



SMALL BANK

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

PUBLIC DISCLOSURE

April 17, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**TexStar National Bank
Charter Number 24465**

**600 Pat Booker Road
Universal City, TX 78148**

**Comptroller of the Currency
Assistant Deputy Comptroller
San Antonio - North Field Office
10101 Reunion Place Blvd., Suite 402
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 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 “Outstanding”

TexStar National Bank (TSNB) meets the credit needs of its assessment area (AA). The following factors support this conclusion:

- The geographic distribution of loans to businesses exceeds the standard for satisfactory performance.
- Loan to deposit (LTD) ratio performance exceeds the standard for satisfactory performance.
- A substantial majority of the bank’s loans are within the defined AA.
- Lending to businesses with revenues of \$1 million or less meets the standard for satisfactory performance.

DESCRIPTION OF INSTITUTION

TSNB was chartered and opened for business January 16, 2004. TSNB is headquartered at the main office on 600 Pat Booker Road in Universal City, Texas, and is independently owned by local shareholders. Universal City is in the northeast quadrant of Bexar County, Texas. The current ownership purchased the current bank locations and \$11 million in loans from the former owner, Surety Bank. TSNB has 3 branches and a main office. Branches are located in north San Antonio, Texas, at 9601 McAllister Freeway; in Converse, Texas, at 9154 FM 78; and in New Braunfels, Texas, at 1012 IH 35 South.

At inception, TSNB purchased the current banking locations and \$11 million in loans from Surety Bank. As of March 31, 2006, total assets are \$73 million. Outside of the loans purchased at opening, the bank has originated \$74 million in loans. The primary business focus is commercial loans. This product makes up 54% and 79% of the number and total dollars of originated loans, respectively.

TexStar National Bank				
As of March 31, 2006				
Loans Originated After Opening				
	<i>#</i>	<i>% of Total</i>	<i>\$ (000's)</i>	<i>% of Total</i>
Consumer Loans	265	37.80	5,318	7.17
Residential Real Estate *	59	8.42	10,290	13.88
Commercial Loans**	377	53.78	58,532	78.95
Totals	701	100.00	74,140	100.00

* Includes loans secured by 1-4 Family Residences and Multifamily properties

** Includes commercial, construction/land development, commercial real estate loans, and agricultural loans

Source: Bank information

The bank offers a full range of credit products within its AA including commercial, residential real estate, and consumer loan products. The primary loan product is commercial loans. There are no legal or financial factors that impede TSNB’s ability to meet various credit needs of the AA. This is the bank’s first Community Reinvestment Act (CRA) Public Evaluation.

Please refer to TSNB’s CRA public file for more information about the institution.

DESCRIPTION OF TEXSTAR ASSESSMENT AREA

TSNB's AA consists of 122 contiguous census tracts (CTs) in the San Antonio Metropolitan Area. The tracts are in north central and northeast Bexar County (119 CTs), Comal County (6 CTs), Guadalupe County (12 CTs), and Wilson County (1 CT). 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.

The AA near and around the main office and the branches in New Braunfels and Converse is rapidly growing. This area is within the San Antonio-Austin IH-35 Corridor, which is undergoing tremendous growth in the residential construction and retail sectors. It includes the Randolph Metrocom, a group of 10 "bedroom communities" in the bank's AA. Growth in the Metrocom can be tied to several factors, the most prominent of which is The Forum at Olympia, a 190-acre shopping center with many national retailers. Other factors include a new Toyota manufacturing plant in south San Antonio, new corporate residents such as Washington Mutual and Wachovia Bank, voter approval in 2005 for the new Northeast Campus of the Alamo Community College District, and a stable Randolph Air Force Base, the area's largest employer.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
<i>Population</i>	
Number of Families	644,211
Number of Households	248,628
<i>Geographies</i>	
Number of CTs/BNA	122
% Low-Income CTs/BNA	0
% Moderate-Income CTs/BNA	18
% Middle-Income CTs/BNA	56
% Upper-Income CTs/BNA	47
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	44,591
2004 HUD-Adjusted MFI	51,500
2005 HUD-Adjusted MFI	51,500
<i>Economic Indicators</i>	
Unemployment Rate	2.12%
2000 Median Housing Value	104,984
% of Households Below Poverty Level	9.00

Note: BNA = Block Numbering Area HUD = Department of Housing and Urban Development

Because of the active growth, TSNB's market is highly competitive for all types of loans, deposits, and other financial products and services. Competition for commercial loans comes from branches of large banks such as Bank of America, Wells Fargo, Wachovia, and Chase, and other large community banks, such as Compass Bank and Broadway National Bank. Competition for residential loans is robust among national mortgage companies and mortgage lending affiliates of large banks. Credit unions are also strong in the market, particularly for consumer loans and deposits. The largest area credit union – Randolph-Brooks Federal Credit Union is based in the AA and has an extensive branch network.

A representative of a local economic development corporation was consulted regarding economic conditions, community credit needs, and opportunities for involvement by financial institutions. The contact indicated that the primary credit needs are lending for small businesses and for developmental purposes. This contact stated that increased community involvement by the larger financial institutions, in general, could be of more benefit to the Randolph Metrocom area.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Samples of commercial loans were reviewed because that is the bank's primary product in terms of numbers of loans and loan dollars. Consumer and residential lending were not reviewed because they are not the bank's primary loan products. These products are offered as part of the full range of products offered to customers. In addition, residential activity is nominal as 10 loans in 2005 were reported in the Home Mortgage Disclosure Act - Loan Application Register (HMDA/LAR); the bank was not subject to these reporting requirements in 2004.

Geographic Distribution of Loans

TSNB's geographic distribution of commercial loans exceeds the standard for satisfactory performance. The bank's lending performance has strongly emphasized lending in moderate-income CTs as shown in the table below. The percentage of the number of commercial loans and the percentage of commercial loan dollars that the bank originated in moderate-income CTs is almost double and triple, respectively, the percentage of businesses in moderate-income CTs.

BUSINESS LOANS								
<i>Census Tract Income Level</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Businesses ⁶	0		13.10%		42.85%		44.05%	
LOANS BY YEAR	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
Commercial Loans	0	0	25.00%	38.93	40.00%	15.17%	35.00%	45.40%

* Source: CRA Wiz 2005 Business Geodemographic Data; PCI Corporation, Inc.

Loan-to-Deposit Ratio

TSNB's LTD ratio exceeds the standard for satisfactory performance. The average LTD ratio for the 9 quarters since inception is 73.46%. This ratio has steadily increased since opening and continues to rise. The LTD ratio over the last 4 quarters has averaged 81.66, and more recently stood at 86.94% at March 31, 2006. Based on the comparable periods shown in the table below, TSNB's average LTD ratio for 2005 is the highest among the institutions listed, despite being open only two years at December 2005.

<i>Institution</i>	<i>Assets (Millions) December 31, 2005</i>	<i>Average LTD Ratio</i>	
		<i>January 2004 to December 2005</i>	<i>January 2005 to December 2005</i>
Schertz Bank & Trust	116	74.53	76.49
Lone Star Capital Bank, N.A.	127	58.26	56.97
American Bank of Texas, Seguin	286	56.60	54.39
TexStar NB	73	71.77	79.86

* Source: Quarterly Call Reports

Lending in Assessment Area

TSNB's lending in its defined AA exceeds the standard for satisfactory performance. Review of a sample of commercial loans originated since inception showed that 90% of the number and almost 90% of the total loan dollars were originated within the bank's AA.

TOTAL LOANS REVIEWED								
	<i>In Assessment Area</i>				<i>Out Of Assessment Area</i>			
LOAN TYPE	#	%	\$ (000s)	%	#	%	\$ (000s)	%
Commercial Loans	18	90.00	2,089	89.46	2	10.00	246	10.54

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

TSNB's lending to small businesses (businesses with revenues of \$1 million or less) meets the standard for satisfactory performance. TSNB's lending to small business is lower than the percentage of small businesses in the AA as shown in the table below.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
<i>Business Revenues</i>	<i>≤\$1,000,000</i>	<i>>\$1,000,000</i>
% of AA Businesses ³	92.11%	7.89%
% of Bank Loans in AA #	65.00%	35.00%
% of Bank Loans in AA \$	78.48%	21.52%

* Source : CRA Wiz 2005 Business Geodemographic Data, PCI Corporation, Inc.

Responses to Complaints

There were no CRA-related complaints reported during the evaluation period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.