



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

June 25, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas Gulf Bank, National Association
Charter Number 10420

200 W. Second Street
Freeport, TX 77541-5714

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.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Texas Gulf Bank (TGB) has a satisfactory record of meeting community credit needs. This conclusion is based on the following:

- TGB's quarterly loan-to-deposit (LTD) ratio is reasonable, averaging 56 percent since the prior CRA evaluation. This is comparable to a peer group of banks which averaged 49 percent for the same period.
- A majority of lending is inside the assessment area (AA) by number of loans originated. Of the number of business and residential loans originated/purchased in the evaluation period, 59 percent were within the AA.
- The overall distribution of loans reflects reasonable penetration of borrowers of different income levels and businesses of different sizes.
- The overall geographic distribution of loans reflects excellent dispersion to low- and moderate-income (LMI) census tracts (CTs) in the bank's AA.
- The level of community development (CD) activities is satisfactory in relation to the bank's performance context, and reflects adequate responsiveness to AA needs.

Scope of Examination

We completed a full-scope review of TGB's CRA activities in its AA. TGB was evaluated under the Intermediate Small Bank (ISB) examination procedures, which include a lending test and a CD test. The lending test evaluates the bank's record of meeting the credit needs of the bank's AA through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through qualified CD lending, investments, and services.

The lending test for TGB included a review of all business and residential loans originated or purchased from January 1, 2010 through December 31, 2011. This was a total of 630 loans. We performed revenue and geographic distribution analyses on all 372 loans originated in the AA. The evaluation period for the CD test is from October 7, 2006 to June 25, 2012.

TGB's primary lending products are loans to small- and medium-size businesses, and loans to finance home purchase, home improvement, and home refinancing. As an ISB, the bank is not required to collect or report loan data for business loans; however, management has elected to collect it and present it for analysis. The bank collects and reports home mortgage loan data under the requirements of the Home Mortgage Disclosure Act (HMDA).

Prior to this examination, in December 2011, we completed a Data Integrity review of information collected by management for business and residential loans. As our review found error rates in excess of five percent for both types of loans, we did not consider the data to be reliable. Management subsequently reviewed and corrected the HMDA data as required, and elected to review and correct the data for business loans as well. We tested the corrected information at the start of this CRA examination, and found the data to be reliable. Therefore our examination is based on all loan originations during the period and not a sample.

Description of Institution

TGB is a full-service community bank headquartered in Freeport, Brazoria County, Texas. TGB is a wholly-owned subsidiary of Texas Gulf Bancshares, Inc., a one-bank holding company. The bank has eight branches. The Angleton, West Columbia, Lake Jackson, Clute, and both Freeport branches are located in Brazoria County. The Houston branch, which opened in 2009, is in Harris County. The Friendswood branch, which opened in 2010, is in Galveston County. TGB offers a variety of commercial, retail, and trust services. Automated Teller Machines (ATMs) are available at each location, and drive-through service is offered at all locations except the West Second Street, Freeport branch.

As of March 31, 2012, assets totaled \$429 million and the Tier One Leverage Capital ratio was 9.29 percent. Business financing represents the largest portion of the loan portfolio at 60 percent by dollar amount and 27 percent by number. Residential real estate financing is also a primary lending product representing 23 percent of the loan portfolio by dollar amount and 30 percent by number.

There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its community. TGB was rated "Satisfactory" at the last CRA examination dated October 6, 2006.

Please refer to TGB's CRA Public File for more information about the institution.

Description of Assessment Area

The bank's AA contains 54 CTs, consisting of 29 CTs in Brazoria County, 21 CTs in Harris County, and 4 CTs in Galveston County. The tract income characteristics of the AA are as follows: no low-income CTs, 5 (9 percent) moderate-income tracts, 20 (37 percent) middle-income CTs, and 29 (54 percent) upper-income tracts. The moderate-income CTs are all in Brazoria County. The AA meets legal requirements as its boundaries encompass the branch locations, are delineated by county lines or major thoroughfares, include only whole CTs, and do not arbitrarily exclude LMI geographies.

Brazoria County is located south of Houston and covers 1,597 square miles. According to the 2010 United States Census (census), the county has a population of 313,166 and has grown 29.5 percent in the past 10 years. Median household income was \$65,607. According to the Texas Workforce Commission, in November 2011, the unemployment rate was 8.4 percent, and the 2010 census estimated 10.6 percent of the population was below the poverty level. The county contained 45 CTs during the predominant portion of the assessment period. The county does not have any low-income CTs, and contains seven moderate-income CTs.

TGB concentrates banking activities in Brazoria County in the southern portion known as the Brazosport area. Brazosport is a multi-city community located at the mouth of the Brazos and San Bernard rivers. Four of the TGB's eight banking locations are in the Brazosport area and two others are in Brazoria County. According to the Brazosport Area Chamber of Commerce, Brazosport is the home of the largest basic chemical complex in the world which includes chemical manufacturing, petro-chemical processing, offshore extraction support complexes, and various other manufacturing. Major employers included The Dow Chemical Company, Texas Department of Criminal Justice, Infinity Group, Brazosport Independent School District, and Wal-Mart Associates, Inc.

Banking competition in Brazoria County is intense. The June 30, 2011 Federal Deposit Insurance Corporation (FDIC) Market Share Report lists 27 financial institutions with 78 offices in the county, excluding credit unions. Competitors in the county include Texas Dow Employees Credit Union, Brazosport Teachers Credit Union, Brazoria County Employees Credit Union, Old Ocean Employees Credit Union, First National Bank of Lake Jackson, First State Bank Clute, and Lone Star Bank.

A Community Affairs Specialist for the Comptroller of the Currency completed a contact in Brazoria County with a Director of a non-profit organization. The organization exists to build decent and affordable housing within its service area. The Director commented that most banks were not heavily involved in providing affordable housing opportunities. However, the Director stated that TGB has been a partner with the organization for more than 20 years, and employees of the bank raise funds for the moving in costs associated for the families that receive housing.

Friendswood, Texas is also south of Houston. The city of Friendswood covers 21 square miles; however, areas surrounding Friendswood, but not in the city limits have Friendswood addresses and are considered part of the Friendswood area. Friendswood is located in Harris and Galveston Counties. As of the 2010 census, the population of Friendswood was 35,805. In 2007, CNN/Money Magazine rated Friendswood as one of "America's Best Places to Live."

According to the 2010 census, Friendswood's population has grown 23 percent since 2000. Median household income was \$95,336 in 2009. The Texas Work Force Commission reported a jobless rate of 6.2 percent in March 2012. The 2010 census estimated 5.1 percent of the population was below the poverty level. According to the Friendswood Chamber of Commerce, the predominant business categories in the area are aerospace and defense, software and computing, biotechnology, computer equipment, electronics, communication services, and chemicals. Top employers within the city of Friendswood include the Friendswood Independent School District, H. E. Butt Grocery Company, City of Friendswood, Kroger Texas, LP, Clear Creek Independent School District, and Friendship Haven Nursing Home.

There is much banking competition within Friendswood. The June 30, 2011 FDIC Market Share Report shows there are 14 financial institutions with 19 offices. Bank competitors include JP Morgan Chase Bank, National Association (N.A.), Patriot Bank, Compass Bank, HomeTown Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A. Comerica Bank, and Amegy Bank, N.A.

Harris County is the largest county in Texas, representing 16 percent of the state's population and is the third largest county in the nation. The Harris County population is estimated at 4.1 million according to a 2010 U.S. Census Bureau estimate with a growth rate of 20 percent from the 2000 to 2010 Census. The U.S. Bureau of Labor Statistics shows an unemployment rate of 8.7 percent in 2010. As of 2010, Harris County accounts for 9 percent of all U.S. jobs, which is up from 1.7 percent 10 years ago.

The county's economic activity is centered in the city of Houston. In January of 2012, the Brookings Institute named Houston, North America's fastest growing metropolitan area. Houston is home to the Port of Houston, which ranks first in the United States in foreign waterborne tonnage and first in United States imports. Houston is also home to the largest medical center in the world, the Texas Medical Center. With 160 thousand visitors a day, the Center's economic impact exceeds \$14 billion annually, and it has approximately 93 thousand employees. Houston is second only to New York City in Fortune 500 company headquarters, and more than five thousand energy-related firms are located in the city. The county's major employers include Memorial Hermann Healthcare System, Administaff, The University of Texas MD Anderson Cancer Center, ExxonMobil, Shell, Continental Airlines, and Wal-Mart Stores.

Banking competition in Harris County is intense. According to the June 30, 2011 FDIC Market Share Report, there were approximately 89 financial institutions operating 1,059 branches in Harris County. The five largest competitors in Harris County include JP Morgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Compass Bank.

Conclusions with Respect to Performance Tests

LENDING TEST

TGB's performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

The LTD ratio is reasonable. TGB's quarterly LTD ratio averaged 56 percent since the prior CRA examination. Seven peer group banks headquartered in the counties in TGB's AA had an average LTD ratio of 49 percent, collectively, for the same time period. The LTD ratios for the peer group banks ranged from 12 percent to 79 percent.

Lending in Assessment Area

A majority of the bank's lending is inside the AA by number of loans originated. Of the number of business and residential loans originated/purchased in the evaluation period, 59 percent were within the AA. By dollar amount 38 percent of loans are within the AA. The lower dollar amount is due to two large participations purchased in loans to businesses outside the AA, and significant originations at the Houston branch to customers who live in the AA but own businesses outside the AA. The following table details the bank's lending inside and outside the AA by number and dollar amount:

Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	46	67	23	33	69	14,843	56	11,572	44	26,415
Business	326	58	235	42	561	71,171	35	131,386	65	202,557
Totals	372	59	258	41	630	86,014	38	142,958	62	228,972

Source: HMDA and other data collected by bank.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The overall distribution of loans reflects reasonable penetration of borrowers of different income levels and businesses of different sizes.

Business Loans

The bank’s distribution of commercial loans reflects reasonable penetration of businesses with gross annual revenues of \$1 million or less. The bank’s penetration by number and dollar amount of loans is somewhat less than the AA characteristics. Possible reasons for this include competition from bank and non-bank financial institutions as sources of small business financing, and lending at the Houston branch, which accounts for much of the bank's loan growth over the last few years, where many of the businesses in the bank's AA are larger. The bank’s performance is shown in the following table:

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	64.83	2.52	32.65	100%
% of Bank Loans in AA by #	34.97	26.07	38.96	100%
% of Bank Loans in AA by \$	36.98	39.30	23.72	100%

Source: Dun and Bradstreet data; data collected by bank.

Residential Loans

For residential loans, the bank's penetration of low-income families was 6.52 percent compared to the AA characteristic of 14.68 percent. The penetration of moderate-income families was 17.39 percent compared to the AA characteristic of 13.78 percent. The penetration of low-income families is lower than the AA characteristic but overall penetration of LMI families is reasonable. Considerations for this conclusion include the following: 1) there are no low-income CTs in the bank's AA; the bank's penetration of moderate-income families exceeds the AA characteristic, and 2) median family income in the bank’s MSA in 2011 was \$66 thousand; a low-income family would have up to \$33 thousand in annual gross income. We considered the level of difficulty for the bank to originate residential real estate loans to families at or below this income level. The bank’s performance is shown in the following table:

Table 2B - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans						
Residential	14.68	6.52	13.78	17.39	17.79	21.74	53.75	54.35

Source: U.S. Census data; HMDA data.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects excellent dispersion in LMI CTs in the bank's AA. The geographic distribution of both business loans and residential loans significantly exceeds the AA characteristics, as discussed below.

Business Loans

For business loans, 23.01 percent of the bank's loans are within moderate-income CTs compared with 3.63 percent of the AA's businesses. The bank's AA does not contain any low-income CTs. The bank's performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in AA								
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	0.00	0.00	3.63	23.01	19.26	45.40	77.11	31.59

Source: Dun and Bradstreet data; data collected by bank.

Residential Loans

For residential loans, 26.09 percent of the bank's loans are within moderate-income CTs compared with 6.27 percent of the AA's owner occupied housing. The bank's AA does not contain any low-income CTs. The bank's performance is shown in the following table:

Table 3B - Geographic Distribution of Residential Real Estate Loans in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Residential	0.00	0.00	6.27	26.09	35.52	39.13	58.21	34.78

Source: U.S. Census data; HMDA data.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

TGB's performance under the CD Test is Satisfactory. The level of CD activities reflects adequate responsiveness to CD needs in its community. TGB provided \$6.5 million in qualifying CD loans and \$7.5 thousand in qualifying investments/donations. TGB also provided qualifying financial services to seven organizations in its AA during the evaluation period. The bank's CD activities are described below.

Number and Amount of Community Development Loans

During the evaluation period, TGB originated or refinanced 18 qualifying CD loans totaling \$6.5 million. The following list summarizes and provides examples of significant CD lending activity:

- \$3,150,000 to finance a multi-unit apartment complex, which provides affordable rental housing at below fair market rents to LMI individuals in Houston, Texas.
- \$2,240,000 to refinance loan to a business to revitalize the community through employment of LMI individuals in Freeport, Texas.
- \$283,800 to three individuals to finance seven single family residences, which provide affordable housing for LMI tenants in Freeport, Texas.
- \$250,000 to provide planned revitalization to an LMI area of Houston, Texas.
- \$178,500 to two entities that provide affordable housing to LMI individuals in Brazoria County, Texas.

Number and Amount of Qualified Investments

The level of CD investments is reasonable by both number and dollar volume. During the evaluation period, TGB made five qualified investments to organizations whose activities primarily benefit LMI individuals in the AA. These investments consisted of monetary donations totaling \$7.5 thousand. A monetary donation of \$3.5 thousand was made to a non-profit organization that provides low-income youth with basic money management skills, career exploration, and other business basics. Another donation of \$2.8 thousand was made to a different organization that provides financial education, employment skills, and career exploration services to low-income youth. The remaining donations consisted of contributions to two non-profit organizations that provide affordable housing to LMI individuals, including disabled veterans, and a donation to an organization that provides therapeutic services to children with disabilities from low-income households

Extent to Which the Bank Provides Community Development Services

The bank has provided an appropriate level of CD services consistent with the needs of the community. The bank is involved in several activities that promote CD services throughout its AA. Activities included financial and technical services such as seminars on budgeting and financial stability for LMI individuals. Additionally, several employees serve on the board of organizations which target services to LMI individuals. We identified seven CD services that bank officers and other employees performed during the evaluation period. The following list provides several examples of CD services:

Junior Achievement

Bank employees provided financial education to students aged five through seven at three schools that serve majority LMI populations in Sweeny, Wild Peach, and West Columbia elementary schools. The courses were delivered in five weekly sessions.

Helping Hands and Hearts Hospice

The organization provides medical and emotional support for the terminal patient and his/her family in Brazoria County. The organization operates a thrift shop to help support the care of patients in the county. Per the hospice's website, "Medicare, Medicaid and some private insurance pay for the care given by the hospice team. If a patient does not have any payment source, he/she may pay all or part of the bill, personally. No one is denied service because of an inability to pay." A TGB Officer serves as President of the organization and assists in oversight of business practices.

Habitat for Humanity of Southern Brazoria County

This organization exists to build decent and affordable housing within its service area. TGB provides financial education and deposit collection services for the Penny Drive, which is designed to teach students the value of collective donations, savings, and volunteering.

Stephen F. Austin Community Health Center

This non-profit organization is dedicated to providing affordable, high quality medical and dental care for families and individuals, servicing LMI geographies or individuals. A TGB Officer serves as Treasurer and oversees the organization's finances.

Work Force Solutions

This organization provides comprehensive human resource services for businesses and residents of the 13-county Houston-Galveston Gulf Coast region, including LMI individuals in TGB's AA. TGB provided training for budgeting, bank accounts, savings, and financial stability to the unemployed.

In addition to the above services, TGB's branch distribution reasonably services LMI geographies in its AA. Three of the bank's eight branches (37.5 percent) are located in moderate-income CTs: the Clute branch, the Brazosport Boulevard branch in Freeport, and the West Second Street branch in Freeport. Each of the branches has an ATM; the Clute and Brazosport Boulevard branches have full-service lobby hours, drive-ins with

extended hours, and a drive-up ATM. The West Second Street, Freeport branch has limited lobby hours and no drive-through, as many customers have migrated over the years from the downtown Freeport branch to the Brazosport Boulevard branch.

Responsiveness to Community Development Needs

The bank's level of CD activities demonstrates adequate responsiveness to the needs and opportunities in the AA. A community contact noted the need for affordable housing in the AA. In addition to financing residential properties to or for the benefit of LMI individuals, TGB provided donations and financial services to non-profit organizations in the AA which provide affordable housing. TGB has also financed small businesses and small farms which revitalize and stabilize LMI CTs and provide employment to LMI individuals.

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.