



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 05, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Commercial Bank of Texas, National Association
Charter Number 14371

215 E. Main Street
Nacogdoches, TX 75963

Office of the Comptroller of the Currency

1800 NW Loop 281, Suite 306
Longview, TX 75604-2516

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.

- Commercial Bank of Texas demonstrates satisfactory responsiveness to the credit needs of its assessment areas. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's loans is extended within its designated assessment areas.
- The distribution of loans by geography represents an excellent dispersion throughout each assessment area.
- The distribution of loans by borrower income level reflects a reasonable penetration throughout each assessment area.
- The level of qualified community development services, investments, and loans represent a satisfactory responsiveness to identified community development needs.
- The bank's delivery systems are reasonably accessible to geographies and individuals of different income levels within each assessment area.

Scope of Examination

The bank's primary loan products within the Nacogdoches/Lufkin Assessment Area (AA) include 1-4 family mortgages, consumer loans, and commercial loans. The primary loan product for the Collin County assessment area consisted of commercial loans. Conclusions regarding the bank's lending performance were based on residential real estate loans, consumer loans, and commercial loans originated during the years of 2010, 2011, and 2012 in the Nacogdoches/Lufkin Assessment Area. While detailed data is limited to 2012, data and conclusions based on loans originated during 2010 and 2011 were consistent with the findings for 2012. Conclusions for the Collin County assessment area were based on commercial loans originated during 2012. Lending performance for 2010 and 2011 was compared to 2000 U.S. Census data, while 2012 performance was compared to 2010 census data.

For the community development test, the evaluation period runs from the ending date of the last CRA evaluation period (May 10, 2010) 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.

Description of Institution

Commercial Bank of Texas (CBTx), headquartered in Nacogdoches, Texas, is an intrastate financial institution with \$485 million in assets. The bank is wholly owned by Nacogdoches Commercial Bancshares, Inc. a one-bank holding company. CBTx has 13 full service branches. The bank also operates 34 automatic teller machines located throughout its assessment areas. The bank's offices are located in the non-metropolitan counties of Nacogdoches, Angelina, Cherokee, and Houston. The bank also has three offices in the Dallas/Fort Worth MSA that are located in Collin, Denton, and Tarrant counties.

CBTx is a full service institution and provides a wide array of deposit and loan products and financial services to consumers and commercial businesses. As of December 31, 2012, net loans represented 48 percent of total assets. The following chart reflects the distribution of the bank's loan portfolio by type:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	\$83,374	42.57
Residential Real Estate Loans	\$69,941	35.71
Commercial Loans	\$22,504	11.49
Consumer Loans	\$18,612	9.50
Agriculture Loans	\$1,212	0.62
Other Loans	\$229	0.12
Total	\$195,872	100.00

There are no legal, financial or other factors impeding the bank's ability to meet the community credit needs in its assessment area. CBTx's Tier 1 capital level totaled \$41 million representing 8.80 percent of adjusted average assets as of December 31, 2012. The bank's CRA performance was previously evaluated as of May 10, 2010, with an overall level of performance rated as "Satisfactory."

Description of Assessment Areas

CBTx has designated four separate assessment areas as follows:

Nacogdoches/Lufkin Assessment Area

The Nacogdoches/Lufkin Assessment Area consists of Nacogdoches County, Angelina County and adjacent census tracts located in Houston, Cherokee, and Trinity Counties. The bank is headquartered in Nacogdoches, Texas. It offers a broad range of loan and deposit products through the 10 branches and 30 ATMs located in the assessment area. The bank also operates a postal substation at its headquarters in Nacogdoches, Texas.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	44,556
Number of Households	64,552
Geographies	
Number of Census Tracts/BNA	39
% Low-Income Census Tracts/BNA	7.69%
% Moderate-Income Census Tracts/BNA	23.08%
% Middle-Income Census Tracts/BNA	51.28%
% Upper-Income Census Tracts/BNA	17.95%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$46,853
2012 HUD-Adjusted MFI	\$49,300
Economic Indicators	
Unemployment Rate	4.56%
2010 Median Housing Value	\$83,670
% of Households Below Poverty Level	19.54%

Source: U.S. Census Data

The Nacogdoches/Lufkin Assessment Area includes 10 middle income census tracts that are designated distressed geographies due to poverty.

Competition is strong with several other institutions located in this market. CBTx is retail oriented with a focus on 1-4 family mortgages, consumer loans, and business loans. The local economy is considered stable. Major employers in the Nacogdoches/Lufkin area include Stephen F. Austin State University, Lufkin Industries, and the Nacogdoches and Lufkin Independent School Districts. Community development opportunities are limited.

Our review included contacting a representative of a local business in the assessment area. While this contact did not identify a primary credit need, they did indicate that the local financial institutions offer products that meet the community’s credit needs.

Collin County Assessment Area

The Collin County Assessment Area consists of 136 census tracts. The bank opened its sole branch in the assessment area in 2009. The branch, which is located in Allen, Texas offers a broad range of loan and deposit products. Commercial loans account for the majority of loans underwritten. In addition to the branch, the bank also has two ATMs in the assessment area.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	175,374
Number of Households	242,481
Geographies	
Number of Census Tracts/BNA	136
% Low-Income Census Tracts/BNA	0.74%
% Moderate-Income Census Tracts/BNA	8.09%
% Middle-Income Census Tracts/BNA	18.38%
% Upper-Income Census Tracts/BNA	72.79%
<i>Median Family Income (MFI)</i>	
2010 MFI for AA	\$101,363
2012 HUD-Adjusted MFI	\$70,600
Economic Indicators	
Unemployment Rate	6.10%
2010 Median Housing Value	\$227,240
% of Households Below Poverty Level	6.14%

Source: U.S. Census Data

Competition is strong with several other institutions located in the market. CBTx is a retail oriented bank with a focus on small business lending. The local economy is considered stable. Major employers within the area include American Airlines, GE, Deloit University, Fidelity Financial Investment and other Fortune 500 companies located in the DFW/Alliance Corridor.

Our review included contacting a representative of a local city government in the assessment area. While this contact did not identify a primary credit need, they did indicate that the local financial institutions offer products that meet the community’s credit needs.

Denton County Assessment Area

The Denton County Assessment Area consists of 39 census tracts. The assessment area includes a branch in Lewisville and one ATM. Due to the recent acquisition of this branch in April 2011 by CBTx, there is insufficient data to perform a full lending analysis of this assessment area.

Tarrant County Assessment Area

The Tarrant County Assessment Area consists of 16 census tracts. The assessment area includes a branch office located in Bedford and one ATM. Due to the recent acquisition of this branch in April 2011 by CBTx, there is insufficient data to perform a full lending analysis of this assessment area.

Conclusions with Respect to Performance Tests

LENDING TEST

The bank's performance under the lending test is satisfactory. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's loans were granted within its designated assessment areas. The distribution of these loans by geography represents an excellent dispersion by census tracts. In addition, the distribution by income levels represents a reasonable penetration among borrowers throughout the assessment areas.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of CBTx is reasonable based on the bank's size, financial condition and the credit needs of the assessment areas. The bank's quarterly average loan-to-deposit ratio was calculated to be 48.05 percent since the prior CRA examination in May 2010. The average loan-to-deposit ratio of banks in and around the assessment area, regardless of size, for the same period, was 64.43 percent. In addition, CBTx originated and sold \$175.5 million 1-4 family mortgages during this evaluation period.

<i>Institution</i>	<i>Assets (000s) (as of 12/31/12)</i>	<i>Average LTD Ratio</i>
Commercial Bank of Texas, Nacogdoches	484,725	48.05
Huntington State Bank, Huntington	236,251	81.95
Liberty Bank, Hurst	329,335	81.32
Bank of The West, Grapevine	354,870	64.72
Austin Bank, Jacksonville	1,407,763	84.06
Citizens National Bank, Crockett	91,595	41.29
Citizens National Bank, Henderson	957,116	56.72
Farmers State Bank, Center	372,607	57.34

Lending in Assessment Areas

A majority of the bank's lending activity is located within its assessment areas. Following are the details based on loans originated during 2012. The breakdown by loan category is illustrated in the following tables.

Lending in the AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	18	90.00	2	10.00	20	\$2,326	97.00	\$72	3.00	\$2,398
Consumer Loans	18	90.00	2	10.00	20	\$239	85.36	\$41	14.64	\$280
Commercial Loans	28	70.00	12	30.00	40	\$16,444	77.37	\$4,811	22.63	\$21,255
Totals	64	80.00	16	20.00	80	\$19,009	79.43	\$4,924	20.57	\$23,933

Source: Loan sample

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

CBTx's distribution of loans by borrower income level is reasonable given the demographics of the bank's assessment areas. Affordable housing is scarce for low-income families and for families whose incomes are on the lower end of the moderate-income range. Further, 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.

Nacogdoches/Lufkin Assessment Area

The distribution of residential real estate loans by borrower income level is reasonable. While loans to low and moderate income families are below the assessment area demographics, the median cost of housing in the assessment area is \$84 thousand with little low-income housing stock available. Additionally, a low-income family earns less than \$25 thousand based on the HUD updated 2012 median family income with 15.36 percent of families in the assessment area living below the poverty level. Moderate-income families earn between \$25 thousand and \$39 thousand. For those on the lower end of this range, there is also a shortage of affordable housing.

Borrower Distribution of Residential Real Estate Loans in Nacogdoches/Lufkin AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Home Purchase	23.86	5.00	18.54	8.33	18.72	28.33	38.88	58.34

Source: Loan sample, U.S. Census data.

The distribution of consumer loans by borrower income level is reasonable. The percentage of loans to low-income borrowers is below the percentage of low-income households and is reflective of the high poverty rate among low-income households. Census data shows that 19.54 percent of all households in the assessment area have incomes below poverty level. The percentage of consumer loans to moderate-income

borrowers is greater than the percentage of moderate-income households in the assessment area.

Borrower Distribution of Consumer Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of #of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	27.43	13.33	17.66	25.00	16.95	13.33	37.96	48.34

Source: Loan sample, U.S. Census data.

The bank’s distribution of loans to small businesses is reasonable. The percentage of loans to businesses with revenues of \$1 million or less is near the percentage of assessment area businesses with revenues of \$1 million or less.

Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	73.63	2.94	23.42	100%
% of Bank Loans in AA by #	65.00	10.00	25.00	100%
% of Bank Loans in AA by \$	49.17	43.23	7.60	100%

Source: Loan sample, Dun and Bradstreet data.

Collin County Assessment Area

The bank’s distribution of loans to small businesses in the Collin County assessment area is reasonable. The percentage of loans to businesses with revenues of \$1 million or less is near to the percentage of assessment area businesses with revenues of \$1 million or less.

Borrower Distribution of Loans to Businesses in the Collin county AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unknown	Total
% of AA Businesses	73.04	2.39	24.57	100%
% of Bank Loans in AA by #	70.00	20.00	10.00	100%
% of Bank Loans in AA by \$	35.36	46.63	18.01	100%

Source: Loan sample, Dun and Bradstreet data.

Geographic Distribution of Loans

CBTx’s geographic distribution of loans is excellent. There are also numerous middle-income tracts located in Cherokee, Houston, and Nacogdoches Counties that have been designated as distressed areas. Therefore, consideration was given to loans extended within these tracts.

Nacogdoches/Lufkin Assessment Area

The geographic distribution of residential loans is excellent. The distribution of loans in the low and moderate-income tracts is near to the percentage of owner-occupied housing units in the low and moderate-income tracts. The level of owner occupied homes in these areas is low with the available stock of homes minimal. In addition to

the loans in the low and moderate-income tracts, 31.67 percent of the number of loans were located in middle-income tracts that have been designated as distressed areas.

Geographic Distribution of Residential Real Estate Loans in Nacogdoches/Lufkin 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
Home Purchasing	3.79	3.33	17.82	16.67	54.89	56.67	23.50	23.33

Source: Loan sample, U.S. Census data.

The geographic distribution of consumer loans is excellent. The distribution of loans in the low and moderate-income tracts is near to the percentage of households located in the low and moderate-income tracts. In addition, 16.67 percent of the number of loans extended were located in middle-income tracts that have been designated as distressed areas.

Geographic Distribution of Consumer Loans in Nacogdoches/Lufkin AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans	% of AA Households	% of # of Loans
Consumer Loans	6.26	5.00	21.03	18.33	50.21	53.33	22.50	23.34

Source: Loan sample, U.S. Census data.

The geographic distribution of loans to businesses is excellent. There are no loans in low-income tracts. This is attributable to the fact that the percentage of businesses located in the low-income tracts is very low, resulting in fewer opportunities to originate loans in these areas. Less than 6 percent of businesses in the AA are located in low-income tracts. The percentage of business loans made in the moderate-income tracts is near to the percentage of businesses located in these tracts. In addition to the loans in the low and moderate-income tracts, 25 percent of the number of loans extended were located in middle-income tracts that have been designated as distressed areas.

Geographic Distribution of Loans to Businesses in the Nacogdoches/Lufkin AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	5.71	0.00	22.82	20.00	51.23	55.00	20.24	25.00

Source: Loan sample, Dun and Bradstreet data.

Collin County Assessment Area

The geographic distribution of loans to businesses is reasonable. There are no loans in low-income tracts. This is attributable to the fact that the percentage of businesses located in the low-income tracts is very low, resulting in fewer opportunities to originate loans in these areas. Only 0.20 percent of businesses in the assessment area are located in low-income tracts. The percentage of business loans made in the moderate-income tracts exceeds the percentage of businesses located in these tracts.

Geographic Distribution of Loans to Businesses in the Collin County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans	% of AA	% of # of Loans
Businesses	0.20	0.00	8.78	10.00	15.05	35.00	75.97	55.00

Source: Loan sample, Dun and Bradstreet data.

Responses to Complaints

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

COMMUNITY DEVELOPMENT TEST

The bank’s performance under the community development test is satisfactory. The bank has adequately responded to the assessment area’s community development needs through community development loans, investments, and services.

Nacogdoches/Lufkin Assessment Area

CBTx has demonstrated adequate responsiveness to the community development needs of this AA, considering its performance context and the needs and opportunities within the AA.

Collin County Assessment Area

CBTx has demonstrated adequate responsiveness to the community development needs of this AA, considering its performance context and the needs and opportunities within the AA.

Number and Amount of Community Development Loans

CBTx has provided an adequate level of community development loans in its assessment area.

Nacogdoches/Lufkin Assessment Area

CBTx has an adequate level of community development loans in the Nacogdoches/Lufkin AA. The bank originated ten community development loans totaling \$5.95 million during this evaluation period.

Collin County Assessment Area

CBTx has an adequate level of community development loans in the Collin County AA. The bank originated six community development loans totaling \$5.02 million during this evaluation period.

Number and Amount of Qualified Investments

CBTx has provided an adequate level of community development investments in its assessment areas based on availability. CBTx holds shares of one CRA-qualified investment fund. The fund invests in the bonds of community development projects. The current market value of this investment is \$633 thousand. The bank initially invested \$500 thousand in the fund. Dividends are reinvested in the fund as they are paid. Other investments included donations to the United Way totaling \$26 thousand and donations to the Nacogdoches Economic Development Corp. totaling \$14.5 thousand.

Extent to Which the Bank Provides Community Development Services

CBTx has provided an excellent level of community development services throughout its assessment areas.

Nacogdoches/Lufkin Assessment Area

CBTx has provided an excellent level of community development services throughout the Nacogdoches/Lufkin AA. The delivery systems in the Nacogdoches/Lufkin AA are accessible to all geographies and individuals of different income levels. The bank has one branch located in a low income CT, three branches located in a moderate income CT, and five branches located in a distressed middle income CT. The bank provides a wide range of financial services at each branch. This includes access to ATMs at each branch location, low cost checking accounts, telephone and Internet banking services, and ACH deposit transactions. In addition, the bank underwrites a significant volume of SBA, VA, and FHA loans. Branches in the Nacogdoches/Lufkin AA offer trust services, as well as insurance products. In addition to retail banking services and specialized loan programs, bank officers and employees are active in numerous local organizations that promote community development. Examples include the Habitat for Humanity, United Way, Industrial Trust, Nacogdoches Housing Authority, Main Street Lufkin, and Nacogdoches Downtown Business.

Collin County Assessment Areas

CBTx has provided an adequate level of community development services throughout the Collin County AA. CBTx has one office located in a middle income CT. This location is reasonably accessible to all geographies and individuals of different income levels. In addition, the bank provides a wide range of financial services at each branch. This includes access to an ATM, low cost checking accounts, telephone and Internet banking services, and ACH deposit transactions. In addition, the bank underwrites a significant volume of SBA, VA, and FHA loans. Bank officers and employees are active in numerous local organizations that promote community development. Examples include the Allen Community Outreach and the McKinney Housing Finance Corp.

Responsiveness to Community Development Needs

CBTx has demonstrated an adequate responsiveness to community development needs throughout the Nacogdoches/Lufkin and Collin County Assessment Areas. Products and services offered are designed to meet the needs of all individuals and geographies, regardless of income levels. Additionally, bank staff is actively involved in community organizations as well as organizations designed to retain and establish businesses in the area that are a vital part of providing jobs and stability to the local economy.

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 assessment area 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.