



**SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks

---

Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 24, 2008**

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

Texas Citizens Bank, National Association  
Charter Number 24640

4949 Fairmont Parkway  
Pasadena, TX 77504-0000

Office of the Comptroller of the Currency

HOUSTON  
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 major factors supporting the institution's rating are:

- The geographic distribution of loans to businesses is near to the characteristics of the assessment area and meets the standards for satisfactory performance.
- The borrower distribution of loans to businesses is reasonable and meets the standards for satisfactory performance.
- The loan-to-deposit ratio is similar to the bank's peer group and meets the standards for satisfactory performance.

**SCOPE OF EXAMINATION**

We completed a full-scope review of the bank's CRA activities in the designated assessment area. Our review was focused on the primary loan product of loans to businesses. This product was assigned the most weight in arriving at our conclusion as to the bank's performance. In addition, we reviewed a secondary loan product of owner-occupied residential real estate loans that was assigned significantly less weight.

For the borrower gross revenue distribution of loans to businesses, we selected a statistically valid sample of 52 loans of which 39 loans were originated in the assessment area. Although not required to collect the information as a small bank, management collected reliable census tract information on all business loans originated during the evaluation period. We used this management information to determine the geographic distribution of business loans. As detailed in Table 1 below, this is a total of 236 loans originated in the assessment area.

Management collected income and census tract location for all residential real estate loans in compliance with the Home Mortgage Disclosure Act as required because of the bank's location in the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA). As detailed in Table 1 below, this is a total of 10 loans in the assessment area.

**DESCRIPTION OF INSTITUTION**

Texas Citizens Bank, N.A., (TCB) is an independently owned institution located in Pasadena, Texas. The bank was chartered on May 3, 2006, and it is not owned by a holding company. TCB has one main location at 4949 Fairmont Parkway in Pasadena, Texas and one branch at 17041 El Camino Real in Houston, Texas. A new branch at 14020 Highway 3 in Houston, Texas is currently under construction and is expected to open in February 2009. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. As of September 30, 2008, the bank had \$125 million in assets and a Tier One Leverage Capital ratio of 12.55 percent. The loan portfolio is 73 percent of total assets. The primary business focus is business lending at 68 percent. Other loan products include construction and land development at 13

percent, residential real estate at 10 percent, and consumer lending at 9 percent. This is the bank's first CRA examination since it was chartered.

*Please refer to the bank's Public File for additional information.*

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

The bank's assessment area (AA) is within the Houston-Sugar Land-Baytown MSA in Texas. The AA includes 116 census tracts (CTs) in Harris County and 18 CTs in Galveston County. Approximately 46 percent or 61 CTs of the total are designated as low- or moderate-income. The updated median family income for 2008 is \$61,100. The Houston-Sugar Land-Baytown MSA is a ten county metropolitan area located in the Gulf Coast region of Southeast Texas. The MSA is the sixth largest in the nation with a population of 5.6 million according to the 2007 U.S. Census estimate.

The main branch is located in Pasadena, Texas, south of Houston. It is the second largest city in Harris County and the 15<sup>th</sup> largest in the state. As of the 2000 U.S. Census, the population of Pasadena, Texas was approximately 142 thousand. As of 2007, it is estimated to have grown to approximately 153 thousand. The medium household income is \$38,522, and the medium family income is \$42,541. The unemployment rate in the area is approximately 4 percent.

The city's economy is closely linked to the Houston Ship Channel as well as the National Aeronautics and Space Administration's (NASA) Lyndon B. Johnson Space Center in the nearby Clear Lake area. Pasadena is also known for the largest all volunteer municipal fire department in the United States, the Pasadena Volunteer Fire Department. The largest employers are Pasadena ISD, The Boeing Company, LYONDELL-CITGO Refining LP, San Jacinto College District, and Bayshore Medical Center. There is a significant level of competition in the AA. The five largest competitors include: Bank of America, National Association (N.A.), JP Morgan Chase Bank, N.A, Amegy Bank, N.A., First Community Bank, N.A., and Washington Mutual Bank, Federal Savings Bank.

Our Community Affairs Officer completed a contact in the Houston area. This contact expressed a good working relationship with most of the banks including receiving bank referrals of clients who are not ready to obtain a loan. The primary purpose of the organization is work with clients educating them and helping them prepare business plans and proposals. TCB does originate loans to start-up businesses.

### **Harris County**

Most of the southeast part of Harris County, Texas is designated as part of TCB's AA. Of the 116 CTs in Harris County, there are 9 CTs (8%) designated as low-income and 49 CTs (42%) designated as moderate-income. Middle-income CTs in the AA total 32 (28%), upper-income CTs total 23 (20%), and three CTs do not have a designation (2%). Harris County is the largest county in Texas and the third most populous county in the nation. The population is estimated at 3.9 million according to a 2007 U.S.

Census Bureau estimate with a growth rate since the 2000 Census of 15 percent. The 2006 U.S. Census Bureau shows an unemployment rate of 7.5 percent, and 16 percent of the population lives below the poverty level. The county seat is Houston which is the largest city in Texas and the fourth largest city in the nation.

## **Galveston County**

TCB has designated the northern 18 CTs of Galveston County, Texas contiguous to Harris County as part of the AA. This part of the county does not have any low-income CTs. It has three moderate-income CTs (17%), six middle-income CTs (33%), and nine upper-income CTs (50%). According to 2007 U.S. Census estimates, the entire county has a population of 284 thousand. The bank's AA does not include the City of Galveston that is the county seat. However, it does include League City which is the largest city with a population of 61 thousand. League City has income levels above the average for the MSA. The League City Economic Development Corporation estimates the most recent median household income as \$78,129 per year. Because of its close proximity to Houston, Texas, many of League City's residents work in Houston. The major employers in the area are similar to Pasadena, Texas and also include: American National Insurance, Chevron Phillips Chemical Company, Clear Lake Regional Medical Center, Landry's Kemah Restaurants, Lockheed Martin, NASA Johnson Space Center, and United Space Alliance.

The AA also includes Friendswood. As with League City, Friendswood has income levels above the average for the MSA. The City of Friendswood estimates the median family income at \$90,232 per year. Recent estimates place the population at 29 thousand. Many residents work in Houston because of the close proximity. The major employers include those of Pasadena and League City as well as Friendswood ISD, Clear Creek ISD, H. E. Butt Grocery Company, Kroger Grocery, and the City of Friendswood.

*Please refer to the bank's Public File for additional information.*

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **Loan-to-Deposit Ratio**

The bank's loan-to-deposit ratio is reasonable. The bank's quarterly loan-to-deposit ratio since it was chartered is 67.91 percent. We compared the bank's ratio to a peer group of banks with less than \$258 million in assets in Harris County for the same period. The peer group's ratio was 68.76 percent, and most of the peer group has been chartered as a national bank for a much longer time period.

### **Lending in Assessment Area**

Lending in the AA is a majority as shown in the following table:

<b>Table 1 - Lending in Texas Citizens Bank Assessment Area</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		#	%	#	%	
Res Real Estate	10	66.67	5	33.33	15	2,595	90.70	266	9.30	2,861
Business Loans	236	62.43	142	37.57	378	54,736	55.04	44,717	44.96	99,453
Totals	246	<b>62.60</b>	147	37.40	393	57,331	<b>56.03</b>	44,983	43.97	102,314

Source: data reported under HMDA, data collected by bank.

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

Overall, lending to borrowers of different incomes and to businesses of different sizes shows reasonable penetration. We compared owner-occupied residential real estate loan originations to the 2000 U.S. Census characteristics of the AA. Lending to low- and moderate-income borrowers is reasonable considering the difficulty of originating home loans to low- and moderate-income level borrowers. There is a lack of availability of lower cost homes in the AA. The bank’s performance is shown in the following table:

<b>Table 2 – Borrower Distribution of Residential Real Estate Loans in Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Res Real Estate	22.20	<b>10.00</b>	18.22	<b>10.00</b>	19.85	10.00	39.73	70.00

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

We compared TCB’s loan originations to the characteristics of the AA according to current Dunn and Bradstreet information. The level of lending to businesses with \$1 million or less in gross revenue is reasonable. TCB has grown to \$125 million in assets in a short time with an experienced loan officer staff who have longtime customers that are more established than is usually the case with newly chartered banks. A significant number of these customers have gross revenues in excess of \$1 million. Also, several TCB customers are in the oil and gas industry. This industry usually has businesses with revenues in excess of \$1 million. TCB officers actively seek loan originations from small businesses. We identified several loan originations to start-up businesses in our sample. The bank’s performance is shown in the following table:

<b>Table 2A - 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	69.09	4.31	26.60	100%
% of Bank Loans in AA by #	<b>43.59</b>	48.72	7.69	100%
% of Bank Loans in AA by \$	<b>46.46</b>	52.65	0.89	100%

Source: loan sample; Dunn and Bradstreet data.

### Geographic Distribution of Loans

We compared the owner-occupied residential real estate loan originations to the 2000 U.S. Census characteristics of the AA. Officers were unable to originate loans in the AA low- and moderate-income census tracts because of the lack of availability of homes for purchase in those tracts. The bank’s performance is shown in the following table:

Table 3 - Geographic Distribution of Residential Real Estate Loans in Assessment Area								
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
Res Real Estate	2.74	<b>0.00</b>	28.79	<b>0.00</b>	29.69	50.00	38.77	50.00

Source: data reported under HMDA; U.S. Census data. 0.01% of owner-occupied homes are in designated NA census tracts.

We compared the bank’s business loan originations to the characteristics of the AA according to current Dunn and Bradstreet information. Officers were unable to originate loans in low-income census tracts because of the limited number of businesses in those tracts. Lending in moderate-income census tracts is near to the characteristics of the AA and shows reasonable dispersion. The bank’s performance is shown in the following table:

Table 3A – Geographic Distribution of Loans to Businesses in Assessment Area								
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	3.52	<b>0.00</b>	32.12	<b>27.54</b>	29.39	<b>36.44</b>	34.30	<b>36.02</b>

Source: data collected by bank; U.S. Census data; Dunn and Bradstreet data. 0.67% of businesses are in NA designated census tracts.

### Community Development Loans

During our review, we identified one loan with a community development purpose. Officers originated a \$500 thousand to a non-profit organization for working capital on October 28, 2008. The organization’s mission is to reduce deaths from breast cancer by providing screening, diagnosis, and access to treatment regardless of ability to pay. This organization has helped a significant number of women without health insurance and helps in referrals for other medical needs.

### Responses to Complaints

TCB did not have any complaints during the evaluation period.

### **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.