



## **PUBLIC DISCLOSURE**

March 27, 2017

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

TexStar National Bank  
Charter Number 24465

600 Pat Booker Road  
Universal City, TX 78148

Office of the Comptroller of the Currency  
Southern District  
San Antonio Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 78216-4165

**NOTE:** This document is an evaluation of this bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the bank. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this bank. The rating assigned to this bank does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial entity.

## INSTITUTION'S CRA RATING: This institution is rated Satisfactory

TexStar National Bank's (TexStar) lending performance reflects satisfactory response to meeting community credit needs in its assessment area (AA). The major factors supporting the rating include:

- The quarterly average loan-to-deposit (LTD) ratio is more than reasonable given the bank's size and financial condition, and the credit needs and relevant competitive factors in the AA.
- A substantial majority of loans, by number and dollar volume, originated inside the AA.
- The distribution of loans reflects reasonable penetration to business of different sizes.
- The geographic distribution of loans reflects reasonable dispersion throughout the AA.

## SCOPE OF EXAMINATION

We evaluated TexStar's lending activities using interagency Small Bank CRA procedures. The Performance Evaluation (PE) scope covered the period from September 19, 2011, the date of the prior PE, through March 27, 2017, the date of this current PE. We identified business loans as the bank's primary loan product. We selected a sample of 20 business loans originated during the evaluation period to determine lending inside the AA, and used the same loans to assess borrower and geographic distribution.

## DESCRIPTION OF INSTITUTION

TexStar, an intrastate community bank established in 2004, is a wholly-owned subsidiary of TexStar Bancshares Inc., a one-bank holding company headquartered in Universal City, Texas. TexStar purchased a bank branch in 2013 and now has six offices. In addition to the main office in Universal City, TexStar has three branches in San Antonio, a branch in New Braunfels and one in Converse. Each of the six offices has a motor bank and five of the six have an automated teller machine (ATM). All six offices have extended lobby hours on Friday. Three motor bank facilities are open on Saturday mornings. TexStar offers traditional loan and deposit products and services.

At December 31, 2016, TexStar reported total assets of \$242 million. Tier 1 capital totaled \$25.5 million or 10.5% of total assets. Net loans totaled \$181 million or 87% of total deposits and 75% of total assets. As shown in the following table, business (commercial) loans comprise the significant majority of the loan portfolio.

Loan Portfolio Summary by Loan Category December 31, 2016		
Loan Category	Dollar Volume \$(000)	% of Outstanding Dollars
Commercial (Including Real Estate)	144,066	80%
Residential	31,457	17%
Agricultural/Farmland	2,936	2%
Consumer and Other Loans	2,493	1%
<b>Total</b>	<b>180,952</b>	<b>100%</b>

Source: 12-31-2016 Call Report

Based on its financial condition and size, there are no legal, financial, or other factors impeding TexStar's ability to meet the credit needs in its AA. TexStar's current business strategy is to continue offering commercial loans as its primary loan product. The prior CRA evaluation, dated September 19, 2011, assigned an overall "Satisfactory" rating to TexStar's lending performance.

## DESCRIPTION OF ASSESSMENT AREA

TexStar has designated part of the San Antonio – New Braunfels Metropolitan Statistical Area as its AA. It includes 244 contiguous census tracts (CTs); 200 in Bexar County, 21 in Guadalupe County, 18 in Comal County, and 5 in Wilson County. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income (LMI) geographies. The City of San Antonio is the largest city in the AA. Other key cities include Universal City, Converse, New Braunfels, Live Oak, Schertz, and Selma. The following table shows pertinent demographic data for the AA.

Demographic Information for TexStar Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	244	8%	22%	30%	39%
Population by Geography	1,108,465	6%	22%	30%	42%
Owner-Occupied Housing Units by Geography	247,445	4%	16%	31%	49%
Businesses by Geography	87,501	5%	18%	28%	49%
Farms by Geography	1,967	3%	11%	31%	55%
Family Distribution by Income Level	262,817	19%	15%	19%	47%
Household Distribution by Income Level	392,932	23%	15%	17%	45%
Census Median Family Income (MFI)		\$ 58,222	Median Housing Value		\$ 157,129
HUD – Adjusted MFI: 2015		\$ 63,400	Households Below Poverty Level		13%
HUD – Adjusted MFI: 2016		\$ 62,500	Unemployment Rate		3.82%

According to the Bureau of Labor Statistics, the December 31, 2016 unemployment rate for the entire San Antonio – New Braunfels MSA was 3.7%, which was lower than the State of Texas unemployment rate of 4.8% and the national unemployment rate of 4.7% for the same time frame. Major employers include the military bases (Fort Sam Houston - Army, Lackland Air Force Base, and Randolph Air Force Base), HEB Grocery, USAA, and Methodist Health System.

Competition in the AA is very strong. The FDIC's June 30, 2016 Deposit Market Share Report reflects 61 financial institutions in the San Antonio - New Braunfels MSA. TexStar ranks 20<sup>th</sup> with a deposit market share of 0.19%. USAA Federal Savings Bank is first with a market share of 66%, followed by Frost National Bank with 8%, Wells Fargo Bank NA with 4%, and Bank of America NA with almost 4%.

We conducted a community contact with a community-based development corporation in order to gain perspective on credit needs in the AA. The corporation provides economic development resources to create, attract, retain, and expand business opportunities in the AA. The contact stated that when opportunities for participation by local financial institutions arise, customers are referred to the Small Business Association and/or local banks for assistance with funding. The contact visits the banks in the area and said the banks are providing loans, education and assistance to the local business community. The contact said banks in the AA are meeting the credit needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

TexStar’s average quarterly LTD ratio is more than reasonable given the bank’s size, financial condition, and AA credit needs. During the evaluation period, the quarterly LTD ratio ranged from a low of 79% to a high of 91%, with a quarterly average of 85%. To assess TexStar’s performance, we compared its average quarterly LTD ratio to three similarly situated institutions. As reflected in the following table, the average quarterly LTD ratios for the three institutions ranged from 63% to 79%, no ranking is intended or implied. The overall quarterly average LTD ratio for all three institutions is 70%.

Institution Name	Total Assets (\$000s) As of 12/31/2016	Average Quarterly LTD Ratio As of 12/31/2016
TexStar National Bank	\$241,935	85%
First-Lockhart National Bank	\$248,184	79%
Lone Star Capital Bank, NA	\$245,262	69%
First Commercial Bank, NA	\$330,651	63%

Source: Quarterly Call Report data from December 31, 2011 through December 31, 2016

### Lending in Assessment Area

Based on the business loan sample, TexStar originated a substantial majority of loans inside its AA. Bank management provided information showing all business loans originated or renewed during the evaluation period. Based on the provided information, TexStar originated 74% of business loans by number and 71% by dollar volume inside its AA.

Lending in the TexStar Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	20	100%	0	0%	20	7,578	100%	0	0%	7,578

Source: Business Loan Sample

### Lending to Businesses of Different Sizes

Based on the business loan sample, the distribution of loans represents reasonable penetration to businesses of different sizes. For the distribution of business loans, we compared data from the business loan sample to demographic data from Dunn and Bradstreet. As reflected in the following table, the distribution of loans to businesses with annual revenues equal to or less than \$1 million is somewhat lower than the demographic data. Bank management tracks the distribution of new loans to businesses of different sizes on a quarterly basis. The December 31, 2016 report reflected 67% of new loans originated during 2016 were made to businesses with annual revenues less than or equal to \$1 million. This percentage compares favorably to sample findings.

<b>Borrower Distribution of Loans to Businesses in the TexStar Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	84%	6%	10%	100%
% of Bank Loans in AA by #	45%	45%	10%	100%
% of Bank Loans in AA by \$	79%	21%	0%	100%

Source: Loan sample; Dunn and Bradstreet data

### **Geographic Distribution of Loans**

Based on the business loan sample, the geographic distribution of loans to businesses reflects poor dispersion. As reflected in the following table, TexStar did not originate any of the sampled business loans in low-income CTs. In addition, the percentage of loans to businesses in moderate-income CTs is lower than the percentage of business located in these CTs. However, based on the information bank management provided for all business loans originated during the evaluation period, TexStar originated 4% of these loans in low-income CTs and another 14% in moderate-income CTs. These percentages are comparable to demographic data and reflect reasonable dispersion.

<b>Geographic Distribution of Loans to Businesses in the TexStar Assessment Area</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
Business Loans	5%	0%	18%	5%	28%	40%	49%	55%

Source: Business loan sample, Dunn and Bradstreet data

### **Responses to Complaints**

TexStar did not receive any complaints related to CRA performance during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 CFR 25.28(c), or 12 CFR 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 AA 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.