



## **PUBLIC DISCLOSURE**

July 13, 2015

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

Texas Gulf Bank, National Association  
Charter Number 10420

1626 South Voss Road Houston, TX 77057-5714

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 CRA RATING: This institution is rated Satisfactory.**

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory**

Texas Gulf Bank, National Association (TGB) has a satisfactory record of meeting community credit needs in its assessment area (AA). The following factors support this conclusion:

- TGB's quarterly loan-to-deposit (LTD) ratio is reasonable, averaging 64.07 percent since the prior CRA evaluation. The bank's LTD ratio has progressively increased since the last evaluation and was 70.16 percent at March 31, 2015.
- The majority of loans were originated within the TGB assessment area.
- The overall borrower distribution of loans reflects reasonable penetration among low-and moderate-income borrowers and reasonable penetration among small businesses.
- The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- Management of TGB is committed to the community, which is demonstrated through their satisfactory responsiveness to community development (CD) activities.
- There were no Community Reinvestment Act (CRA) related consumer complaints received during the current evaluation period.

## **Scope of Evaluation**

We completed a full-scope review of TGB's CRA activities in its AA. TGB was evaluated under the Intermediate Small Bank (ISB) examination procedures, which include a lending test and a CD test. The lending test evaluated the bank's record of meeting the credit needs of the bank's AA through lending activities. The CD test evaluated the bank's responsiveness to CD needs in its AA through qualified CD lending, investments, and services.

The bank's primary loan products are business and residential real estate loans. Business and residential real estate loans are the largest products by dollar volume and by number. As of March 31, 2015, business loans, by volume, were 51 percent of TGB's loan portfolio and residential real estate loans were 22 percent. The lending test included a review of 284 business and residential loans originated or purchased from January 1, 2013 through December 31, 2014.

We performed revenue and geographic distribution analyses on 157 of those loans that originated within the AA. The evaluation period for the CD test was from June 25, 2012 to July 13, 2015.

## **Description of Institution**

TGB is a full-service community bank headquartered in Houston, Harris County, Texas. The bank is a wholly owned subsidiary of Texas Gulf Bancshares, Inc., a one-bank holding company. The bank has ten branches. The Angleton, West Columbia, Lake Jackson, Clute, and two Freeport branches are located in Brazoria County. Additionally, there are three branches in Houston and one in Friendswood. The most recent City Center branch, in Harris County, opened on July 20, 2015. TGB offers a variety of commercial, retail, and trust services. Automated Teller Machines (ATMs) are available at each location, and drive-through service is offered at all locations except the West Second Street and the Town and Country branches.

As of March 31, 2015, the bank reported total assets of \$514 million and the tier one leverage capital ratio was 10.21 percent. Business financing represents the largest portion of the loan portfolio at 51 percent by dollar amount and 32 percent by number. Residential real estate financing is also a primary lending product representing 22 percent of the loan portfolio by dollar amount and 27 percent by number.

There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its community. TGB was rated "Satisfactory" at the last CRA examination dated June 25, 2012.

Please refer to TGB's CRA Public File for more information about the institution.

## **Description of Assessment Area**

The bank's AA contains 122 CTs, consisting of 88 CTs in Harris County, 29 CTs in Brazoria County, and 5 CTs in Galveston County. The income characteristics of the AA are as follows: six (5 percent) low-income CTs, 25 (20 percent) moderate-income CTs, 27 (22 percent) middle-income CTs, and 64 (52 percent) upper-income tracts. The moderate-income CTs are located in all three counties. The AA meets legal requirements as its boundaries encompass the branch locations, are delineated by county lines or major thoroughfares, include only whole CTs, and do not arbitrarily exclude LMI geographies.

### Harris County

Harris County is the largest county in Texas, representing 16 percent of the state's population and is the third largest county in the nation. According to the U.S. Census Bureau "State and County Quick Facts", in 2014 the population was estimated at 4.4 million, the population growth rate was 8.5 percent over the previous four years, and 18.5 percent of the households were below the poverty level. The U.S. Bureau of Labor Statistics shows an unemployment rate of 4 percent for April 2015.

The county's economic activity is centered in the city of Houston. According to the Houston City website, the Port of Houston ranks first in the United States in international waterborne tonnage handled and second in total cargo tonnage handled. It is the tenth largest port in the world. The Port handled 220 million short tons of domestic and foreign cargo in 2010. Houston is also home to the largest medical center in the world, the Texas Medical Center. Houston is second only to New York City in Fortune 500 company headquarters, and more than five thousand energy-related firms are located in the city. The county's major employers include Memorial Hermann Healthcare System, The University of Texas MD Anderson Cancer Center, ExxonMobil, Shell, Continental Airlines, and Wal-Mart.

Banking competition in Harris County is intense. According to the June 30, 2014 FDIC Market Share Report, there were approximately 82 financial institutions operating 1,024 branches in Harris County. The five largest competitors in Harris County include JP Morgan Chase Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., Capital One and Compass Bank.

### Brazoria County

Brazoria County is located south of Houston and covers 1,597 square miles. According to the U.S. Census Bureau, the county has an estimated population of 338 thousand as of 2014 and has grown by 8 percent in the past 4 years. Median household income was \$67,603 between 2009 and 2013 and State and County quick facts estimated 11.72 percent of the population was below the poverty level. According to the Bureau of Labor Statistics, in April 2015, the unemployment rate was 4 percent. Of the 29 CTs in Brazoria County, none are low-income and seven are moderate-income CTs.

TGB concentrates banking activities in Brazoria County in the southern portion known as the Brazosport area. Six of the bank's ten banking locations are in Brazoria County. According to the Brazosport Area Chamber of Commerce, Brazoria County is home to the largest basic chemical complex in the world, which includes chemical manufacturing, petro-chemical processing, offshore extraction support complexes, and various other manufacturing. Major employers included The Dow Chemical Company, Texas Department of Criminal Justice, Infinity Group, Brazosport Independent School District, and Brazosport Regional Health System.

The Brazoria County banking environment is highly competitive. The June 30, 2014 Federal Deposit Insurance Corporation (FDIC) Market Share Report lists 26 financial institutions with 79 offices in the county, excluding credit unions.

TGB has 5.91 percent market share. Competitors in the county include Texas Dow Employees Credit Union, Brazosport Teachers Credit Union, Brazoria County Employees Credit Union, Old Ocean Employees Credit Union, First National Bank of Lake Jackson, First State Bank Clute, and Lone Star Bank.

### Friendswood, Texas

The city of Friendswood is south of Houston, covers 21 square miles, and is located in both Harris and Galveston Counties. According to the city of Friendswood, the population is 38,479, unemployment is 4%, and median household income is \$102,811. The 2010 census estimated 5.1 percent of the population was below the poverty level.

According to the Friendswood Chamber of Commerce, the predominant business categories in the area are aerospace and defense, software and computing, biotechnology, computer equipment, electronics, communication services, and chemicals. Top employers within the city of Friendswood include the Friendswood Independent School District, H. E. Butt Grocery Company, City of Friendswood, Kroger Texas, LP, Clear Creek Independent School District, and Friendship Haven Nursing Home.

There is much banking competition within Friendswood. The June 30, 2014 FDIC Market Share Report shows there are 15 financial institutions with 21 offices. Bank competitors include JP Morgan Chase Bank, Patriot Bank, Compass Bank, HomeTown Bank, N.A., Bank of America, N.A., Wells Fargo Bank, N.A. Comerica Bank, and Amegy Bank, N.A.

## **Conclusions with Respect to Performance Tests**

### **LENDING TEST**

TGB's performance under the Lending Test is Satisfactory.

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

The loan-to-deposit (LTD) ratio meets the standards for satisfactory performance and is reasonably in line with the peer group average. The quarterly average since the prior exam dated June 25, 2012 was 64.07 percent compared to the peer average of 75.44 percent. The bank's LTD ratio has progressively increased since the last evaluation and was 70.16 percent at March 31, 2015.

### **Lending in Assessment Area**

The bank meets the standards for reasonable performance under this factor. A majority of the bank's loans by number were in the AA with an aggregate of 55 percent and 40 percent by dollar amount and are within the AA. This is a 2 percent increase since the prior evaluation.

The lower dollar amount is due to a significant amount of loan originations at the Houston branches to customers that live inside the bank's AA but have business or opportunities outside of the bank's AA.

Performance in each loan category is shown in the following table:

Table 1A - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	50	74	18	26	68	20,094	71	8,137	29	28,231
Business	107	50	109	50	216	37,514	32	78,711	68	116,225
Totals	157	<b>55</b>	127	45	284	57,608	<b>40</b>	86,848	60	144,456

Source: HMDA and other data collected by bank

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

#### Business Lending:

Overall, the distribution of small business loans reflects reasonable penetration to businesses of different sizes. We compared the bank's loan originations to information about the size of businesses for the AA according to Dunn & Bradstreet information, updated for 2013.

As of March 31, 2015, TGB's loan portfolio consisted of 51 percent business loans. Of the 107 loans we sampled, 49.53 percent were made to small businesses. This is somewhat less than the characteristics of the AA; however, it reflects reasonable penetration. The bank's lower penetration is attributable to competition. Sources of competition include other national and state banks, credit unions, & non-bank financial institutions that offer small business financing. The following table displays TGB's lending to businesses of different sizes based on loan originations in 2013 and 2014.

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues	<\$1,000,000	>\$1,000,000	Unavailable	Total
% of AA Businesses	70.12	4.92	24.96	100%
% of Bank Loans in AA by #	<b>49.53</b>	24.30	26.17	100%
% of Bank Loans in AA by \$	33.34	51.18	15.48	100%

Source: Dun and Bradstreet data; data collected by bank

**Residential Real Estate Lending:**

The distribution of residential real estate loans reflects reasonable penetration among borrowers of different incomes considering the demographics and bank products. We analyzed residential real estate lending using 2010 U.S. Census information pertaining to borrower income compared to the percentage of families by median family income levels. The table below shows that the bank’s performance is below the characteristics of the AA for low-income households. However, the bank’s performance reflects excellent penetration among moderate-income households. For Home Mortgage Disclosure Act (HMDA) loans, the bank’s penetration of low-income households was 2 percent compared to the AA characteristic of 18.58 percent. The penetration of moderate-income households was 16 percent compared to the AA characteristic of 13.03 percent. The penetration of low-income households is lower than the AA characteristic but is reasonable based on the following points:

- There are only six low-income CTs in the bank’s AA.
- The weighted average median family income was \$64,179 in 2013 and \$63,898 in 2014 in the bank’s MSA according to the 2010 U.S. Census as updated by HUD. The census indicated a low-income household would have no more than \$33,099 in annual gross income in 2013 and \$34,199 in 2014, which makes housing related debt harder to qualify for as the weighted average median housing value was \$241,715

Table 2B - Borrower Distribution of Residential Real Estate Loans in AA								
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
Residential R/E	18.58	<b>2.00</b>	13.03	<b>16.00</b>	15.57	10.00	52.82	68.00

Source: U.S. Census data. HMDA data: 4% of borrowers (two Loans) did not report income information

**Geographic Distribution of Loans**

The overall geographic distribution of loans reflects excellent dispersion considering the minimal amount of low-income activity. The geographic distribution of both business loans and residential loans in moderate-income CTs significantly exceeds the AA characteristics.

**Business Loans**

For business loans, 40.19 percent of the bank’s loans are within moderate-income CTs compared with 13.28 percent of the AA’s businesses. Although the bank did not have any penetration in low-income CTs, the AA only contains six low-income CTs and minimal census activity.

The bank's performance is shown in the following table:

Table 3A - Geographic Distribution of Loans to Businesses in 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
Business	2.19	<b>0.00</b>	13.28	<b>40.19</b>	17.04	22.43	67.43	37.38

Source: Dun and Bradstreet data, data collected by bank; .06 percent reported NA

### Residential Lending

For residential loans, 26 percent of the bank's loans are within moderate-income CTs compared to 14.8 percent of the AA's owner occupied housing. The bank's performance is shown in the following table:

Table 3B - Geographic Distribution of Residential Real Estate Loans in 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
Residential	1.18	<b>0</b>	14.8	<b>26.00</b>	23.74	24.00	60.28	50.00

Source: U.S. Census Data; HMDA data

### Responses to Complaints

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

### COMMUNITY DEVELOPMENT TEST

The bank's performance under the CD test is satisfactory. The level of CD activities reflects adequate responsiveness to community needs. The bank provided \$18.3 million in qualifying CD loans, \$78 thousand in qualifying investment/donations, and provided 17 qualifying financial services to five various organizations during the evaluation period. The bank's CD activities are described below.

### **Number and Amount of Community Development Loans**

During the evaluation period, TGB originated or refinanced 18 qualifying CD loans totaling \$18.3 million. The following list summarizes and provides examples of significant CD lending activity.

- \$4,462,767 to provide affordable rental housing at below fair market rents to low and moderate-income (LMI) individuals in Harris County
- \$750,000 in renewals to provide planned revitalization to a LMI section in Harris County
- \$3,700,000 to provide for community services to LMI individuals in Harris County
- \$433,926 to provide affordable rental housing at below fair market rents to LMI individuals in Brazoria County
- \$5,541,891 to provide for community services to LMI individuals in Brazoria County
- \$1,847,000 to provide affordable rental housing at below fair market rents to LMI individuals in Galveston County
- \$1,573,337 investment in a Ginnie Mae National Agency mortgage-backed security, where underlying mortgages were to LMI borrowers

### **Number and Amount of Qualified Investments**

The level of community development investments/donations is satisfactory, by both number and dollar volume. Management submitted and examiners qualified information and supporting documentation for 24 monetary investments/donations totaling \$78,147. Substantial donations of \$25,333 and \$20,333 were given to non-profit organizations that benefit LMI children with disabilities and LMI elementary and middle school students who attend Title 1 schools, respectively. The remaining donations were contributions to non-profit organizations that provide assistance to at-risk and homeless youth and families, specialize in financial literacy classes for economically disadvantaged students, and provide affordable housing to low-income families.

### **Extent to Which the Bank Provides Community Development Services**

The bank has provided an appropriate level of CD services consistent with the needs of the community. Bank employees utilize their financial expertise to provide financial and technical services to organizations that target LMI individuals. CD services include teaching financial education courses, budgeting, financial affairs assistance, and finance committee duties for organizations that encourage financial stability or increase

financial access to LMI individuals. Additionally, several employees served on boards of organizations that primarily benefit LMI individuals.

We qualified seventeen services that bank officers and other employees performed at five various organizations during the evaluation period. A brief description of several CD services follows.

#### Junior Achievement

Bank employees provided financial education to disadvantaged elementary and middle school students in Brazoria County. Courses were taught at eleven elementary schools and one middle school that serve a majority of the LMI population in the Angleton, West Columbia, Brazosport, Brazoria, and Sweeny areas. Eight of the schools were Title 1 schools with a large percent of low-income youth.

#### Habitat for Humanity of Southern Brazoria County - Penny Drive

Bank employees participated in the Penny Drive, a fundraiser sponsored by the organization to aid in constructing affordable housing in the community. Employees collected, counted, logged, and reported final dollar amount of pennies from all Brazoria County schools that participated in the penny drive.

#### Stephen F. Austin Community Health Center

This non-profit organization is dedicated to providing affordable, high quality medical and dental care for families and individuals, servicing LMI geographies and individuals. A TGB Officer serves as Treasurer and oversaw the organization's finances.

#### Goodwill Industries of Houston

Goodwill Industries of Houston's mission is to provide education, training, and job opportunities to people with disabilities and other barriers to employment, as well as improve the lives of individuals and communities. Approximately 75 percent of Goodwill's employees are LMI individuals. A bank officer has served on a board and a committee in which he used his financial expertise to assist in managing financial affairs of the organization.

### **Responsiveness to Community Development Needs**

We made contact with one CRA related community contact, a Director of a non-profit organization in Brazoria County. The organization builds decent and affordable housing within its service area. The Director commented that most banks were not heavily involved in providing affordable housing opportunities. However, the Director stated that TGB has been a partner with the organization for more than 20 years.

## **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.