

EXHIBIT A
BANK'S APPLICATION

EXHIBIT B
SECURITY AGREEMENT

Security Agreement

_____ (the "Bank"), for valuable consideration, the receipt and sufficiency of which is hereby acknowledged, hereby grants to the City of Leon Valley (the "Depositor"), in order to secure payment when due, whether by acceleration or otherwise, of any and all present or future indebtedness, liabilities or obligations of the Bank to the Depositor, incurred by the Bank as depository pursuant to the Depository Agreement, dated as of the date hereof and any extensions, renewals, or replacements or modifications thereof (the "Depository Agreement"), between the Bank and the Depositor (the "Obligations"), a security interest in and a pledge and assignment of any and all of the following property of the Bank, whenever acquired or arising and wherever located (the "Collateral"):

(a)

_____ and

(b) any and all investment property and securities from time to time held by any Federal Reserve Bank and identified on its books as held for the account of Depositor,

together with

(c) any other investment property, securities, certificates of deposit or other instruments from time to time lodged with, or delivered to, the Depositor or its agent as security for the Obligations or transferred to, or held for the account of, the Depositor on the books of an issuer, financial intermediary or central depository,

together with

(d) the products and proceeds of the foregoing and any substitutions or replacements therefor.

2. Definitions. Except as otherwise expressly defined herein, all terms used herein which are defined in the Uniform Commercial Code as in effect from time to time in Texas (the "Code") have the same meaning herein as in the Code.

3. Continuing Agreement. This is a continuing agreement and shall remain in full force and effect and shall be binding upon the Bank, its successors and assigns until such time as (i) all Obligations have been paid in full and (ii) the Depository Agreement is no longer of any force or effect.

4. Representations and Warranties. The Bank represents and warrants, and so long as this Agreement is in effect shall be deemed continuously to represent and warrant, that:

(a) The Bank is the owner of the Collateral, free of all security interests or other encumbrances, except the security interest created by this Agreement.

(b) The Board of Directors (or a committee thereof) of the Bank has authorized the Bank to enter into this Agreement and to pledge assets hereunder from time to time to secure deposits made by the Depositor with the Bank, and such authorization is reflected in the minutes of a meeting of the Bank's Board of Directors or a committee thereof.

(c) This Agreement and the pledge of the Collateral hereunder do not violate or contravene the terms of the Bank's charter documents, by-laws or any agreement or instrument binding on the Bank or its property.

(d) The Bank has entered into this Agreement and the Depository Agreement (i) in the ordinary course of business, (ii) in good faith and on an arm's length basis with the Depositor, (iii) not in contemplation of bankruptcy or insolvency, and (iv) without intent to hinder, delay or defraud the Bank or its creditors.

(e) A copy of each of (i) this Agreement, (ii) the Depository Agreement, and (iii) the authorization of the Board of Directors (or committee thereof) of the Bank has been placed (and will be continuously maintained) in the official records of the Bank.

5. Events of Default. Each of the following occurrences shall constitute an event of default under this Agreement (herein called "Event of Default"): (i) Bank shall fail to pay any or all of the Obligations when due or (if payable on demand) on demand, or shall fail to observe or perform any covenant or agreement herein binding on it; (ii) any representation or warranty by Bank set forth in this Agreement or made to Depositor in any financial statements or reports submitted to Depositor by or on behalf of Bank shall prove materially false or misleading; (iii) a garnishment summons or a writ of attachment shall be issued against or served upon the Depositor for the attachment of any property of the Bank or any indebtedness owing to Bank; (iv) Bank or any guarantor of any Obligation shall (A) be or become insolvent (however defined); (B) if a corporation, partnership or organization, be dissolved or liquidated; or (C) go out of business; (v) Depositor shall in good faith believe that the value then realizable by collection or disposition of the Collateral, after deduction of expenses of collection and disposition, is less than the aggregate unpaid balance of all Obligations then outstanding; (vi) Depositor shall in good faith believe that the prospect of due and punctual payment of any or all of the Obligations is impaired. For purposes of this Agreement, the following Events of Default shall be considered and referred to herein as "Curable Events of Default": (i) Bank shall fail to pay any or all of the Obligations when due or (if payable on demand) on demand, or shall fail to observe or perform any covenant or agreement herein binding on it; (ii) any representation or warranty by Bank set forth in this Agreement or made to Depositor in any financial statements or reports submitted to Depositor by or on behalf of Bank shall prove materially false or misleading; (iii) Depositor shall in good faith believe that the prospect of due and punctual payment of any or all of the Obligations is impaired. In the event of a Curable Event of Default, Depositor shall give notice to Bank via telephone or telecopy that a Curable Event of Default has occurred. If

Depositor gives the notice prior to noon, Bank shall have until 5:00 p.m. of the same day notice is given to cure such Curable Event of Default. If Depositor gives Bank notice at or after noon, Bank shall have until noon of the following business day to cure such Curable Event of Default. Either such time period to cure a Curable Event of Default shall be referred to herein as a "Cure Period." For purposes of this Agreement, the following Events of Default shall be considered and referred to herein as "Incurable Events of Default": (i) a garnishment summons or a writ of attachment shall be issued against or served upon the Depositor for the attachment of any property of the Bank or any indebtedness owing to Bank; (ii) Bank or any guarantor of any Obligation shall (A) be or become insolvent (however defined); (B) if a corporation, partnership or organization, be dissolved or liquidated; or (C) go out of business; (iii) Depositor shall in good faith believe that the value then realizable by collection or disposition of the Collateral, after deduction of expenses of collection and disposition, is less than the aggregate unpaid balance of all Obligations then outstanding.

6. Rights of Depositor. Bank agrees that Depositor may at any time after the occurrence of a Incurable Event of Default, without notice or demand of any kind, take any or all of the following actions: (i) notify the obligor on or issuer of any Collateral to make payment to Depositor of any amounts due or distributable thereon, (ii) in Bank's name or Depositor's name enforce collection of any Collateral by suit or otherwise, or surrender, release or exchange all or any part of it, or compromise, extend or renew for any period any obligation evidenced by the Collateral, (iii) receive all proceeds of the Collateral, and (iv) hold any increase or profits received from the Collateral as additional security for the Obligations, except that any money received from the Collateral shall, at Depositor's option, be applied in reduction of the Obligations, in such order of application as Depositor may determine, or be remitted to Bank.

Bank agrees that Depositor may at any time after the occurrence of a Curable Event of Default which is not cured within the Cure Period, without any further notice or demand of any kind, take any or all of the following actions: (i) notify the obligor on or issuer of any Collateral to make payment to Depositor of any amounts due or distributable thereon, (ii) in Bank's name or Depositor's name enforce collection of any Collateral by suit or otherwise, or surrender, release or exchange all or any part of it, or compromise, extend or renew for any period any obligation evidenced by the Collateral, (iii) receive all proceeds of the Collateral, and (iv) hold any increase or profits received from the Collateral as additional security for the Obligations, except that any money received from the Collateral shall, at Depositor's option, be applied in reduction of the Obligations, in such order of application as Depositor may determine, or be remitted to Bank.

7. Remedies upon Event of Default. Upon the occurrence of an Event of Default and at any time thereafter, Depositor may exercise any one or more of the following rights or remedies: (i) declare all unmatured Obligations to be immediately due and payable, and the same shall thereupon be immediately due and payable, without presentment or other notice or demand; (ii) exercise all voting and other rights as a holder of the Collateral; (iii) exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including, but not limited to, the right to offer and sell the Collateral privately to purchasers who will agree to

take the Collateral for investment and not with a view to distribution and who will agree to the imposition of restrictive legends on the certificates representing the Collateral, and the right to arrange for a sale which would otherwise qualify as exempt from registration under the Securities Act of 1933; and if notice to Bank of any intended disposition of the Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given at least three calendar days prior to the date of intended disposition or other action; (iv) exercise or enforce any or all other rights or remedies available to Depositor by law or agreement against the Collateral, against Bank or against any other person or property, upon the occurrence of the Incurable Event of Default described in Section 4(ii)(B) (relating to dissolution or liquidation of certain business entities), all Obligations shall be immediately due and payable without demand or notice thereof, except as otherwise provided for Curable Events of Default.

8. Miscellaneous. Any disposition of the Collateral in the manner provided in Section 6 shall be deemed commercially reasonable. This Agreement can be waived or discharged, and the Security Interest can be released, only explicitly in writing signed by Depositor. This Agreement can be modified, amended, or terminated only explicitly in a writing signed by Depositor and Bank. A waiver signed by Depositor shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Depositor's rights or remedies. All rights and remedies of Depositor shall be cumulative and may be exercised singularly or concurrently, at Depositor's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other. All notices to be given to Bank shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Bank at its address set forth above or at the most recent address shown on Depositor's records, or if given or delivered in accordance with Section 11 of this Agreement. Depositor's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Depositor exercises reasonable care in physically safekeeping such Collateral or, in the case of collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Depositor need not otherwise preserve, protect, insure or care for any Collateral. Depositor shall not be obligated to preserve any rights Bank may have against prior parties, to exercise at all or in any particular manner any voting rights which may be available with respect to any Collateral, to realize on the Collateral at all or in any particular manner or order. Bank will reimburse Depositor for all expenses (including reasonable attorney's fees and legal expenses) incurred by Depositor in the protection, defense or enforcement of the Security Interest, including expenses incurred in any litigation or bankruptcy or insolvency proceedings. This Agreement shall be binding upon and inure to the benefit of Bank and Depositor and their respective representatives, successors and assigns and shall take effect when signed by Bank and delivered to Depositor, and Bank waives notice of Depositor's acceptance hereof.

Unless the context otherwise requires, all terms used herein which are defined in Articles 1, 8 and 9 of the Uniform Commercial Code, as in effect in Texas, shall have the meanings therein stated. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect,

13. APPLICABLE LAW. THIS AGREEMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF TEXAS.

IN WITNESS WHEREOF, the Bank has caused this Agreement to be duly executed as of the _____ day of _____, 2001.

BANK

By: _____
Name: _____
Title: _____

ACCEPTED AND AGREED
as of _____, 2001

THE CITY OF LEON VALLEY

By: _____
Name: _____
Title: _____

EXHIBIT "1"

ATTACH DESCRIPTION OF ALL COLLATERAL

ATTACHMENT 1 to EXHIBIT B
Supplemental Pledge Agreement

Supplemental Pledge Agreement

RECITALS

_____ ("Bank") has executed a certain Security Agreement dated _____, 19__ (the "Security Agreement") from Bank, as Debtor, the City of Leon Valley, which Security Agreement pledges the following properties and interests in properties (hereinafter at times collectively referred to as the "Collateral") to secure Bank's obligations to Depositor under the Depository Agreement dated _____, 19__:

(a) _____ and

(b) any and all investment property securities from time to time held by any Federal Reserve Bank and identified on its books as held for the account of Depositor,

together with

(c) any other investment property securities, certificates of deposit or other instruments from time to time lodged with, or delivered to, the Depositor or its agent as security for the Obligations or transferred to, or held for the account of, the Depositor on the books of an issuer, financial intermediary or central depository,

together with

(d) the products and proceeds of the foregoing and any substitutions or replacements therefor.

In order to further assure the continued perfection of Depositor's interest in the Collateral (but without implying any need therefor) Bank desires (i) to renew and carry forward the liens, security interests, assignments and other properties, rights, titles and interests (collectively, the "Liens") covering the Collateral created by the Security Agreement in favor of the Debtor to secure and enforce payment of the Obligations and (ii) to affirm and more particularly described Depositor's interest in the properties described in Exhibit "I" attached hereto and made a part hereof for all purposes.

In consideration of the premises and other good and valuable consideration, and in consideration of the Indebtedness described in the Security Agreement, Bank hereby agrees as follows:

ARTICLE I

All capitalized terms not otherwise defined herein shall have the same meaning ascribed to in the Security Agreement.

ARTICLE II

2.1 Pledgor does hereby (a) ASSIGN, BARGAIN, SELL, MORTGAGE, PLEDGE, CONVEY, TRANSFER AND GRANT A SECURITY INTEREST to Depositor, in exact accordance with and under the same and identical terms and provisions of the Security Agreement, all of the right, title and interest of Bank in the property in Exhibit "I" hereto.

2.2 For the same consideration, Bank does hereby acknowledge that the security interest of Depositor is valid and subsisting against the Collateral and Bank does hereby ADOPT, RENEW, RATIFY, CONFIRM AND CARRY FORWARD the pledge of the Collateral and all the terms and provisions of the Security Agreement, as supplemented hereby, and does expressly ratify and confirm all of the warranties and representations heretofore made in the Security Agreement to secure payment of the Obligation.

ARTICLE III

3.1 This Supplemental Pledge may be filed as a FINANCING STATEMENT and as a supplement to the Security Agreement.

3.2 For purposes of filing this Supplemental Pledge as a financing statement pursuant to the UCC, the addresses for Bank, and Depositor are as follows:

Bank:

Depositor: City Manager
City of Leon Valley
6400 El Verde Road
Leon Valley, Texas 78238

EXECUTED effective as of the ____ day of _____, 2001.

Bank:

By: _____

Name: _____

Title: _____

Exhibits:

Exhibit "1" - Collateral

EXHIBIT "1"

ATTACH DESCRIPTION OF ALL COLLATERAL

EXHIBIT C

FORM OF BANK CERTIFICATION LETTER

Mr. Henry U. B. Brummett
City Manager
City of Leon Valley
6400 El Verde Road
Leon Valley, Texas 78238

Dear Mr. Brummett:

We are delivering this letter in connection with the Security Agreement ("the Agreement"), dated as of _____ between _____ (the "Bank") and the City of Leon Valley (the "Depositor"). All terms used but not defined herein shall have the meanings ascribed thereto in the Agreement.

The Bank represents and warrants, and so long as the Agreement is in effect shall be deemed continuously to represent and warrant, that:

(a) The Bank is the owner of _____

_____ and will be the owner of any and all securities, certificates of deposit, or other instruments from time to time held or delivered to Depositor or its agent as security for the obligations under the Depository Agreement, or transferred to or held for the account of Depositor on the books of a financial intermediary or central depository free of all security interests or other encumbrances, except the security interest created by the Agreement.

(b) The Board of Directors (or a committee thereof) of the Bank has authorized the Bank to enter into the Agreement and to pledge assets thereunder from time to time to secure deposits made by the Depositor with the Bank, and such authorization is reflected in the minutes of a meeting of the Bank's Board of Directors or a committee thereof.

- (c) The Agreement and the pledge of the Collateral thereunder do not violate or contravene the terms of the Bank's charter documents, by-laws or any agreement or instrument binding on the Bank or its property.
- (d) The Bank has entered into the Agreement together with the Depository Agreement (i) in the ordinary course of business, (ii) in good faith and on an arm's length basis with the Depositor, (iii) not in contemplation of bankruptcy or insolvency, and (iv) without intent to hinder, delay or defraud the Bank or its creditors.
- (e) A copy of each of (i) this letter, (ii) the Agreement, (iii) the Depository Agreement, and (iv) the authorization of the Board of Directors (or committee thereof) of the Bank has been placed (and will be continuously maintained) in the official records of the Bank.

We are enclosing two (2) sets of this letter and the Agreement. Please sign and date both sets at the place indicated and return one (1) executed set of documents to us in the enclosed self-addressed stamped envelope. The remaining set is for your records.

BANK

By: _____
Name: _____
Title: _____

ACCEPTED AND AGREED
as of _____, 2001.

THE CITY OF LEON VALLEY

By: _____
Name: _____
Title: _____