomes aware that

(i) a contract between the local governmental entity and vendor has been executed;

or

(ii) the local governmental entity is considering entering into a contract with the vendor;

(B) has given to the local government officer or a family member of the officer one or more gifts that have an aggregate value of more than \$100 in the 12-month period preceding the date the officer becomes aware that:

(i) a contract between the local governmental entity and vendor has been executed; or

(ii) the local governmental entity is considering entering into a contract with the vendor.

Local Government Code § 176.006(a) and (a-1)

(a) A vendor shall file a completed conflict of interest questionnaire if the vendor has a business relationship with a local governmental entity and:

(1) has an employment or other business relationship with a local government officer of that local governmental entity, or a family member of the officer, described by Section 176.003(a)(2)(A);

(2) has given a local government officer of that local governmental entity, or a family member of the officer, one or more gifts with the aggregate value specified by Section 176.003(a)(2)(B), excluding any gift described by Section 176.003(a-1); or

(3) has a family relationship with a local government officer of that local governmental entity.

(a-1) The completed conflict of interest questionnaire must be filed with the appropriate records administrator not later than the seventh business day after the later of:

(1) the date that the vendor:

(A) begins discussions or negotiations to enter into a contract with the local governmental entity; or

(B) submits to the local governmental entity an application, response to a request for proposals or bids, correspondence, or another writing related to a potential contract with the local governmental entity; or

(2) the date the vendor becomes aware:

(A) of an employment or other business relationship with a local government officer, or a family member of the officer, described by Subsection (a);

(B) that the vendor has given one or more gifts described by Subsection (a); or

(C) of a family relationship with a local government officer.

CERTIFICATION REGARDING FEDERAL LOBBYING
(Certification for Contracts, Grants, Loans, and Cooperative Agreements)

PART A. PREAMBLE

Federal legislation, Section 319 of Public Law 101-121 generally prohibits entities from using federally appropriated funds to lobby the executive or legislative branches of the federal government. Section 319 specifically requires disclosure of certain lobbying activities. A federal government-wide rule, "New Restrictions on Lobbying", published in the Federal Register, February 26, 1990, requires certification and disclosure in specific instances.

PART B. CERTIFICATION

This certification applies only to the instant federal action for which the certification is being obtained and is a material representation of fact upon which reliance was placed when this transaction was made or entered into. Submission of this certification is a prerequisite for making or entering into this transaction imposed by section 1352, title 31, U.S. Code. Any person who fails to file the required certification shall be subject to a civil penalty of not less than \$100,000 for each such failure.

The undersigned certifies, to the best of his or her knowledge and belief, that:

1. No federally appropriated funds have been paid or will be paid, by or on behalf of the undersigned, to any person for influencing or attempting to influence an officer or employee of any agency, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with the awarding of any federal contract, the making of any federal grant, the making of any federal loan, the entering into of any cooperative agreement, or the extension, continuation, renewal, amendment, or modification of any federal contract, grant, loan, or cooperative agreement.
2. If any funds other than federally appropriated funds have been paid or will be paid to any person for influencing or attempting to influence an officer or employee of any agency, a member of Congress, an officer or employee of Congress, or an employee of a member of Congress in connection with these federally funded contract, subcontract, subgrant, or cooperative agreement, the undersigned shall complete and submit Standard Form-LLL, "Disclosure Form to Report Lobbying", in accordance with its instructions. (If needed, contact the Texas Department of Agriculture to obtain a copy of Standard Form-LLL.)

3. The undersigned shall require that the language of this certification be included in the award documents for all covered subawards at all tiers (including subcontracts, subgrants, and contracts under grants, loans, and cooperative agreements) and that all covered subrecipients will certify and disclose accordingly.

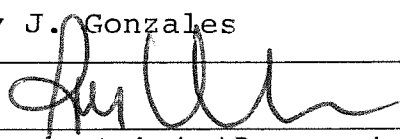
Do you have or do you anticipate having covered subawards under this transaction?

☐ Yes

☒ No

Name of Contractor/Potential Contractor	Vendor ID No. or Social Security No.	Program No.
Falcon Int'l Bank	74-2382841	

Name of Authorized Representative	Title
Roy J. Gonzales	Senior Executive VP


Signature – Authorized Representative

4-10-19

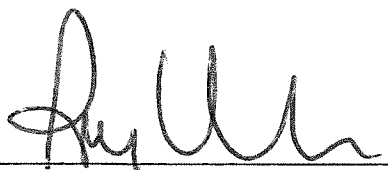
Date

PROOF OF NO DELINQUENT TAXES OWED TO WEBB COUNTY

Name Falcon Int'l Bank owes no delinquent property taxes to Webb County.

Falcon Int'l Bank owes no property taxes as a business in Webb County.
(Business Name)

Falcon Int'l Bank owes no property taxes as a resident of Webb County.
(Business Owner)


Person who can attest to the above information

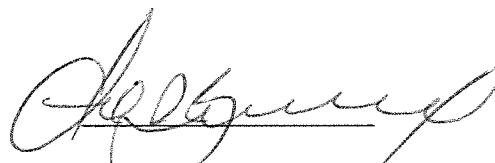
*** SIGNED NOTORIZED DOCUMENT AND PROOF OF NO DELINQUENT TAXES TO WEBB COUNTY.**

The State of Texas
County of Webb

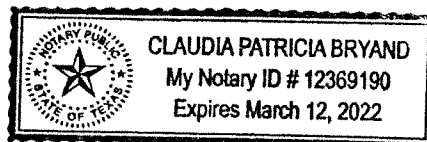
Before me, a Notary Public, on this day personally appeared Roy J Gonzales, know to me (or proved to me on the oath of Roy J Gonzales to be the person whose name is subscribed to the forgoing instrument and acknowledged to me that he executed the same for the purpose and consideration therein expressed.

Given under my hand and seal of office this 8 day of April 2019.

Notary Public, State of Texas


(Print name of Notary Public here)

My commission expires the 12 day of March 2022



**WEBB COUNTY PURCHASING DEPT.
QUALIFIED PARTICIPATING VENDOR CODE OF ETHICS
AFFIDAVIT FORM**

STATE OF TEXAS *

KNOW ALL MEN BY THESE PRESENTS:

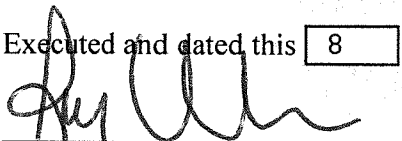
COUNTY OF WEBB *

BEFORE ME the undersigned Notary Public, appeared Falcon Bank by Roy J Gonzales the herein-named "Affiant", who is a resident of Webb County, State of Texas and upon his/her respective oath, either individually and/or behalf of their respective company/entity, do hereby state that I have personal knowledge of the following facts, statements, matters, and/or other matters set forth herein are true and correct to the best of my knowledge.

I personally, and/or in my respective authority/capacity on behalf of my company/entity do hereby confirm that I have reviewed and agree to fully comply with all the terms, duties, ethical policy obligations and/or conditions as required to be a qualified participating vendor with Webb County, Texas as set forth in the Webb County Purchasing Code of Ethics Policy posted at the following address: <http://www.webbcountytexas.gov/PurchasingAgent/PurchasingEthicsPolicy.pdf>

I personally, and/or in my respective authority/capacity on behalf of my company/entity do hereby further acknowledge, agree and understand that as a participating vendor with Webb County, Texas on any active solicitation/proposal/qualification that I and/or my company/entity failure to comply with the Code of Ethics policy may result in my and/or my company/entity disqualification, debarment or make void my contract awarded to me, my company/entity by Webb County. I agree to communicate with the Purchasing Agent or his designees should I have questions or concerns regarding this policy to ensure full compliance by contacting the Webb County Purchasing Dept. via telephone at (956) 523-4125 or e-mail to the Webb County Purchasing Agent to joel@webbcountytexas.gov.

Executed and dated this 8 day of April, 2019.


Signature of Affiant

Falcon Bank by Roy J Gonzales
Printed Name of Affiant/Company/Entity

SWORN to and subscribed before me, this 8 day April, 2019


NOTARY PUBLIC, STATE OF TEXAS

