



PUBLIC DISCLOSURE

March 03, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Southwestern National Bank
Charter Number 23081

6901 Corporate Drive, Houston, TX 77036

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.

Institutions Community Reinvestment Act Rating: This institution is rated Satisfactory.

The Lending Test is rated: Outstanding.

The Community Development Test is rated: Satisfactory.

Southwestern National Bank (SWNB) has a satisfactory record of meeting community credit needs based on the following:

- SWNB has maintained a reasonable loan-to-deposit ratio on a quarterly basis when compared to similarly sized peer banks.
- A substantial majority of the bank's lending is inside the assessment areas (AA) by number and dollar amount of loans originated.
- Lending to businesses of different sizes reflects excellent penetration of small businesses with gross annual revenues of \$1 million or less compared to the AA census characteristics.
- Geographic distribution of loans reflects excellent dispersion of small business loans in low- and moderate-income (LMI) census tracts (CT) in both the Houston and Dallas AAs.
- 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 Evaluation

We completed a review of SWNB's Community Reinvestment Act (CRA) performance in its AAs. SWNB was evaluated under the Intermediate Small Bank (ISB) CRA procedures, which includes a Lending Test and a CD Test. The Lending Test evaluates the bank's record of meeting the credit needs of the AAs through lending activities. The CD Test evaluates the bank's responsiveness to CD needs in its AAs through qualified CD lending, investments, and services.

SWNB's primary lending products consist of business loans, which represent 94 percent of all loans. By category of business loans, commercial real estate loans were 87 percent and commercial and industrial loans were five percent of the loan portfolio. Construction and land development loans were two percent of the remaining business loans. All other loans comprise six percent of the total loan portfolio with 1–4 family residential real estate at two percent and multifamily real estate at four percent. Multifamily loans were considered in the CD Test. Consumer lending and other loans were insignificant at less than one percent.

Most loans are originated in the Houston AA. The Houston AA accounts for approximately 89 percent of the number of loans originated, the Dallas AA is nine percent, and the Austin AA is two percent.

Prior to this evaluation, we performed a Data Integrity review in November 2013 to verify any information maintained by management on originated loans. As an ISB, management is not required to collect data on business loans. However, management collects this information for the key data fields. A random sample of business loans during the Data Integrity review determined the data to be reliable. Therefore, we used the full loan reports for the CRA evaluation rather than a sample.

For the Lending Test, our analysis included loans originated, renewed or purchased in 2012 or 2013 in the Houston and Dallas AAs. The Austin AA was not included in the business size penetration or geographic distribution tests, as the bank originated only two business loans in the AA during the evaluation period. The bank has one branch in the Austin AA, which represents four percent of the bank's total deposit accounts. The Houston and Dallas AAs represent 58 percent and 38 percent of deposit accounts, respectively.

For the CD Test, our review included all CD loans, investments, and services in each of the bank's AAs since the date of the last CRA evaluation, August 30, 2010, through the date of this evaluation, March 3, 2014.

Description of Institution

SWNB is a full-service community bank headquartered at 6901 Corporate Drive, Houston, Texas. SWNB is a wholly-owned subsidiary of SWNB Bancorp, Inc., a one-bank holding company. The bank has five branches located in Texas in three AAs, including the main location in Houston and branches in Sugar Land, Plano, Richardson, and Austin. The bank has not opened any branches since the prior CRA evaluation, and closed one branch at 1005 St. Emanuel Street, Houston, Texas, on April 1, 2011. The main location, the Plano branch, and the Richardson branch have drive-in services. ATM service is available at the Houston branch. Banking hours are reasonable and meet the needs of the community.

SWNB offers a variety of deposit products including business, personal, low-cost, and money market checking accounts. Also, SWNB offers savings accounts, individual retirement accounts, certificates of deposit, and VISA debit cards. The bank offers banking services in several languages, including, but not limited to: Taiwanese, Mandarin, Cantonese, Korean, Vietnamese, Japanese, Filipino, and English.

As of December 31, 2013, assets totaled \$348 million and the Tier One Leverage Capital Ratio was 11.16 percent.

The Board of Directors signed a formal enforcement action with the Comptroller of the Currency on May 19, 2010 and a replacement enforcement action on March 24, 2011 related to asset quality that may have affected the bank's ability to meet the credit needs of its community. The bank received an "Outstanding" rating at the prior CRA evaluation dated August 30, 2010.

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

Description of Assessment Areas

SWNB has three AAs: Houston, Dallas, and Austin. All AAs include full counties and do not arbitrarily exclude any low-income or moderate-income CTs.

Houston AA

The Houston AA includes all CTs located in Harris and Fort Bend Counties. The counties are adjacent and form one contiguous AA, which is located in Southeast Texas. The county seats are Houston and Richmond, respectively. Other cities in the AA include Sugar Land and Rosenberg. The AA is comprised of 862 CTs, of which 125 are low-income CTs (14.5%), 258 are moderate-income CTs (29.9%), 210 are middle-income CTs (24.4%), 265 are upper-income CTs (30.7%), and four CTs (0.5%) are not income defined.

The economy of Harris County is stable. Harris County has a population of 4 million according to the 2010 United States Census and a median household income of \$52,902 per the 2012 American Community Survey. According to the Bureau of Labor Statistics, as of December 31, 2013 the unemployment rate in Harris County is 5.5 percent, which is lower than the statewide unemployment rate of 5.6 percent? The *Houston Chronicle's* list of employer data for 2013 indicates that some of the largest employers in Harris County are Memorial Herman Health System, MD Anderson Cancer Center, and Exxon Mobil Corporation.

The economy of Fort Bend County is stable. Fort Bend County has a population of 585,375 according to the 2010 United States Census and a median household income of \$82,668 per the 2012 American Community Survey. According to the Bureau of Labor Statistics, as of December 31, 2013 the unemployment rate in Fort Bend County is 5.0 percent, which is lower than statewide unemployment of 5.6 percent. The Greater Fort Bend Economic Development Council indicates that in 2013 some of the largest employers in the county include the Fort Bend Independent School District, Flour Corporation, and Schlumberger Technology Corporation.

Competition with other financial institutions in the Houston AA is high. According to the FDIC Market Share Report, as of June 30, 2013 there are 88 financial institutions in the AA. SWNB has two branches in the Houston AA and holds 0.09 percent of the Deposit Market Share.

The largest Deposit Market Share Holders in the AA are JP Morgan Chase Bank, National Association (N.A.), Wells Fargo Bank, N.A., and Bank of America, N.A.

Based on information from community contacts, credit needs in the community include lending to LMI individuals for home purchases and/or home repairs. The contact also indicated that there is a need for banks to donate to organizations offering services such as Houston Family Home Repair Program, which aims to alleviate the threats to health, life, and safety of homeowners from disrepairs of a residence. While SWNB offers residential loans, the bank's primary focus is on business lending.

Dallas AA

The Dallas AA includes all of Dallas and Collin Counties, which are contiguous counties located in Northeast Texas. The county seats are Dallas and McKinney, respectively. Other cities in the AA include Addison, Plano and Richardson. The Dallas AA is comprised of 681 Census Tracts (CTs), of which 106 are low-income CTs (15.6%), 186 are moderate-income CTs (27.3%), 161 are middle-income CTs (23.7%), 225 are upper-income CTs (33.0%), and three CTs are not income defined (0.4%).

The economy of Dallas County is stable. Dallas County has a population of 2.4 million according to the 2010 United States Census and a median household income of \$48,509 per the 2012 American Community Survey. According to the Bureau of Labor Statistics, unemployment in Dallas County was 5.9 percent as of December 31, 2013 compared to statewide unemployment of 5.6 percent. This is an improvement compared to the high unemployment rate of 9% for the county, as of July 31, 2010 and is still below the national unemployment rate of 6.7 percent. The Dallas County Chamber of Commerce identified the major employers in Dallas County as American Airlines, Bank of America, N.A., Texas Health Resources, and the Dallas Independent School District.

The economy of Collin County is stable. Collin County has a population of 834,642 according to the 2010 United States Census and a median household income of \$82,296 per the 2012 American Community Survey. According to the Bureau of Labor Statistics, unemployment in Collin County was 4.9 percent as of December 31, 2013. This is below statewide unemployment of 5.6 percent. The Collin County Chamber of Commerce indicates that major employers in Collin County include Texas Instruments, EDS, JC Penny, and the Richardson Independent School District.

Competition with other financial institutions in the Dallas AA is high. According to the FDIC Market Share Report, as of June 30, 2013 there are 114 financial institutions in the AA. SWNB has two branches in the Dallas AA and holds 0.08 percent of the Deposit Market Share. The largest Deposit Market Share Holders in the AA are Bank of America, N.A., JP Morgan Chase Bank, N.A., and Wells Fargo Bank, N.A.

Based on information from community contacts, the primary credit needs of the community are small businesses loans.

The contact also stated that banks and other investors need to be more open to individuals and institutions looking to do business in LMI communities. SWNB originates small business loans in and across various geographies in the AA including LMI CTs.

Austin AA

The Austin AA is comprised of all CTs located in Travis County. Travis County is one contiguous area in Central Texas that includes the County Seat, Austin, and other cities including Lakeway and Pflugerville. The AA contains 218 CTs. There are 35 low-income CTs (16.1%), 55 moderate-income CTs (25.2%), 58 middle-income CTs (26.6%), 67 upper-income CTs (30.7%), and three unknown CTs (1.4%).

The economy of Travis County is stable. Travis County has a population of 1 million according to the 2010 United States Census and a median household income of \$71,413 per the 2012 American Community Survey. According to the Bureau of Labor Statistics, unemployment in Travis County is 4.5 percent as of December 31, 2013, which is lower than the statewide unemployment rate of 5.6 percent. According to the Austin Chamber of Commerce, the larger employers in the area include Dell, Inc., the Seton Healthcare Family, and the University of Texas.

Competition with other financial institutions in the Austin AA is high. According to the FDIC Market Share Report, as of June 30, 2013 there are 52 financial institutions in the AA. SWNB has one branch in the Austin AA and holds 0.04 percent of the Deposit Market Share. The largest Deposit Market Share Holders in the AA are Bank of America, N.A., JP Morgan Chase Bank, N.A., and Wells Fargo Bank, N.A.

Based on information from community contacts, the primary credit needs in the AA are loans to small businesses and mortgage loans. SWNB offers residential loans; however, the bank's primary focus is on business lending.

Conclusions with Respect to Performance Tests

Lending Test

SWNB's performance under the Lending Test is Outstanding.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is below the average for similarly sized and situated institutions (peer group banks), but is reasonable given the bank's performance context. The bank's quarterly LTD ratio since the prior CRA evaluation averaged 58 percent. Forty-three banks under \$500 million headquartered in any of the counties in SWNB's AAs had an average LTD ratio of 73 percent, collectively, for the same time period. The LTD ratios for the peer group banks ranged from 22 to 107 percent.

Lending in Assessment Area

A substantial majority of the bank’s lending is inside the AAs by number and dollar amount of loans originated and purchased. During the evaluation period, 83.33 percent by number and 77.96 percent by dollar amount of business loans were originated or purchased within the bank’s AAs. The following table details SWNB lending inside and outside the AAs by number and dollar amount:

Table 1 - Lending in All Assessment Areas										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	75	83.33	15	16.67	90	19,569	77.96	5,534	22.04	25,103

Source: Data collected by bank.

Lending to Businesses of Different Sizes

Lending to businesses of different sizes reflects excellent penetration compared to AA census characteristics.

Houston AA

Penetration of loans to small businesses with gross annual revenues of \$1 million or less was 77.78 percent, which exceeds the AA census characteristic of 71.38 percent. The bank’s performance is shown in the following table:

Table - Borrower Distribution of Loans to Businesses in Houston AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	71.38	3.98	24.64	100.00%
% of Bank Loans in AA by #	77.78	7.94	14.29	100.00%
% of Bank Loans in AA by \$	89.72	7.00	3.28	100.00%

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

Dallas AA

Penetration of loans to small businesses with gross annual revenues of \$1 million or less was 70.00 percent, which meets the AA census characteristic of 70.93 percent. The bank’s performance is shown in the following table:

Table - Borrower Distribution of Loans to Businesses in Dallas AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	70.93	4.00	25.07	100.00%
% of Bank Loans in AA by #	70.00	0.00	30.00	100.00%
% of Bank Loans in AA by \$	89.71	0.00	10.29	100.00%

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

Austin AA

The bank did not originate/renew or purchase a sufficient number of small business loans in 2012 or 2013 to enable meaningful analysis.

Geographic Distribution of Loans

Geographic distribution of loans to small businesses with gross annual revenues of \$1 million or less reflects excellent dispersion in low-income CTs and moderate-income CTs.

Houston AA

Dispersion of loans in low-income CTs was 14.29 percent, which significantly exceeds the AA census characteristic of 9.55 percent. Dispersion of loans in moderate-income CTs was 44.44 percent, which significantly exceeds the AA census characteristic of 21.17 percent. The bank’s performance is shown in the following table:

Table - Geographic Distribution of Loans to Businesses in Houston AA								
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
Commercial	9.55	14.29	21.17	44.44	23.96	22.22	45.25	19.05

Source: Dun and Bradstreet data; data collected by bank.
 Note: Income information was not available for .07% of AA census tracts.

Dallas AA

Dispersion of loans in low-income CTs was 20.00 percent, which significantly exceeds the AA census characteristic of 9.41 percent. Dispersion of loans in moderate-income CTs was 20.00 percent, which meets the AA census characteristic of 19.39 percent. The bank’s performance is shown in the following table:

Table - Geographic Distribution of Loans to Businesses in Dallas AA								
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
Commercial	9.41	20.00	19.39	20.00	24.63	0.00	46.30	60.00

Source: Dun and Bradstreet data; data collected by bank.
 Note: Income information was not available for .27% of AA census tracts.

Austin AA

The bank did not originate/renew or purchase a sufficient number of small business loans in 2012 or 2013 to enable meaningful analysis.

Responses to Complaints

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

Community Development Test

SWNB's performance under the CD Test is Satisfactory. The bank provided \$5.4 million in qualified CD loans, \$3.9 million in qualified investments, and \$29 thousand in qualified donations. SWNB also provided sufficient qualified financial services during the evaluation period. The bank's CD activities are described below.

Number and Amount of Community Development Loans

During the evaluation period, SWNB originated or refinanced six qualified CD loans totaling \$5.4 million in the Houston AA. The qualified CD loan activities included loans to small businesses providing affordable housing as well as loans to organizations providing healthcare and related services to LMI individuals and families.

Number and Amount of Qualified Investments

SWNB made thirteen qualified investments totaling \$3.9 million during the review period. Additionally, SWNB made 52 qualified donations totaling \$28.7 thousand to organizations whose activities primarily benefit LMI individuals in the bank's AAs.

In the Houston AA, SWNB made eight qualified investments totaling \$1.95 million. The investments consisted of certificates of deposit purchased or renewed from Minority Owned Financial Institutions. SWNB also made 40 qualified donations totaling \$22.9 thousand. The donations included needs based scholarships to LMI individuals, donations to organizations providing school supplies to LMI individuals, as well as donations to an organization that provides health care services to LMI individuals and families.

In the Dallas AA, SWNB made three qualified investments totaling \$720 thousand. The investments consisted of certificates of deposit purchased or renewed from Minority Owned Financial Institutions. SWNB also made 11 qualified donations totaling \$5.6 thousand. The donations included needs based scholarships to LMI individuals, and donations to organizations providing food to LMI individuals and families.

In the Austin AA, SWNB made a qualified donation of \$200 to an organization providing literacy classes as well as financial and other educational services to LMI individuals.

SWNB made a \$1 million qualified investment with a Dallas based Small Business Investment Corporation (SBIC). The SBIC invests the bank's funds in various companies located in all of the bank's AAs.

Credit for the qualified donation is shared between the three AAs. SWNB also made a qualified investment purchase of \$245 thousand outside of its AA. The investment qualifies for CRA purposes because it is a certificate of deposit purchased from a Minority Owned Financial Institution.

Extent to Which the Bank Provides Community Development Services

SWNB's Community Development Services are sufficient. An officer of the bank provided extensive qualified services to an organization providing medical services to LMI individuals and families. Additionally the bank facilitated several organizations in providing qualified services to LMI individuals.

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.