



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

April 16, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Commercial Bank of Texas, National Association
Charter Number 14371**

**215 E. Main Street
Nacogdoches, TX 75961**

**Comptroller of the Currency
Longview (NE Texas & NW Louisiana)
1800 West Loop 281 Suite 306
Longview, TX 75604**

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.

The major factors that support this rating include:

- Commercial Bank of Texas demonstrates satisfactory responsiveness to the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's loans were within its designated assessment area. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment area.
- The level of qualified community development services, investments, and loans represents adequate responsiveness to identified community development needs. Commercial Bank's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area. The bank made qualified investments during the evaluation period totaling \$511 thousand or approximately 2% of Tier 1 Capital. The bank also made 51 loans totaling \$1 million which qualified as community development.

SCOPE OF EXAMINATION

Conclusions regarding the bank's lending performance are based on residential mortgage, consumer, and small business loans for the years 2004, 2005 and 2006. For the community development test, the evaluation period runs from the ending date of the last CRA evaluation period to the stated date of the current CRA examination. This test includes a review of the investments, services and loans provided in the bank's assessment area that meet the definition of community development.

The bank's assessment area includes the non-metropolitan counties of Nacogdoches, Angelina and adjacent census tracts in Houston and Cherokee counties. This area includes all of the bank's branch locations and ATM services. We completed a full scope review of the bank's performance under the Community Reinvestment Act.

Our review also included contacting local business groups in the assessment area. Contacts stated the primary need in the area is for residential loans and consumer loans. One contact noted the lack of affordable housing for low and moderate-income individuals and financing for this product type. Each contact stated the local financial institutions offer products that help meet all other credit needs.

DESCRIPTION OF INSTITUTION

Commercial Bank of Texas (CBTx), headquartered in Nacogdoches, Texas, is an intrastate financial institution with \$302 million in assets. The bank is wholly owned by Nacogdoches Commercial Bancshares, Inc., a one bank holding company. CBTx has 10 full service branches with an additional motor bank facility. The bank also operates 30 automatic teller machines located throughout the assessment area. In addition, the bank operates a loan production office (LPO) in Collin County, Texas.

CBTx's philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. CBTx is retail oriented and offers a wide range of deposit and loan products. As of December 31, 2006, the bank's net loans represented 39% of total assets. The following chart reflects the distribution of the bank's loan portfolio:

| Loan Category | \$ (000) | % |
|-------------------------------|-----------------|----------------|
| Commercial Real Estate Loans | 29,562 | 19.97 |
| Commercial Loans | 9,146 | 6.18 |
| Residential Real Estate Loans | 53,236 | 35.95 |
| Agriculture Loans | 878 | 0.59 |
| Consumer Loans | 55,243 | 37.31 |
| Total | 148,065 | 100.00% |

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its assessment area. CBTx's Tier 1 Capital level is \$28 million representing 9.45% of adjusted average assets as of December 31, 2006. The bank's CRA performance was last evaluated as of April 14, 2003, with the overall level of performance rated "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

The Nacogdoches assessment area (AA) consists of Nacogdoches and Angelina counties. It also includes one census tract in Houston County (9506) and one census tract in Cherokee County (9511). There are 27 census tracts in this assessment area with only one low-income census tract, three moderate-income census tracts, eighteen middle-income and five upper-income census tracts. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate-income geographies.

The following table provides a description of the Nacogdoches AA based on census data and 2005 Department of Housing and Urban Development information.

| DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA | |
|---|----------|
| <i>Population</i> | |
| Number of Families | 36,453 |
| Number of Households | 52,050 |
| <i>Geographies</i> | |
| Number of Census Tracts/BNA | 27 |
| % Low-Income Census Tracts/BNA | 3.70% |
| % Moderate-Income Census Tracts/BNA | 11.11% |
| % Middle-Income Census Tracts/BNA | 66.67% |
| % Upper-Income Census Tracts/BNA | 18.52% |
| <i>Median Family Income (MFI)</i> | |
| 2000 MFI for AA | 36,380 |
| 2006 HUD-Adjusted MFI | 43,100 |
| <i>Economic Indicators</i> | |
| Unemployment Rate | 4.2% |
| 2000 Median Housing Value | \$61,934 |
| % of Households Below Poverty Level | 19.00% |

The Nacogdoches area has a combined population of 142,539. Several other institutions compete in this market with CBTx having the fourth largest market share of deposits with 13.93% of the area deposits. CBTx Bank is retail oriented with a focus on mortgage and consumer lending, and is the largest student loan provider in the area. The area economy is considered stable. Major employers in the bank's assessment area include Pilgrim's Pride, Stephen F. Austin State University, Lufkin Industries, and the Nacogdoches and Lufkin Independent School Districts.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Lending Test

The bank's performance under the lending test is satisfactory. The bank's loan-to-deposit ratio is satisfactory and a majority of the bank's loans were within its designated assessment area. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of CBTx is satisfactory given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 56.33% since the prior CRA examination in April 2003. The average loan-to-deposit ratio of banks in and around the assessment area, regardless of size, for the same time period, was 60.68%.

| Institution | Assets (000s) (as of 12/31/06) | Average LTD Ratio |
|---------------------------------------|---|------------------------------|
| Citizens National Bank, Crockett | 83,496 | 53.58 |
| Commercial Bank of Texas, Nacogdoches | 302,114 | 56.33 |
| First Bank and Trust, Diboll | 565,942 | 62.73 |
| First National Bank, Crockett | 148,848 | 83.91 |
| Grapeland State Bank, Grapeland | 20,073 | 30.97 |
| Huntington State Bank, Huntington | 157,249 | 68.69 |
| Lovelady State Bank | 33,910 | 68.54 |

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of residential, consumer and commercial loans which originated during 2004, 2005, and 2006. The breakdown by loan category is illustrated in the following table.

| TOTAL LOANS REVIEWED | | | | | | | | |
|-----------------------------|---------------------------|----------|------------------|----------|-------------------------------|----------|------------------|----------|
| | IN ASSESSMENT AREA | | | | OUT OF ASSESSMENT AREA | | | |
| LOAN TYPE | # | % | \$ (000s) | % | # | % | \$ (000s) | % |
| Residential | 27 | 65.85 | 2,453 | 56.01 | 14 | 34.15 | 1,926 | 43.99 |
| Consumer | 27 | 87.10 | 176 | 82.47 | 4 | 12.90 | 37 | 17.53 |
| Commercial | 27 | 96.43 | 1,555 | 99.42 | 1 | 3.57 | 9 | 0.58 |
| Total Reviewed | 81 | 81.00 | 4,184 | 67.97 | 19 | 19.00 | 1,972 | 32.03 |

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

CBTx's overall distribution of loans by income level of the borrower is satisfactory given the overall demographics of the bank's assessment area. The median cost of housing in the assessment area is \$62 thousand with little low income housing stock available. Additionally, a low-income person earns less than \$22 thousand based on the HUD updated 2005 median family income with 19% of the households in the assessment area living below the poverty level. Furthermore, competition for all loan types is strong with numerous banks, mortgage companies and financial institutions vying for these products. We considered these mitigating factors in our analysis of loans to low and moderate-income borrowers.

The distribution of home loans by borrower income level is adequate. The percentage of loans to low-income borrowers is below the percentage of low-income families and is reflective of the factors discussed above. The percentage of home loans to moderate-income borrowers is near to the percentage of moderate-income families in the assessment area.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|-------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Families | 19.46% | | 15.90% | | 20.66% | | 43.98% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 3.70 | 0.85 | 14.81 | 9.89 | 25.93 | 20.73 | 55.56 | 68.53 |

The distribution of consumer loans by borrower income level is satisfactory. The percentage of loans to low-income borrowers is below the percentage of low-income families and is again reflective of the factors discussed previously. The percentage of consumer loans to moderate-income borrowers is greater than the percentage of moderate-income families in the assessment area.

| CONSUMER | | | | | | | | |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Borrower Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 25.36% | | 14.59% | | 17.38% | | 42.67% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 14.81 | 4.60 | 22.22 | 25.20 | 25.93 | 18.31 | 37.04 | 51.89 |

The bank's distribution of loans to small businesses is good. The percentage of loans to businesses with revenues of \$1 million or less is more than the percentage of businesses with reported revenues of \$1 million or less.

| BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES | | | | |
|--|--------------|--------------|-------------|---------|
| Business Revenues | ≤\$1,000,000 | >\$1,000,000 | Unavailable | Total |
| % of AA Businesses | 60.61 | 3.82 | 35.57 | 100.00% |
| % of Bank Loans in AA # | 88.89 | 11.11 | --- | 100.00% |
| % of Bank Loans in AA \$ | 83.50 | 16.50 | --- | 100.00% |

Geographic Distribution of Loans

CBTx's overall distribution of loans by income level of the geography is satisfactory when compared to the demographics of the assessment area.

The geographic distribution of home loans is satisfactory. The distribution of loans in low-income tracts is less than the percentage of owner-occupied housing units in the low-income tracts. The distribution of loans in the moderate-income tracts is near to the percentage of owner-occupied housing units in the moderate-income tracts. The level of owner occupied homes in these areas is low with the stock of available homes minimal.

| RESIDENTIAL REAL ESTATE | | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Owner Occupied | 1.38% | | 4.76% | | 65.43% | | 28.43% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 0.00 | 0.00 | 3.70 | 2.36 | 48.15 | 45.04 | 48.15 | 52.60 |

The geographic distribution of consumer loans is satisfactory. The distribution of loans in the low income tracts exceeds the percentage of households located in the low income tracts. The percentage of loans made within the moderate income tracts is less that the percentage of households in the moderate income tracts.

| CONSUMER | | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Households | 2.09% | | 8.74% | | 60.58% | | 28.60% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 3.70 | 2.12 | 3.70 | 1.15 | 77.78 | 86.70 | 14.82 | 10.03 |

The geographic distribution of loans to businesses is satisfactory. While the distribution of loans to businesses in the moderate-income tracts is less than the percentage of businesses located in moderate-income tracts, the percentage of businesses in both the low and moderate income tracts is low, presenting fewer opportunities to originate loans in these areas. However, the percentage of business loans made in the low-income tracts does exceed the percentage of businesses located in these tracts.

| BUSINESS LOANS | | | | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Census Tract Income Level | LOW | | MODERATE | | MIDDLE | | UPPER | |
| % of AA Businesses | 1.96% | | 6.83% | | 60.07% | | 31.14% | |
| | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount | % of Number | % of Amount |
| | 7.41 | 6.69 | 3.71 | 5.27 | 44.44 | 50.92 | 44.44 | 37.12 |

Responses to Complaints

There have been no CRA related complaints received during this evaluation period.

Community Development Test

The bank's overall performance under the community development test is satisfactory. The bank has provided a satisfactory level of community development loans, services and investments in its assessment area.

CBTx has provided a satisfactory level of community development investments in its assessment area. During this evaluation period, the bank made 19 qualified investments totaling \$511 thousand. The largest investment was \$500 thousand in the CRA Investment Fund which provides funding to eligible businesses. Other investments include donations to local organizations that provide community services

CBTx has provided an adequate level of community development services throughout its assessment area. The delivery systems of the bank are reasonably accessible to geographies and individuals of different income levels in its assessment area. The bank operates 10 banking offices that are conveniently located throughout the assessment area. Additionally, a wide range of financial services are provided at each branch and are consistent throughout the bank's branch network. The bank offers ATMs at each branch location and at other locations throughout the AA, with four locations in moderate income tracts. The bank also offers telephone and Internet banking services, ACH deposits, and low cost checking accounts. In addition, the bank provides a large volume of student loans as well as providing SBA, VA, and FHA loans which offer more lenient lending qualifications. In addition to retail banking services, bank officers and employees are active in numerous local organizations that promote community development.

CBTx provided a good number of community development loans during this evaluation period. CBTx provided 51 loans totaling \$1 million which qualified as community development. A majority of these loans were provided to businesses and individuals impacted by Hurricane Rita which devastated parts of the bank's assessment area with heavy flooding and wind damage. The bank responded with \$1 thousand loans to hurricane victims to meet temporary housing needs and provide for food and clothing. They also made loans to cleanup companies to help restore homes and businesses impacted by the hurricane.

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.