



PUBLIC DISCLOSURE

February 25, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texan Bank
Charter Number 718051

12941 Gulf Freeway
Houston, TX 77034

Office of the Comptroller of the Currency

1301 McKinney Street
Suite 1410
Houston, TX 77010-3031

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 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

Texan Bank has a satisfactory record of meeting community credit needs based on the following:

- The average loan-to-deposit (LTD) ratio of 87.43% over the prior 20 quarters is more than reasonable given the bank's size, financial condition, market focus, competition, and lending opportunities in the assessment area (AA).
- Lending activities to small businesses reflects reasonable penetration.
- Lending activities to businesses reflects reasonable dispersion to borrowers located in low- and moderate-income census tracts (CT).
- A majority of primary loans were originated inside the AA. Approximately 52% by number and 41% by dollar volume were to borrowers located within the bank's AA.
- There were no Community Reinvestment Act (CRA) related complaints during the evaluation period.

SCOPE OF EXAMINATION

Texan Bank was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities. To evaluate Texan Bank's performance under the lending test, we used data from a sample of 90 business loans originated between January 1, 2013 and December 31, 2014.

The bank's primary loan product is business loans, representing 70% of the bank's portfolio by dollar amount and 55% by number. As a small bank, management is not required to collect and report information on business lending. Therefore, we selected a statistically valid sample of 90 business loans of which we reviewed the borrower and geographic distribution. Residential real estate loans account for 6% by dollar and 12% by number, and consumer loans make up less than one percent by dollar and 8% by number.

Texan Bank has one AA which includes parts of Harris County, Galveston County, Fort Bend County and Brazoria County which are located in the Houston - The Woodlands - Sugar Land Metropolitan Statistical Area (MSA).

DESCRIPTION OF INSTITUTION

Texan Bank is a community bank headquartered in Houston, Texas and is wholly owned by Friendswood Capital Corporation. There are currently two full service branch locations located in Fort Bend County and Galveston County; and two limited service branches located in Harris County. Since the last CRA evaluation there have been several changes, relocations and conversions within the branches and LPO locations.

Please see the bank's *Public File* for a detailed listing of these changes.

The bank provides a comprehensive line of loan and deposit products and other banking services. Personal loan products include lines of credit, installment loans, home purchase loans, home improvement loans, home refinance loans, home equity term loans, and residential construction loans. Business loan products include commercial real estate loans, commercial construction loans, working capital loans, term loans, accounts receivable financing, equipment financing, small business administration (SBA) loans, letters of credit, and revolving lines of credit.

Deposit products for personal accounts include interest checking, free checking, savings, money market, Texan Legends Money Market, Lil' Texans Savings, certificate of deposits (CDs), Texan Legends CDs, and individual retirement. Business account products include All Business Complete Checking, Business Analyzed Checking, Business Interest Checking, Business Savings, and Business Money Market.

Other services include VISA debit cards, bank by mail, night depository, safe deposit boxes, domestic and international funds transfers, online banking and bill pay, eStatements, mobile banking, remote deposit capture, check imaging, Automated Teller Machines (ATMs), night drop, cashier's checks, direct deposits, Positive Pay, notary services, ACH services, Lockbox, and merchant services.

As of December 31, 2014, the bank had \$164 million in assets and a tier one leverage ratio of 11.10%. There are no legal or financial circumstances impeding to the bank's ability to meet the credit needs of its AA.

The bank was rated "Satisfactory" at its last CRA examination dated June 28, 2010.

Please refer to Texan Bank's public file for more information on the institution.

DESCRIPTION OF ASSESSMENT AREA

Texan Bank has delineated portions of the Houston - The Woodlands - Sugarland MSA (Houston AA) as its AA. We did not identify any evidence of redlining or discriminatory practices as it related to the delineation of the AA as all CTs are contiguous. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income CTs. In October 2014, Texan Bank opened a Houston Branch and shortly afterwards changed the domain from Sugar Land to Houston. In January 2015, the bank expanded its assessment area to include additional areas around the new location, including parts of Harris County and additional parts of Fort Bend County.

HOUSTON AA

The Houston AA is part of the larger Houston - The Woodlands - Sugar Land MSA. This MSA is located in the Gulf Coast Region of Texas and consists of 10 counties; Austin, Brazoria, Chambers, Fort Bend, Galveston, Harris, Liberty, Montgomery, San Jacinto, and Waller. Houston is the largest city in the MSA and is located in Harris County. The MSA is the sixth largest in the nation and has a population of 5.9 million according to the 2010 U.S. Census. The 2014 MSA median family income was \$68,400. The AA is comprised of 529 CTs located in parts of Brazoria, Galveston, Fort Bend, and Harris counties. Of these, 14 are located in Brazoria County (3%), 22 in Galveston County (4%), 71 in Fort Bend County (13%), and 422 in Harris County (80%). Approximately 28% (149) of all the CTs are designated as moderate-income and 15% (78) are designated as low-income.

The economic state of the Houston AA is good. The Greater Houston Area benefits from a skilled work force and has a large concentration of engineering talent which is generated from its energy, aerospace and medical clusters. Energy remains a cornerstone of Houston's economy. According to the Greater Houston Partnership, an organization who works with the 11-county region to cultivate economic growth, Houston had the fastest growing economy in the nation's fifty most populous metro areas in 2013. Houston is home to 40 of the nation's 134 publicly traded oil and gas exploration and production firms, employing one-third of the nation's oil and gas extraction jobs. In the Houston MSA, 125,300 jobs were created in the twelve months ending November 2014. Houston is also home to 26 Fortune 500 companies. Top employers in the Houston region consist of the Memorial Herman Health System (19,500 employees), the University of Texas MD Anderson Cancer Center (19,290 employees), and United Airlines (17,000 employees). The 2010 U.S. Census indicates that the unemployment rate in the AA is at 4.55%, and 13.50% of the population lives below the poverty level.

Banking competition is intense. The five largest competitors in the Houston AA are JPMorgan Chase Bank, N.A., Wells Fargo South Central, N.A., Wells Fargo Bank, N.A., Bank of America, N.A, and Compass Bank. Of these institutions, JPMorgan Chase, N.A. and Wells Fargo South Central, N.A. holds approximately 54% of the market share.

Brazoria County

The bank designated 14 CTs in Brazoria County accounting for only 3% of the AA. Of these CTs, one tract is moderate-income (8%), three are middle-income (21%), and 10 are upper-income (71%). The population for the county was 313,166 as of 2010 U.S. Census data. Although the county seat is Angleton, Pearland is the largest city.

The economic climate in Brazoria County is good. According to the Economic Development Alliance for Brazoria County, major employers include The Dow Chemical Company, Alvin ISD, Pearland ISD, Texas Department of Criminal Justice, and Fluor Corporation. Per the 2013 U.S. Bureau of Labor Statistics, unemployment is low at 6.4%. According to U.S. Census data of 2013, 11.2% of the population lives below the poverty level and the median household income was \$67,603.

Banking competition is moderate. The five largest competitors in the county include Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., Compass Bank, Texas Gulf Bank, N.A., and First National Bank of Lake Jackson. As Texan Bank does not have a branch location in this county, there is no significant deposit market share.

Galveston County

The bank designated 22 CTs in Galveston County accounting for only 4% of the AA. Of these CTs, three tracts are moderate-income (14%), four are middle-income (18%), and 15 are upper-income (68%). The population for the county was 291,309 as of 2010 U.S. Census data. The county seat is the city of Galveston, while its largest city is League City.

The economic climate in Galveston County is good. According to the Galveston County Economic Alliance, Galveston County is a pro-business county that supports aerospace, life sciences, petrochemical, and tourism industry clusters. Galveston County has eight businesses that employ 500 to 1000 employees. The top three employers include Galveston College, Gulf Greyhound Park, and Landry's Galveston. Per the 2013 U.S. Bureau of Labor Statistics, unemployment is low at 6.7%. According to U.S. Census data of 2013, 13.3% of the population lives below the poverty level and the median household income was \$61,887.

Banking competition is moderate. Top competitors include Moody National Bank, Texas First Bank, JP Morgan Chase Bank, N.A., and Hometown Bank, N.A. Texan Bank holds a deposit market share of 0.80%.

Fort Bend County

The 71 designated CTs in Fort Bend County account for 13% of the AA. Of these CTs, one tract is low-income (1%), 7 are moderate-income (10%), 23 are middle-income (33%), and 40 are upper income (56%).

According to the 2010 U.S. Census, Fort Bend County population is 585,375. The county seat is Richmond, while its largest city is Sugar Land.

The economic climate in Fort Bend County is good. For more than 20 years, Fort Bend has been in the top 20 counties in the US for economic excellence and population growth. According to the Greater Fort Bend Economic Development Council, major employers include Fort Bend ISD, Lamar Consolidated ISD, Fluor Corporation, and Fort Bend County. Per the 2013 Bureau of Labor Statistics, unemployment is low at 5.6%. According to the 2012 U.S. Census data, 8.4% of the population lives below the poverty level and the median household income was \$85,297.

Banking competition is intense as Texan Bank competes with 40 other institutions in Fort Bend County. Top competitors consist of Wells Fargo Bank, N.A., JP Morgan Chase Bank, N.A., Bank of America, N.A., and Prosperity Bank. Texan Bank holds a deposit market share of 0.04%.

Harris County

Harris County accounts for 80% of the CTs located in the AA. The bank has designated 422 of the CTs located in Harris County as part of their AA. Of these CTs, 77 are low-income (18%), 138 are moderate-income (33%), 77 are middle-income (18%), and 130 are upper-income (31%). According to the 2010 U.S. Census, Harris County population is 4,092,459, making it the largest county in Texas and the third-largest in the United States. The county seat, Houston, is the largest city in Texas.

Harris County's economy is performing well. With more than 3,000 energy-related firms, Harris County is recognized as the energy capital of the world. In addition, Harris County is home to the Port of Houston, which is ranked number one in the nation for its volume of foreign tonnage. The port is also the second largest petrochemical complex in the world. Per the 2013 U.S. Bureau of Labor Statistics, unemployment is low at 6.1%. According to the 2013 U.S. Census data, 18.5% of the county's population lives below the poverty level and the median household income is \$53,137.

Texan Bank competes with 82 other institutions in Harris County. According to the Federal Deposit Insurance Corporation Deposit Market Share Report, Texan holds 0.01% market share in a market dominated by JP Morgan Chase, N.A., Wells Fargo Bank South Central, N.A., and Wells Fargo Bank, N.A., and Bank of America, N.A.

We reviewed community contact forms prepared by the OCC to obtain information that assists in the evaluation of the institution. One of the institutions is part of a national network of centers established to assist existing minority-owned businesses. The contact stated that there is a need for alternative sources of financing, such as lines of credit, working capital lines, and asset based lending for clients who would not qualify for SBA loans. The other institution is a conduit for women-owned businesses providing support to entrepreneurs in education, scholarships and matchmaking with corporate

contracting offices. The contact stated that the greatest needs are those to provide contracts, loans and procurement opportunities.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LENDING TEST

Texan Bank's performance under the Lending Test is Satisfactory. Due to changes in the income levels for several CTs between 2013 and 2014, a separate analysis was performed in each of the lending test areas for the corresponding year. Also, it was noted that Texan Bank originated the majority of primary loans outside its AA for the year 2013. Our review indicated that approximately 44% by number and 31% by dollar volume were originated to borrowers located within the bank's AA from January 1, 2013 through December 31, 2013. During the evaluation period, Texan Bank expanded their AA, which resulted in the origination of a majority of primary loans inside the new AA. From January 1, 2014 through December 31, 2014, 63% by number and 53% by dollar amount were originated inside of the bank's AA. However, the overall ratings were determined considering results from both years.

Loan-to-Deposit Ratio

The LTD ratio is more than reasonable given its size, financial condition, funding sources, and AA credit needs. The bank's quarterly LTD ratio averaged 87% over the twenty quarters in the evaluation period. Five banks with total assets of less than \$1 billion, headquartered in any of the counties in Texan Bank's AAs, had an average LTD ratio of 58% for the same time period. The LTD ratios for the peer group banks ranged from 84% to 24%. The bank's average LTD ratio is above its peer group quarterly average LTD ratio and exceeds the standards for satisfactory performance.

The following table shows total assets as of fourth quarter 2014 and the quarterly average LTD ratio from March 30, 2010, through December 31, 2014.

Loan-to-Deposit Ratios		
Institution	Assets	Average LTD Ratio
Texan Bank, Houston, TX	\$ 164,497	87.43%
Heritage Bank, Pearland, TX	\$ 190,471	83.54%
Pearland State Bank, Pearland, TX	\$ 178,156	23.52%
First State Bank, Clute, TX	\$ 177,663	56.24%
The State Bank of Texas, Houston, TX	\$ 166,773	53.29%
Westbound Bank, Katy, TX	\$ 144,078	73.42%

Lending in Assessment Area

Texan Bank originated a majority of primary loans inside its AA during the evaluation period. For 2013, a majority of primary loans by number were inside the AA. For 2014, a majority by number and dollar were inside the AA.

Our review indicated that approximately 44% by number and 31% by dollar amount of loans originated from January 1, 2013 through December 31, 2013 were to borrowers located within the bank’s AA. From January 1, 2014 through December 31, 2014, 63% by number and 53% by dollar amount were inside the bank’s AA. Combined, 52% by number and 41% by dollar amount were originated inside the bank’s AA during the evaluation period.

Despite low lending activity in 2013, performance within the bank’s AA is adequate and meets the standard for satisfactory performance overall. Performance factors for 2014 shows a majority by dollar and number, which weighs strongly in the overall conclusion.

Table 1 - Lending in Houston-Sugar Land-Baytown MSA (2013)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(000s)		(000s)		
Commercial Loans	22	44.00%	28	56.00%	50	\$8,343	30.52%	\$18,996	69.48%	\$27,339

Source: Sample of commercial loans originated in year 2013.

Table 2 - Lending in Houston-Sugar Land-Baytown MSA (2014)										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
						(000s)		(000s)		
Commercial Loans	25	62.50%	15	37.5	40	\$13,633	53.18%	\$12,005	46.82%	\$25,637

Source: Sample of commercial loans originated in year 2014.

Lending to Businesses of Different Sizes

The distribution of loans to businesses of different sizes is reasonable and meets the standards for satisfactory performance based on the volume of business lending, which makes up a significant portion of the entire loan portfolio at 70%. Penetration of loans to businesses with gross annual revenues of \$1 million or less is near to the characteristics of the AAs for 2013 and below the characteristics of the AA in 2014. The following analysis used data from a sample of 47 loans that the bank originated within its AA. Due to income level changes in the business CTs between 2013 and 2014, a separate sample was pulled for each year which resulted in separate tables for each area.

Business Loans

The distribution of loans to businesses of different sizes reflects reasonable penetration when considering the bank's level of competition within the AA. In the Houston AA, 71% of businesses are small, generating gross annual revenues of less than \$1 million for 2013 and 2014. Sixty-eight percent by number of loans and 72% by dollar amount were made to small businesses in 2013. Forty percent by number of loans and 24% by dollar amount were made to small business in 2014. Combined, both years reflect a reasonable percentage of small business lending in the AA meeting the standard for satisfactory performance. The bank's performance is reflected in the following tables.

Table 2A - Borrower Distribution of Loans to Businesses in the Houston AA (2013)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.05%	3.88%	25.06%	100%
% of Bank Loans in AA by #	68.18%	31.82%	0.00%	100%
% of Bank Loans in AA by \$	71.67%	28.33%	0.00%	100%

Source: 2013 Business Loan Sample; U.S. Census data.

Table 2A - Borrower Distribution of Loans to Businesses in the Houston AA (2014)				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.03%	4.44%	24.52%	100%
% of Bank Loans in AA by #	40.00%	60.00%	0.00%	100%
% of Bank Loans in AA by \$	24.23%	75.77%	0.00%	100%

Source: 2014 Business Loan Sample; U.S. Census data.

Geographic Distribution of Loans

Geographic distribution of business loans reflects reasonable dispersion in low- and moderate-income CTs in both of the bank’s AAs meeting the standard for satisfactory performance. Dispersion of loans in low-income CTs was 4.55%, which is lower than the AA census characteristic of 8.73% in 2013. Dispersion of loans in moderate-income CTs was 18.18%, which is near to the AA census characteristic of 19.18% in 2013. However, dispersion of loans in low-income CTs was 12%, which exceeds the AA census characteristic of 8.51% in 2014. Dispersion of loans in moderate-income CTs was 16%, which is lower than the AA census characteristic of 18.70% in 2014. The following tables shows the distribution of business-related loans among CTs of different income levels, as compared to the percent of businesses located in each CT income category.

Table 3A - Geographic Distribution of Loans to Businesses in the Houston AA (2013)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	8.73%	4.55%	19.18%	18.18%	17.95%	27.27%	54.03%	50.00%

Source: 2013 Business Loan Sample; U.S. Census data
 Note: Income information was not available for 0.11% of AA CTs.

Table 3A - Geographic Distribution of Loans to Businesses in the Houston AA (2014)								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	8.51%	12.00%	18.70%	16.00%	17.48%	24.00%	55.19%	48.00%

Source: 2014 Business Loan Sample; U.S. Census data
 Note: Income information was not available for 0.11% of AA CTs.

Responses to Complaints

The bank did not receive any CRA-related complaints during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a National Bank's (bank) or Federal Savings Association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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