



Office of the
Comptroller of the Currency
Washington, DC 20219

INTERMEDIATE SMALL BANK

PUBLIC DISCLOSURE

May 05, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Texas Citizens Bank, National Association
Charter Number 24640

4949 Fairmont Parkway, Pasadena, TX 77505

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 Community Reinvestment Act Rating: This institution is rated Satisfactory.

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

Texas Citizens Bank, National Association (TCB) has a satisfactory record of meeting community credit needs based on the following:

- TCB has maintained a loan-to-deposit ratio on a quarterly basis that is more than reasonable compared to similarly sized peer banks.
- A majority of the bank's lending is inside the assessment area (AA) by number and dollar amount of originated loans.
- Lending to businesses of different sizes reflects reasonable penetration of small businesses with gross annual revenues of \$1 million or less compared to the AA census characteristics.
- Geographic distribution of loans reflects reasonable dispersion of small business loans in low-income census tracts (CTs) and excellent dispersion in moderate-income CTs in the 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 review of TCB's Community Reinvestment Act (CRA) performance in its AA. TCB was evaluated under the Intermediate Small Bank (ISB) CRA 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.

TCB's primary lending product is business loans, which represent 72 percent of all loans as of March 31, 2014. Commercial real estate loans are 43 percent and commercial and industrial loans are 29 percent of the business loan portfolio. As an ISB, the bank is not required to collect or report loan data for business loans; however, management has elected to collect loan amount and CT data. During a Data Integrity review in January 2014, we sampled business loans originated or renewed from January 1, 2012 through December 31, 2013. Our review determined the bank's records to be reliable as to dollar amount and CT. As such, for the CRA evaluation, we used the bank's full report of its business loans rather than a sample for the analyses of lending in the AA and geographic distribution.

This was a total of 698 loans. For the analysis of lending to businesses of different sizes, we obtained revenue information from the bank's records in a sample of 120 loans taken during the Data Integrity review.

For the CD Test, our review included all CD loans, investments, and services in the bank's AA since the date of the last CRA evaluation, November 24, 2008, through the date of this evaluation, May 5, 2014.

Description of Institution

TCB is an independently owned full-service community bank headquartered in Pasadena, Texas. The bank was chartered in May 2006. TCB's main location is 4949 Fairmont Parkway in Pasadena. Four other branches are located in Harris County, and one branch is located in Fort Bend County. Four branches were opened during the evaluation period. The Baytown and Rosenberg branches were opened in April 2010, the West University branch was opened in May 2010, and the Clear Lake branch was opened in February 2011. No branches have been closed during the evaluation period. With the exception of the West University branch, all branches have automated teller machines. All branches operate within reasonable hours during the week. The Clear Lake, Rosenberg, and West University branches are also open on Saturdays. In addition, the bank provides its customers with 24-hour account access through online and mobile banking services.

TCB offers a variety of banking services, such as traditional checking and savings accounts, time deposit accounts, and business and consumer loans. The bank's focus is on small and medium sized businesses, including the professional and executive market, such as physician groups, accounting firms, and law firms.

As of March 31, 2014, the bank had \$328 million in assets and a Tier One Leverage Capital ratio of 9.49 percent. There are no legal or financial factors that impede the bank's ability to help meet the credit needs of the AA. The bank received a satisfactory rating at the prior CRA evaluation dated November 24, 2008.

Please refer to TCB's CRA Public File for more information about this institution.

Description of Assessment Area

TCB has one AA that includes CTs in four contiguous counties in the Houston-Sugar Land-Baytown Metropolitan Statistical Area (MSA). The AA comprises 525 CTs in the four counties. It includes 14 of 50 CTs in Brazoria County, 20 of 66 CTs in Galveston County, 415 of 785 CTs in Harris County, and all 76 CTs in Fort Bend County. In the AA, 67 CTs (13%) are designated as low income, while 159 CTs (30%) are designated as moderate income.

There are approximately 2.8 million residents in the bank's AA. Five percent are unemployed, 10 percent are retired, and 18 percent receive social security benefits. The Housing and Urban Development updated MSA median family income for 2013 was \$66,200.

Brazoria County

The AA in Brazoria County includes all CTs north of State Highway 6 that border Fort Bend, Harris, and Galveston counties. According to the 2010 US Census, Brazoria County's population is 313 thousand. The county seat is Angleton and the largest city is Pearland, with 91 thousand residents. Major employers in Brazoria County include The Dow Chemical Company, Alvin Independent School District (ISD), Pearland ISD, and the Texas Department of Criminal Justice, according to the Economic Development Alliance for Brazoria County. The Bureau of Labor Statistics reports unemployment of 6.2 percent and the 2010 US Census reports 10.9 percent of residents living below the poverty level.

Galveston County

The AA in Galveston County includes all CTs north of Highway 517 that border Brazoria and Harris counties. According to the 2010 US Census, Galveston County's population is 291 thousand. The county seat is Galveston and the largest city is League City, with 87 thousand residents. Galveston is a well-known tourist destination, a port of entry for cruise ships, and a port of call for cargo ships. According to the Galveston County Economic Alliance, major employers include University of Texas – Medical Branch, BP Products North America, Galveston ISD, and Landry's Incorporated. The Bureau of Labor Statistics reports unemployment of 5.9 percent and the 2010 US Census reports 12.8 percent of residents living below the poverty level.

Harris County

The AA in Harris County includes all CTs south of Interstate 10 that border Fort Bend, Brazoria, Galveston, and Chambers counties. According to the 2010 US Census, the population of Harris County is 4 million, which is the most populous county in Texas and third in the United States. The county seat is Houston, which is the fourth-largest city in the United States with a population of 2.1 million according to the 2010 US Census. According to the 2013 Harris County Comprehensive Annual Financial Report, major corporate employers in the county include Exxon Mobil, Shell Oil Company, and National Oilwell Varco, Inc. The Bureau of Labor Statistics reports unemployment of 5.5 percent and the 2010 US Census reports 17.9 percent of residents living below the poverty level. TCB has 0.13 percent of the market share in Harris County, per the FDIC Deposit Market Share Report as of June 30, 2013.

During the evaluation period, a Community Affairs Officer of the OCC contacted a representative of an organization that provides development and workforce solutions to businesses in Harris County. The Contact referenced opportunities for banks to participate in meeting credit needs through offering lines of credit and working capital loans for small businesses. As noted above, TCB focuses on small business lending and offers these types of credit products.

Fort Bend County

The AA includes all CTs in Fort Bend County. Fort Bend County is one of the fastest growing counties in Texas, with a population of 585 thousand according to the 2010 US Census. The county seat is Richmond. The largest city in the county is Sugar Land, with a population of 82 thousand residents. Major employers include Fort Bend ISD, Lamar Consolidated ISD, Fluor Corporation, and Fort Bend County, according to the county Website. The Bureau of Labor Statistics reports unemployment of 5 percent and the 2010 US Census Data reports 8.3 percent of residents living below the poverty level. TCB has 0.35 percent of the market share in Fort Bend County, per the FDIC Deposit Market Share Report as of June 30, 2013.

Conclusions with Respect to Performance Tests

Lending Test

TCB’s performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is above the average for similarly sized and situated institutions (peer group banks), and is more than reasonable given the bank’s performance context. The bank’s quarterly LTD ratio since the prior CRA evaluation averaged 86 percent. Twenty-five banks, under \$500 million and headquartered in any of the counties in TCB’s AA, had an average LTD ratio of 68 percent, collectively, for the same time period. The LTD ratios for the peer group banks ranged from 10 to 92 percent.

Lending in Assessment Area

A majority of the bank’s lending is inside the AA by number and dollar amount of loans originated or renewed. During the evaluation period, 64.61 percent by number and 66.20 percent by dollar amount of business loans were originated within the bank’s AA. The following table details the bank’s lending inside and outside the AA by number and dollar amount:

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	451	64.61	247	35.39	698	162,711	66.20	83,062	33.80	245,773

Source: Data collected by bank.

Lending to Businesses of Different Sizes

Penetration of loans to small businesses with gross annual revenues of \$1 million or less was 46.84 percent by number, which is reasonable but below the AA characteristic of 71.10 percent.

Management indicated that smaller businesses in the AA might use alternative, non-bank sources of financing. The bank’s performance is shown in the following table:

Table 2 - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.10	3.80	25.10	100.00
% of Bank Loans in AA by #	46.84	53.16	0.00	100.00
% of Bank Loans in AA by \$	51.32	48.68	0.00	100.00

Source: Dun and Bradstreet data; loan sample.

Geographic Distribution of Loans

Geographic distribution of loans to businesses with gross annual revenues of \$1 million or less reflects reasonable dispersion in low-income CTs and excellent dispersion in moderate-income CTs. Dispersion of loans in low-income CTs was 6.21 percent, which is below, but close to the AA census characteristic of 8.16 percent. Dispersion of loans in moderate-income CTs was 42.35 percent, which significantly exceeds the AA census characteristic of 20.41 percent. The bank’s performance is shown in the following table:

Table 3 - Geographic Distribution of Loans to Businesses in AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial	8.16	6.21	20.41	42.35	18.48	16.85	52.85	34.59

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

Note: Income information was not available for .10% of AA census tracts.

Responses to Complaints

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

Community Development Test

TCB’s performance under the CD Test is Satisfactory. The bank originated an adequate level of CD loans that promoted affordable housing or economic development. Qualifying CD investments and donations totaled \$308 thousand and bank officers are active in several organizations that provide services benefitting the AA.

Number and Amount of Community Development Loans

During the evaluation period, TCB originated an adequate level of CD loans in response to the needs of the local community. The bank granted or renewed nine loans to six borrowers totaling \$11.4 million.

The following summarizes CD lending activities:

- Two loans to one borrower for repair and rehabilitation following Hurricane Ike. Loans totaling \$724 thousand were provided for affordable housing to low- and moderate-income (LMI) individuals.
- Seven originated or renewed loans to five borrowers totaling \$10.7 million that promoted economic development through job creation/retention for LMI individuals.

Number and Amount of Qualified Investments

During the evaluation period, TCB’s performance reflects an adequate level of CD investments and donations to meet the needs of the local community. Total investments/donations are comprised of a \$1 million unfunded commitment to a Small Business Investment Corporation (SBIC) Fund, one \$225 thousand investment, and forty-seven donations totaling \$83 thousand to twenty-one entities. The following list highlights and provides examples of significant CD investments and donations:

- \$1 million committed investment to a SBIC Fund where funds will benefit small businesses nationwide. The bank’s commitment originated December 2013; no funds were disbursed during the review period;
- \$225 thousand certificate of deposit from a minority-owned institution;
- \$16 thousand donation to an organization that benefits the homeless;
- \$10 thousand donation to a foundation that provides programs for students in an economically disadvantaged ISD; and,
- \$8.4 thousand donation to a foundation that provides scholarships to college students where 80 percent of the students are underserved.

Extent to Which the Bank Provides Community Development Services

During the review period, TCB provided an adequate level of CD services and was responsive to the needs of the local community. Eight bank officers and one advisory director provided a combined 499 hours of financial and technical expertise to eight organizations that targeted LMI individuals. Highlights of services provided to an ISD with 79% of students reported as economically disadvantaged include:

- A bank officer served as a board member, and a member of the Finance Committee that helped raise money for a foundation, which benefited the ISD.
- Another bank officer served as a board member and assisted in raising money for the ISD’s financial literacy programs.

Responsiveness to Community Development Needs

The bank's CD activities reflect adequate responsiveness to CD needs.

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.