



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 26, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Post Oak Bank, National Association
Charter Number 24491

2000 West Loop South, Suite 100
Houston, TX 77027

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.

Post Oak Bank (POB) has a satisfactory record of meeting community credit needs based on the following:

- POB has maintained a reasonable loan-to-deposit (LTD) ratio on a quarterly basis when compared to similarly situated banks.
- A substantial majority of the bank's lending is inside the assessment area (AA) by number and dollar amount of loans originated.
- The level of Community Development (CD) activities is satisfactory in relation to the bank's performance context, and reflects adequate responsiveness to AA needs.
- The overall geographic distribution of loans reflects reasonable dispersion in low- and moderate-income (LMI) census tracts (CTs) for both business loans and residential mortgage loans in the bank's AA.
- The level of 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 full-scope review of POB's Community Reinvestment Act (CRA) activities in its AA. POB was evaluated under the Intermediate Small Bank (ISB) Examination Procedures, which included a Lending Test and a CD Test. The Lending Test evaluates the bank's record of meeting the credit needs of the 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.

Prior to this examination cycle, POB was subject to Small Bank CRA requirements. During this examination cycle, the bank became an ISB and is subject to the CD Test along with the Lending Test. As an ISB, management is not required to collect and report information on business lending. We completed a Data Integrity Review in May 2012 to determine the accuracy of the Home Mortgage Disclosure Act (HMDA) Loan Application Register (LAR) to be used at this evaluation. We reviewed a sample of HMDA loans and noted a key field error rate in excess of the five percent threshold utilized to determine accuracy; therefore, the data was not considered reliable for the HMDA LAR. Subsequent to the review and prior to the CRA examination, management corrected the errors, and the data was sampled and found to be reliable.

POB's primary lending products are business financing consisting of loans to small and medium size businesses, and residential mortgage loans consisting of 1-4 family residential owner-occupied loans. The Lending Test for POB covered the time frame from January 1, 2010 through December 31, 2011 for business loans and all originated 1-4 family residential owner-occupied loans for the same period. We selected a statistically valid sample of 60 business loans. For residential mortgage loans, we used all of the loans originated and reported on the HMDA LAR, which consisted of 173 loans in number and \$69.7 million by dollar amount. For the CD Test, our review included all CD loans, investments, and services since the date of the last CRA examination of April 16, 2007, through the date of this examination, November 26, 2012.

Description of Institution

Post Oak Bank is a full-service community bank headquartered at 2000 West Loop South, Suite 100 in Houston, Texas. Since the last Performance Evaluation, the bank became a part of a holding company. Effective January 1, 2009, POB became a subsidiary of Post Oak Bancshares, Inc. The bank has seven branches. Four branches in Harris County include the main office location, Town and Country, Northwest Freeway, and Pasadena. There is one branch in Conroe, which is in Montgomery County and one branch in Sugar Land, which is in Fort Bend County, plus the Beaumont branch. The bank opened a Loan Production office (LPO) in Beaumont on December 21, 2011, and closed the LPO on June 11, 2012. A new branch facility was opened in Beaumont, Jefferson County, on June 18, 2012. The Beaumont branch was not included in this evaluation as the branch was not in operation for six months prior to the examination. POB offers a variety of commercial and retail services. Banking hours are reasonable with each branch having lobby hours of 9:00 am to 5:00 pm Monday through Friday. Drive-in service is available at the branches with the exceptions of the main office and the Sugar Land branch. Automated Teller Machines (ATMs) are available at all but one branch, the Sugar Land branch.

As of September 30, 2012, assets totaled \$603 million and the Tier One Leverage Capital ratio was 11.25 percent. Business financing represents the largest portion of the loan portfolio at 61.13 percent by dollar amount and 52.53 percent by number. Residential real estate financing represents 23.03 percent by dollar amount and 15.95 percent by number. As business financing represents the largest amount by dollar amount and by number, more weight was placed on business financing performance when determining the final CRA rating during this evaluation period.

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

Description of Assessment Areas

Post Oak Bank had one AA in Texas, which consisted of portions of the Houston-Sugarland-Baytown Metropolitan Statistical Area (MSA) known as the Houston AA. The Houston AA contains all CTs in Harris County, Montgomery County, and Fort Bend County. All counties and CTs in the AA are contiguous. The bank opened a branch in the Beaumont MSA, during this evaluation period. Performance in this area was not considered as the branch has been opened for less than six months.

HOUSTON AA

For the CRA evaluation period, this AA includes all 730 CTs in three counties. It includes 649 CTs of Harris County, 47 CTs of Montgomery County, and 34 CTs of Fort Bend County.

Harris County

Harris County is the headquarters of POB. Of the 649 CTs in Harris County, there are 63 low-income (10%), 223 moderate-income (34%), 178 middle-income (27.5%), 178 upper-income (27.5%), and 7 without a designation (1%). Harris County is the most populous county in Texas and the third most populous in the nation. According to 2009 U.S. Census Bureau estimates, the county had a population of 4 million with a growth rate of 20 percent since the year 2000. The county seat is Houston, which is the largest city in Texas and the fourth largest city in the nation. For Houston, U.S. Census information reflects the population increased almost 10 percent from 1.95 million in 2000 to 2.14 million in 2006. Houston has the largest medical center in the world, the Texas Medical Center. The center's economic impact exceeds \$10 billion annually, and has approximately 52 thousand employees. Houston is known as the capital of the oil and gas industry with over 5 thousand energy-related firms in the area. Texas has more Fortune 500 company headquarters than any other state in the nation, and many of those firms are headquartered in Houston. According to the 2009 U.S. Census, Harris County had approximately 15.3 percent of its residents living below the poverty level. The unemployment rate as of March 2010 was 8.8 percent according to the U.S. Bureau of Labor Statistics.

Banking competition in the Houston MSA is intense. According to the June 30, 2011 FDIC Market Share Report, there were approximately 117 financial institutions operating 1,538 branches in the bank's AA. The five largest competitors in Harris County include: JP Morgan Chase Bank, National Association (N.A), Bank of America, N.A., Wells Fargo Bank, N.A., Amegy Bank, N.A., and Compass Bank. In Harris County, the FDIC Market Share Report list 89 institutions with 1,059 offices.

Montgomery County

Montgomery County is the 24th fastest growing county in the United States. The county is known as the “Birthplace of the Lone Star Flag”, covers over 1,000 square miles and it is the 15th largest county in Texas. The county is comprised of 47 CTs, of which 1 is designated as a low-income CT (2%), 9 moderate-income CTs (19%), 16 middle-income CTs (34%), 20 upper-income CTs (43%) and 1 CT (2%) with no income data available. The county includes the communities of Conroe, Montgomery, Magnolia, The Woodlands, and Shenandoah. Conroe and The Woodlands are the largest and have the greatest potential for loan and deposit growth. In 2010, the U.S. Census Bureau estimated the county’s population to be 455 thousand. The population has grown by 55% over the past ten years. The unemployment rate is 7.2 percent and 11 percent of the population lives below the poverty level. The updated median family income in 2010 was \$65,100. Conroe is the county seat, and it is 45 miles north of downtown Houston. The city’s major employers include Conroe Independent School District and Montgomery County.

The Woodlands is a master planned community located 25 miles north of downtown Houston along Interstate 45. The 2010 U.S. Census Bureau estimated the population at 93 thousand, representing a 68% growth rate from the 2000 census. Although it has been mostly a suburban development, it is also home to several large corporations. These include Chevron Phillips, Anadarko Petroleum Corporation, Baker Hughes, CB&I (previously Chicago Bridge & Iron Company), and Hewitt Associates. The Woodlands has a large shopping mall, golf courses, and a regional concert facility, the Cynthia Woods Mitchell Pavilion. It also has a four star hotel, The Woodlands Resort.

Banking competition is intense. The five largest competitors in the county include: Woodforest National Bank, JP Morgan Chase Bank, N.A., Amegy Bank, N.A., Bank of America, N.A., and Wells Fargo Bank, N.A.

Fort Bend County

During the review period, of the 58 CTs in Fort Bend County, there is 1 low-income (2%), 4 moderate-income (7%), 21 middle-income (36%), and 32 upper-income (55%) CTs. POB’s presence in Fort Bend County is limited to a single branch in Sugar Land, TX. Fort Bend is one of the fastest growing counties in the United States, with a growth rate of 65% in ten years. According to a 2010 U.S. Census Bureau, the county had a population of 585 thousand. A portion of Houston is located in Fort Bend County. It is considered to be one of the most affluent communities in the state of Texas. The county seat is Richmond, and its largest city is Sugar Land. The unemployment rate is 8 percent, and 7.5 percent of the population lives below the poverty level. Major employers include the Fort Bend Independent School District (ISD) with over nine thousand employees, Flour Corporation with approximately three thousand employees and Lamar Consolidated ISD with more than two thousand employees. Sugar Land has the second largest level of economic activity in Fort Bend County, following Houston, and is the third largest city in the MSA. It is the headquarters for Western Airways. Engineering firms and related industries are prevalent in the county.

Banking competition in Fort Bend County is intense. According to the FDIC Market share report dated June 30, 2011, there are 40 institutions operating 130 offices. The five largest competitors in the county include: JP Morgan Chase Bank, N.A., Wells Fargo Bank, N.A., Prosperity Bank, Bank of America, N.A., and Amegy Bank, N.A.

Conclusions with Respect to Performance Tests

LENDING TEST

Post Oak Bank’s performance under the Lending Test is Satisfactory.

Loan-to-Deposit Ratio

The loan-to-deposit (LTD) ratio is reasonable. Post Oak Bank’s quarterly LTD ratio averaged 83 percent since the prior CRA examination. Four similarly sized peer group banks headquartered in counties in POB’s AA had an average LTD ratio of 87 percent, collectively, for the same time period. The LTD ratios for the peer group banks ranged from 79 percent to 94 percent.

Lending in Assessment Area

A substantial majority of the bank’s lending is inside the AA by number and dollar amount of loans originated. Of the number of business and residential mortgage loans originated/purchased in the evaluation period, 81 percent were within the AA. By dollar amount, 80 percent of loans are within the 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 (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	140	81	33	19	173	55,244	79	14,426	21	69,670
Business	49	82	11	18	60	10,142	81	2,359	19	12,501
Totals	189	81	44	19	233	65,386	80	16,785	20	82,171

Source: HMDA; loan sample.

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

The overall distribution of loans reflects reasonable penetration of businesses of different sizes, but poor penetration of borrowers of different income levels for residential mortgage loan products. More weight was given to business lending in the overall rating.

Business Loans

The distribution of business loans reflects reasonable penetration of businesses with gross annual revenues of \$1 million or less. The bank’s penetration by number and dollar amount of loans is somewhat lower than the percentage of area businesses with revenues less than \$1 million. The bank’s performance is shown in the following table:

Table 2A - Borrower Distribution of Loans to Businesses in AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	67.19	2.56	30.25	100%
% of Bank Loans in AA by #	53.06	46.94	0	100%
% of Bank Loans in AA by \$	37.44	62.56	0	100%

Source: Dun and Bradstreet data; loan sample.

Residential Mortgage Loans

For residential mortgage loans, the bank had no penetration of loans to low-income families compared to the percentage of low-income families in the AA which was 22.68 percent. The penetration of loans to moderate-income families was 0.71 percent compared to the percentage of moderate-income families in the AA which was 17.33 percent. The penetration of LMI families is significantly lower than the AA characteristics. Although direct lending penetration is low, indirectly, the bank does originate loans to borrowers that lend to LMI individuals. During the review period, the bank identified eleven loans, through the Mortgage Warehouse Lending Program, that benefited LMI families. The bank’s performance is shown in the following table:

Table 2B - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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
Home Purchase	22.68	0	17.33	0.98	18.67	3.92	41.32	71.57
Home Improvement	22.68	0	17.33	0	18.67	0	41.32	80.00
Home Refinance	22.68	0	17.33	0	18.67	0	41.32	69.57
Total	22.68	0	17.33	0.71	18.67	2.86	41.32	72.14

Source: U.S. Census data; HMDA data.

Note: Borrower income information unavailable for 24.29% of loans.

Geographic Distribution of Loans

The overall geographic distribution of loans reflects reasonable dispersion in LMI CTs for both business loans and residential mortgage loans in the bank’s AA. The geographic distribution of both business loans and residential loans approaches or exceeds the AA characteristics, as discussed below.

Business Loans

For business loans, there was no distribution to businesses in low-income census tracts compared to 3.95 percent of AA businesses. The distribution to businesses in moderate-income census tracts was 26.53 percent compared with 20.57 percent of the AA's businesses. While the bank did not have penetration of businesses in low-income census tracts, the number of loans to businesses in moderate-income tracts exceeds the percentage of AA businesses located in said tracts. This is considered excellent dispersion. 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	3.95	0.00	20.57	26.53	26.94	22.45	47.93	51.02

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

Note: Census tract income data was not available for 0.61% of AA businesses.

Residential Mortgage Loans

For residential mortgage loans, 2.86 percent of the bank's loans are within low-income CTs compared with 3.23 percent of the AA's owner occupied housing. This performance is considered reasonable considering the average cost of homes in the AA is \$131,300 according to the 2009-2011 U.S. Census Bureau. Distribution within moderate-income census tracts is 15 percent of the bank's loans compared with 22.84 percent for the AA's owner occupied housing. The dispersion of the bank's loans is somewhat lower than the AA characteristics, but is considered reasonable. The bank's performance is shown in the following table:

Table 2B - Borrower Distribution of Residential Real Estate Loans in AA								
Borrower 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 Purchase	3.23	2.94	22.84	15.69	30.35	25.49	43.58	55.88
Home Improvement	3.23	0	22.84	13.33	30.35	26.67	43.58	60.00
Home Refinance	3.23	4.35	22.84	13.04	30.35	30.43	43.58	52.18
Total	3.23	2.86	22.84	15.00	30.35	26.43	43.58	55.71

Source: U.S. Census data; HMDA data.

Responses to Complaints

The bank did not receive any CRA-related complaints in the current year or prior two calendar years.

COMMUNITY DEVELOPMENT TEST

Post Oak Bank's performance under the Community Development (CD) Test is Satisfactory. The level of CD activities reflects adequate responsiveness to the CD needs in its AA, considering the bank's size, capacity, and CD opportunities within its AA. POB provided \$5.75 million in qualifying CD loans and \$1.04 million in qualifying investments/donations during the evaluation period. In addition, bank officers are active in several organizations that provide qualifying services that benefit the AA. The bank's CD activities are described below.

Number and Amount of Community Development Loans

During the evaluation period, POB originated nine qualifying CD loans totaling \$5.75 million in the AA. The following list summarizes and provides examples of significant CD lending activity:

- Eight loans totaling \$5.72 million to provide affordable housing for low- to moderate-income individuals.
- One loan in the amount of \$25 thousand to an organization that operates after-school programs to children from low- to moderate-income families.

POB had \$3.2 million of qualified CD loans that were located outside the AA in Austin, Orange and Galveston, Texas. These loans were for the purpose of providing medical services and affordable housing for low- to moderate-income individuals.

Number and Amount of Qualified Investments

The level of CD investments and donations are reasonable by both number and dollar volume. During the evaluation period, POB purchased two certificates of deposit from two separate minority owned institutions for a total of \$500 thousand. Both banks met the test of primarily lending or facilitating lending in low- and moderate-income areas or to low- and moderate-income individuals in order to promote Community Development.

Management also entered into a \$500 thousand investment commitment in a Small Business Investment Corporation (SBIC) for growth-oriented middle market companies. SBIC investments are specifically approved as qualified CRA investments.

POB made seventeen qualifying donations during the examination period totaling \$36 thousand targeting CD. These donations were primarily made to organizations that provide community services to low- and moderate-income individuals and families such as child advocacy centers and women's shelters.

Extent to Which the Bank Provides Community Development Services

The bank's level of CD services is adequate. Bank officers are involved in several activities that promote CD services and economic growth in the AA.

We identified nine qualified CD services performed by bank officers during the evaluation period. Eight of the services involved general use of bank officer financial expertise for matters such as budgeting, financial oversight and making financial decisions. One of the services involves an officer underwriting loan packages for a municipal small business loan program targeting low- to moderate-income individuals.

The bank operates seven full-service branches. The distribution of branches is reasonable and includes branches in: Houston, Conroe, Sugar Land, Beaumont, and Pasadena. One branch is located in a moderate-income tract, one is in a middle-income tract, and the remaining branches are located in upper-income tracts. POB offers various products and services to meet the needs of the community including checking, savings, and retirement accounts, commercial loans, real estate loans, remote deposit capture, safe deposit boxes, certificate of deposits, wire transfer services, Automated Teller Machines (ATM), ATM cards, internet banking, and direct deposit services. Several deposit products are responsive to the needs of low- and moderate-income communities and small businesses thereby increasing access to financial options. These products include:

- Health Savings Account – Savings account that can substantially reduce the cost of qualified medical expenses.
- Regular Savings Account – Free interest bearing savings account when balances above \$200 are maintained, otherwise a \$3 fee applies.
- Minor Savings Account – Savings account for a minor which is free when a parental banking relationship is maintained at the bank.
- Small Business Checking – Business checking account with free online banking, Automated Clearing House (ACH) Payroll, remote capture, and transfers. The account is free with balances over \$5 thousand; otherwise a \$15 fee applies.

To accommodate the diverse cultural backgrounds of the customer base, instructions for use of the bank's ATMs and automated telephone inquiry systems are provided in English and Spanish.

Responsiveness to Community Development Needs

The bank's level of CD efforts demonstrates adequate responsiveness to the needs and opportunities in the AA.

We made a community contact to determine the needs of the AA. We interviewed a Vice President of a Local Chamber of Commerce, who indicated that one of the most important community needs is for revolving business lines of credit which are the key to growing local businesses.

POB maintains several revolving lines of credit for customers and continues to offer the product to qualified businesses. The bank also has invested in Small Business Investment Corporation (SBID).

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.