



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**September 19, 2011**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

TexStar National Bank  
Charter Number 24465

600 Pat Booker Road  
Universal City, TX 78148

Office of the Comptroller of the Currency  
Southern District  
San Antonio – North Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

## **INSTITUTION'S CRA RATING: This institution is rated "Satisfactory."**

The major factors supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is more than reasonable given the bank's size, financial condition, assessment areas (AA), credit needs, and relevant competitive factors.
- A substantial majority of loans are originated in the bank's AA, which meets the standard for outstanding performance in this area.
- The record of lending reflects that penetration to small businesses is below area demographics.
- The geographic distribution of loans to businesses is below area demographics for both low- and moderate-income (LMI) areas.

### **SCOPE OF EXAMINATION**

CRA activities for TexStar National Bank (TSNB) were completed using full-scope review procedures for its AA. Our review covered the bank's CRA performance from January 1, 2008 through August 31, 2011. Small business loans were determined to be the bank's primary loan product and were reviewed as part of this examination.

### **DESCRIPTION OF INSTITUTION**

TSNB was founded in 2004, and is an independent intrastate community bank located in central Texas. TSNB is the only bank of the parent holding company, TexStar Bancshares, headquartered in Universal City, Texas. The bank had total assets of about \$179 million as of August 31, 2011. The bank has five offices: the main office in Universal City; a branch located in north San Antonio and another in downtown San Antonio; a branch in Converse; and a branch in New Braunfels. TSNB is a full-service retail bank serving several counties and surrounding areas. All offices have drive-up facilities and extended hours on Friday. The main branch and Converse branch have Saturday hours. Automated teller machines (ATMs) are located at all branch locations.

As of August 31, 2011, TSNB reported \$130 million in net loans and about \$159 million in total deposits. Net loans represent 73% of total assets. The bank's primary loan product is business loans. The bank's loan portfolio consists of commercial loans (83%), residential real estate loans (12%) consumer loans (3%), multi-family loans (1%), and agricultural loans (1%). Net Tier 1 capital was \$18 million as of that same date.

There are no legal, financial, or other factors impeding TSNB's ability to meet the credit needs in its AA. TSNB received an "Outstanding" rating on its last performance evaluation, dated April 17, 2006.

### **DESCRIPTION OF ASSESSMENT AREA(s)**

TSNB has one AA and is part of the San Antonio – New Braunfels Metropolitan Statistical Area (MSA). This AA meets the regulatory requirements and does not arbitrarily exclude LMI geographies. The bank's AA is centrally located between the East and West Coasts. More than 50% of the total goods flowing between the United States and Mexico travel through San Antonio before reaching their final destination.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS ASSESSMENT AREA</b>	
<b>Population</b>	
Number of Families	245,328
Number of Households	353,540
<b>Geographies</b>	
Number of Census Tracts (CT)	187
% Low-Income CT	5
% Moderate-Income CT	54
% Middle-Income CT	72
% Upper-Income CT	55
N/A	1
<b>Median Family Income (MFI)</b>	
2000 MFI for AA	51,967
2011 HUD-Adjusted MFI	57,800
<b>Economic Indicators</b>	
Unemployment Rate	3.23%
2010 Median Housing Value	94,750
% of Households Below Poverty Level	12.18

TSNB’s AA consists of 187 contiguous census tracts (CTs) in the San Antonio – New Braunfels MSA. The tracts are in central, northwest and northeast Bexar County (162 CTs), Comal County (8 CTs), Guadalupe County (12 CTs), and Wilson County (5 CTs). The City of San Antonio is the largest city in the AA. Other key cities in the AA include Universal City, Converse, New Braunfels, Live Oak, Schertz, and Selma.

According to the Bureau of Labor Statistics, the unemployment rate as of August 31, 2011 for the San Antonio – Guadalupe MSA was 7.8%, while the Texas state unemployment rate was 8.5% and the national unemployment rate was higher at 9.1%. The three key industries in the MSA are tourism, healthcare biomedical research and development, and the military. The area is home to Fort Sam Houston, Lackland Air Force Base, Randolph Air Force Base, Brooks City-Base, Camp Bullis, and Camp Stanley. The major employers in the MSA include the military bases (Randolph AFB, Fort Sam Houston, Brooks City-Base, and Lackland AFB), USAA, H-E-B, AT&T, and Bill Miller Bar-B-Q.

Competition in the AA is very strong. According to the June 30, 2010 FDIC Summary of Deposits Market Share Report, TSNB ranked 18<sup>th</sup> out of 62 institutions in the San Antonio – Guadalupe MSA with 0.25% of deposits. USAA ranked first with 2 offices and 62.37% of the deposits. Other financial institutions include Frost National Bank, in second place, with 28 offices and 9.48% of the deposits, Well Fargo Bank NA., in third place, with 60 offices and 5.94% of the deposits, and Bank of America NA, ranked fourth with 43 offices and 5.38% of the deposits.

We conducted a recent community contact with a community-based development corporation. The company in the area provides economic development resources to encourage and promote the general economic welfare of the city and its residents and businesses. This contact stated that small business

loans were a particularly important need in light of elevated unemployment levels in the current economy. The contact mentioned that TSNB was a standout institution in that it provides education assistance and acts as advisor and mentor to the local business community. The contact felt that banks in the AA generally meet the credit needs of the community.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank’s CRA performance is “Satisfactory.” The evaluation period covered lending activity for small business loans reported from January 1, 2008 to August 31, 2011.

**Loan-to-Deposit Ratio**

TSNB’s LTD ratio is more than reasonable given the bank’s size, financial condition, and AA credit needs, and meets the standard for outstanding performance. We reviewed the quarterly average LTD ratios for the twenty-one quarters beginning June 30, 2006 through June 30, 2011, inclusive. Our custom sample included banks located in Texas, with assets less than \$200 million and similarly situated in comparison to this institution. The bank’s average LTD ratio during this period was about 87% and ranks first among its peer group. During this twenty-one quarter period, the bank’s LTD ranged from a low of 80% to a high of 91%. The custom peer average was 67%, with average peer bank ratios ranging from a low of 51%% to a high of 77%.

INSTITUTION	ASSETS (\$000s) As of 6/30/2011	AVERAGE QUARTERLY LTD RATIO As of 6/30/2011
Texstar National Bank	\$181,194	86.86%
First Commercial Bank, NA	\$115,441	77.31%
First-Lockhart National Bank	\$155,125	76.13%
Lone Star Capital Bank, NA	\$132,703	51.36%

**Lending in Assessment Area**

The bank’s lending in the overall AA is Satisfactory. A substantial majority of TSNB’s loan products were originated within the bank’s AA, meeting the standard for outstanding performance. During the evaluation period, about 87% of total business loans and 88% of the dollar of loans were within the bank’s AA. The following table has more details.

Lending in Bexar, Comal, Guadalupe, Wilson Co. Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	26	86.67	4	13.33	30	\$9,215	88.10	\$1,245	11.90	\$10,460

Source: Data reported under HMDA.

**Lending to Businesses of Different Sizes**

TSNB’s borrower distribution is below area demographics for lending to small businesses. The level of small business loans originated to businesses with less than \$1,000,000 in revenues is lower than area demographics. Please refer to the following table for more details.

<b>Borrower Distribution of Loans to Businesses in Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	78.04%	3.95%	18.01%	100%
% of Bank Loans in AA by #	53.85%	46.15%	0%	100%
% of Bank Loans in AA by \$	56.51%	43.49%	0%	100%

Source: Loan sample; Dunn and Bradstreet data.

**Geographic Distribution of Loans**

TSNB’s geographic distribution of commercial loans is below area demographics for lending in LMI areas. Based on our loan sample, the bank did not have any lending in low-income CTs. Lending performance in moderate-income CTs is better but still below area demographics. The bank added a branch in downtown San Antonio in August 2008. This branch is located in a predominantly LMI area. As a percentage of total dollar volume, the bank’s level of loans and deposits originating from the downtown location are currently 14% and 6%, respectively.

<b>Geographic Distribution of Loans to Business in Assessment Area</b>									
Census Tract Income Level	LOW		MODERATE		MIDDLE		UPPER		
% of AA Businesses	1.03%		20.52%		33.77%		44.67%		
LOANS BY YEAR	% of Number	% of Amount							
Commercial Loans	0	0	15.38	9.60	38.46%	35.79%	46.15%	54.61%	

Source: Loan sample; Dunn and Bradstreet data.

**Responses to Complaints**

The bank has not received any CRA-related consumer complaints.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.