1. **Purpose**

To assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process, the system of internal control over financial reporting, and credit review, the audit process, and the association’s process for monitoring compliance with laws and regulations and the code of conduct.

2. **Authority**

The Audit Committee has all necessary authorities and has access to all resources needed to accomplish the responsibilities of the Committee as described in this Charter. The Committee has the authority to conduct or authorize investigations into any matters within its scope of responsibility, and Lone Star will provide the Committee any monetary and non-monetary resources in order for it to complete its duties. It is empowered to:

- Retain outside counsel, accountants or other to advise the Committee or assist in the conduct of an investigation.
- Seek any information it requires from employees — all of whom are directed to cooperate with the Committee’s requests - or external parties.
- Meet with association’s officers, internal audit, and external auditors or outside counsel, as necessary.
- Employ firms to provide audit services for financial reporting, internal credit review and internal audit review.
- Pre-approve all auditing and review services.
- Resolve any disagreements between management and any auditor.

The retention of independent outside counsel or expert advisors is permitted with prior notification to the board Chairman or Vice-Chairman as the situation may dictate. A two-thirds majority vote by the full board of directors is required to deny an Audit Committee’s request for resources.

3. **Composition**

The Audit Committee will consist of at least three members, each of whom shall be a member of the Board of Directors who is free from any relationship that would interfere with the exercise of his or her independent judgment as a Committee member, as determined by the Board of Directors. The Audit Committee will also include any director designated as a financial expert. The term of office for each position on the Committee shall be for the lesser of one year, or until the next organization meeting of the Board. The board chairman will appoint Committee members and the Committee chair at the appropriate annual organizational meeting of the board, and each shall serve until their successors shall be duly selected and qualified. The board, upon recommendation of the Committee or otherwise, may remove or replace any Committee member at any time. The Committee may elect a Vice Chairman, if so determined that this position is needed.

Each Committee member will be both independent and financially literate and free from any relationship that would interfere with the exercise of his or her independent judgment as a Committee member. At least one member shall have expertise in financial reporting, and all members will be knowledgeable in either public and corporate finance, financial reporting and disclosure, or accounting procedures.
Further, at least annually the minutes shall include documentation evidencing each member’s knowledge, independence, and experience for existing members or at the time of the first meeting following the appointment of new members.

4. **Meetings**

The Committee will meet at least four times a year with authority to convene additional meetings, as circumstances require. All Committee members are expected to attend each meeting. Three Committee members attending shall constitute a quorum. The Committee will invite members of management, auditors or others to attend meetings and provide pertinent information, as necessary. It will hold private meetings with auditors (see below) and executive sessions.

Meeting agendas shall be prepared and provided in advance to Committee members, along with appropriate briefing materials. Minutes of all Committee meetings will be prepared and approved by the Committee, made available to Committee members and Board members, and maintained for at least three years.

5. **Role and Responsibilities**

The Committee will carry out the following responsibilities:

**Financial Reporting**
- Review significant accounting and reporting issues, including complex or unusual transactions and highly judgmental areas, and recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Review with management and the external auditors the results of the audit, including any difficulties encountered.
- Review the quarterly and annual financial statements, and consider whether they are complete, consistent with information known to Committee members, and reflect appropriate accounting principles.
- Review with management and the external auditors all matters required to be communicated to the Committee under generally accepted standards.

**Internal Control**
- Consider the effectiveness of the company’s internal control over annual and interim financial reporting and credit review, including information technology security and control.
- Understand and concur in the scope of internal and external auditors’ review of internal control over financial reporting and credit review, and obtain reports on significant findings and recommendation, together with managements responses to any findings.

**Internal Audit Function**
- Be responsible for the appointment, compensation, retention and oversight of the work of the internal auditor, who shall report functionally to the Audit Committee.
- Review and approve the annual risk assessment and audit plan developed and recommended by the internal audit function.
- Monitor activities of the internal audit function and ensure there are no unjustified restrictions or limitations placed on the internal audit function.
- On a regular basis, meet separately with the independent internal audit function to discuss any matters that the Committee or internal auditor believes should be discussed in an executive session.
- Review all reports, findings, and management corrective action plans resulting from internal audits, regulatory examinations and external audits.
- Require of management a written response to the findings of the audit, which includes identification
of corrective actions.

External Audit Function
- Determine the selections, and direct the retention, of outside third-party audit firm in order to evaluate the effectiveness of the association’s external audit function.
- Upon the conclusion of the audit, meet separately from association management with the outside audit firm to 1) Discuss any matters that the Committee or audit firm believe necessary, 2) present the findings of the audit, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the audit.
- Require of management a written response to the findings of the review which includes identification of corrective actions.
- Review and confirm the independence of the external auditors by obtaining statement from the auditors on relationships between the auditors and the company, including non-audit services, and discussing the relationship with the auditors.

Internal Credit Review Function
- Determine the selections, and direct the retention, of qualified experts to perform the association internal credit review.
- Upon the conclusion of the audit, meet separately from association management with the outside audit firm to 1) Discuss any matters that the Committee or audit firm believe necessary, 2) present the findings of the audit, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the audit.
- Require of management a written response to the findings of the review, which includes identification of corrective actions.

Collateral Review Function
- Determine the selection, and direct the retention, of qualified experts to perform the association Collateral Review.
- Upon the conclusion of the Review meet separately from association management with the outside review firm to 1) Discuss any matters that the Committee or review firm believe necessary, 2) present the findings of the review, and 3) to confirm there were no restrictions, or limitations, or barriers imposed upon the firm by management during the review.
- Require of management a written response to the findings of the review, which includes identification of corrective actions.

Compliance
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management’s investigation and follow-up (including disciplinary action) of any instance of noncompliance.
- Review the findings of any examinations by regulatory agencies, and any auditor observations.
- Review the process for communicating the code of conduct to company personnel, and for monitoring compliance therewith.
- Obtain regular updates from management and legal counsel regarding compliance matters.

Reporting Responsibilities
- Regularly report to the board of director’s about Committee activities, issues and related recommendations, and by maintaining meeting minutes evidencing Committee members’ agreement or disagreement with items it acts upon.
- Provide an open avenue of communication between outsourced audit functions, the external auditors and the board of directors. Internal and external auditors will report directly to the Audit Committee.
• Report annually to the shareholders, describing the Committee’s composition, responsibilities and how they were discharged, and any other information required by rule.
• Review any other reports the company issues that relates to Committee responsibilities.

Other Responsibilities
• Perform other activities related to this charter as requested by the board of directors.
• Review the SOC report for all key Service Providers and follow up on any management recommendations.
• Institute and oversee special investigations as needed.
• Review and assess the adequacy of the Committee charter annually, requesting board approval for proposed changes.
• Confirm annually that all responsibilities outlined in this charter have been carried out.
• Evaluate the Committee’s and individual members’ performance on an annual basis.
• Require that meeting minutes and related materials be maintained for at least three years.
• Review the status of the audit plan and management’s remediation efforts for outstanding corrective action plans quarterly.