



## **PUBLIC DISCLOSURE**

June 23, 2014

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

First Commercial Bank, National Association  
Charter Number 17862

1336 East Court Street  
Seguin, TX 78155

Office of the Comptroller of the Currency

San Antonio South Field Office  
10001 Reunion Place, Suite 250  
San Antonio, TX 785216-4133

**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**

First Commercial Bank's (FCB) lending performance reflects a satisfactory response to meet community credit needs in its assessment area (AA). This conclusion is based on the following results from our review:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and assessment area (AA) credit needs.
- A substantial majority of the bank's loans are in the institution's AA.
- The distribution of borrowers reflects, given the demographics of the AA, a reasonable penetration among individuals of different income levels and businesses of different sizes.
- The geographic distribution of loans represents a reasonable dispersion throughout the AA.

## **SCOPE OF EXAMINATION**

FCB was evaluated under the Small Bank examination procedures, which includes a lending test. The lending test evaluates the bank's record of meeting the credit needs of its AA through its lending activities.

The lending test for FCB covered the bank's performance from February 17, 2009, the date of the previous CRA examination, through June 23, 2014, the date of this CRA review. FCB's primary loan products are commercial and residential loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The bank's HMDA data was tested and found to be reliable. Therefore, we used the HMDA data to evaluate the bank's residential loan performance. To evaluate the bank's commercial lending performance, we selected a sample of 20 business loans made in 2012 and 2013.

## **DESCRIPTION OF INSTITUTION**

FCB is headquartered in Seguin, Texas. As of March 31, 2014, FCB had total assets of \$145 million and Tier one capital of \$11 million. FCB is wholly owned by First Commercial Financial Corporation, Inc., a locally owned, one-bank holding company. In addition to the main office, FCB operates two full-service branches. All three locations have a walk-in teller lobby, a drive-up motor bank, and an automated teller machine (ATM). The bank's main location in Seguin is in a middle-income census tract. One of the branches in New Braunfels is located in a middle-income census tract, while the other location in New Braunfels is located in an upper-income census tract. No branches have been opened or closed since the last CRA examination. Since the last CRA examination, there have not been any significant changes, such as a merger or acquisition, to FCB's corporate structure.

The bank offers a full range of deposit and loan products and services. Commercial and residential lending are FCB's primary loan products, with agriculture and consumer loans comprising a small portion of the loan portfolio. Deposit products and services include basic business and personal banking accounts, online banking, and cash management services. Additionally, customers are able to access their account information through the ATMs and phone bank. Since the last PE and going forward, the bank's business strategy is to provide a range of traditional financial products and services through a variety of business channels. The bank's strategy includes concentrating on serving the needs of small business customers through a specialty in small business lending.

As of March 31, 2014, FCB reported net loans of approximately \$82 million and had a net loans and leases to total assets ratio of 57 percent. The following table reflects the bank's loan distribution as of March 31, 2014.

<b>Loan Portfolio Summary by Loan Product March 31, 2014</b>	
<b>Loan Category</b>	<b>% of Outstanding Dollars</b>
Commercial	61%
Residential	31%
Consumer	3%
Agriculture/Farm	1%
Other Loans	4%
Total	100%

*Source: March 31, 2014, Consolidated Report of Condition*

There are no legal or financial impediments to FCB's ability to meet the credit needs of its AA. The bank received a Satisfactory rating at the prior CRA examination dated February 17, 2009.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

### **Comal/Guadalupe Assessment Area**

FCB has one AA in South Texas, the Comal/Guadalupe AA. The Comal/Guadalupe AA is comprised of two complete counties in the San Antonio, Texas Metropolitan Statistical Area (MSA): Comal County and Guadalupe County. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income areas.

As per the 2010 Census, the AA includes 53 census tracts, including seven moderate-income tracts and one low-income tract. Specifically, Comal County has three moderate-income census tracts and Guadalupe County has four moderate-income census tracts and one low-income census tract. Approximately 2 percent of the population lived in low-income tracts, 13 percent lived in moderate-income tracts, 38 percent lived in middle-income tracts, and 47 percent lived in upper-income tracts. The population of Guadalupe County is approximately 132,000 according to the 2010 U.S. Census Bureau. Guadalupe County is bordered by Wilson County to the South, Gonzales County to the Southeast, Comal County to the Northwest, and Bexar County

to the West. Seguin is the largest city within the county and has an estimated population of 25,000. The community is predominately rural with commercial business primarily in agriculture and manufacturing. Major employers in Seguin include the Seguin Independent School District, Continental Automotive Systems, Texas Power Systems, Caterpillar, and Tyson Foods.

The primary population center in Comal County is New Braunfels, which has a population of approximately 60,000. Comal County borders Bexar County to the Southeast and Guadalupe County to the South. The New Braunfels community is predominately suburban with commercial business in retail sales, outdoor recreation, and tourism. Major employers in the area include the Comal and New Braunfels School Districts, the Wal-Mart Distribution Center, local hospitals, and retail stores.

The following table details demographic and economic characteristics of Comal and Guadalupe Counties.

<b>Demographics and Economic Characteristics of Assessment Areas</b>	
<i>Population</i>	Comal and Guadalupe Counties
Number of Families	62,805
Number of Households	81,722
<i>Geographies</i>	
Number of Census Tracts/BNA	53
% Low-Income Census Tracts/BNA	1.89
% Moderate-Income Census Tracts/BNA	13.21
% Middle-Income Census Tracts/BNA	39.62
% Upper-Income Census Tracts/BNA	45.28
<i>Median Family Income (MFI)</i>	
2010 Census Weighted Average MFI	58,222
2010 HUD-Adjusted MFI	61,300
<i>Economic Indicators</i>	
Unemployment Rate	3.68%
2010 Median Housing Value	156,853
% Owner Occupied Housing	68.57
% Households Below Poverty Level	9.40%

Source: 2010 U.S. Census Data

The current local economy for the AA is growing. Economic activity in the AA is relatively diverse with agriculture, services, and manufacturing being the primary economic activities. The average unemployment rate for the area is low. We contacted an individual at a local community organization who identified loans to small businesses as a credit need in the community. Specifically, the contact identified the need for more second look programs and other products for start-up businesses. The contact noted that several local banks are active Small Business Administration (SBA) and USDA

lenders. However, according to the contact, these products do not always meet the needs of smaller, start-up businesses. The contact also stated creative, but credible sources of alternative funding are needed to replace payday lenders.

Competition in the AA is high. The bank’s competitors in Comal and Guadalupe Counties include local community banks, branches of large regional institutions, and several nation-wide institutions. Competition in both counties includes a local credit union.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

FCB demonstrated satisfactory performance in meeting the credit needs of its AA. We focused our review on commercial and residential loans, which are the primary lending products originated since the previous CRA examination.

### Loan-to-Deposit Ratio

FCB’s loan-to-deposit ratio is reasonable given the institution’s size, financial condition, and AA credit needs. The bank’s quarterly loan-to-deposit ratio averaged 72 percent over the 20 quarters since the prior CRA examination. This ratio ranged from a low of 60 percent to a high of 86 percent during that timeframe. The bank’s quarterly average loan-to-deposit ratio compared favorably with other financial institutions of similar size, location, and product offerings. FCB ranks second among three other similarly situated banks. The average quarterly loan-to-deposit ratios for the other three banks over the same 20 quarters ranged from 59 percent to 85 percent.

Institution	Assets as of 3/31/14 (000s)	Average Quarterly LTD Ratio as of 3/31/14
TexStar National Bank	206,576	85%
<b>First Commercial Bank</b>	<b>145,053</b>	<b>72%</b>
The Blanco National Bank	157,321	62%
Schertz Bank & Trust	212,827	59%

Source: *Quarterly Consolidated Report of Condition Information.*

### Lending in Assessment Area

A substantial majority of loans are in the FCB’s AA. The bank extended 95 percent of the number of commercial loans in our sample in the AA. FCB also extended a substantial majority of its residential loans in the AA. The following table details the bank’s lending within the AA by number and dollar amount of loans.

<b>Lending in AA</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	19	63.3	11	36.7	30	2,665	56.7	2,039	43.4	4,704
Home Improvement	18	100.0	0	0.0	18	1,022	100.0	0	0.0	1,022
Home Refinance	12	85.7	2	14.3	14	1,217	70.3	513	29.7	1,730
Commercial	19	95	1	5	20	1,281	98.5	20	1.5	1,301
Totals	68	82.9	14	17.1	82	6,185	70.6	2,572	29.4	8,757

Source: HMDA Data; Loan Sample

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

The distribution of loans reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

### Residential

Residential lending activity to low- and moderate-income borrowers reflects a reasonable penetration. As shown in the table below, 11.1 percent of home improvement loans were made to low-income families, while 16.7 percent of home refinance loans were made to low-income families. No home purchase loans were made to low-income families. Low-income families represent 15 percent of total families in the AA.

Moderate-income families represent another 15 percent of total families in the AA. 5.3 percent of home purchase loans, 11.1 percent of home improvement loans, and 8.3 percent of home refinance loans were made to moderate-income families. Based on 2010 data, the Census MSA median family income is \$58,222. This level of income could inhibit low- and moderate-income families from qualifying for residential loans since the 2010 median housing value is \$156,853. The following table shows the distribution of home loan products among borrowers of different income levels as compared to the percent of families in each income category.

<b>Borrower Distribution of Residential Real Estate Loans in AA</b>								
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
Home Purchase	15.0	0.0	14.8	5.3	18.6	5.3	51.6	63.2
Home Improvement	15.0	11.1	14.8	11.1	18.6	22.2	51.6	50.0
Home Refinance	15.0	16.7	14.8	8.3	18.6	8.3	51.6	41.7

Source: Loan sample; Dunn and Bradstreet data.

*Commercial*

The commercial loan sample showed reasonable penetration of loans to small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. Sixty percent of the number of loans to businesses sampled during the evaluation period were made to businesses with gross annual revenues of one million dollars or less. This compares to 74.8 percent of businesses in the AA that reported gross annual revenues of one million dollars or less. Although only 33 percent of bank loans by dollar amount were made to small businesses, 95 percent of the loans in our sample were in amounts of \$100 thousand or less. Twenty-two percent of businesses did not report revenue data, or it was unavailable. The following table shows the distribution of commercial loans among different sized businesses in the AA.

<b>Borrower Distribution of Loans to Businesses in AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	74.8	2.8	22.4	100%
% of Bank Loans in AA by #	60	40	0	100%
% of Bank Loans in AA by \$	33.4	66.6	0	100%

*Source: Loan sample; Dunn and Bradstreet data.*

**Geographic Distribution of Loans**

Overall, the bank’s geographic distribution of loans reflects a reasonable dispersion throughout the AA.

*Residential*

The geographic distribution of residential loans in the AA reflects a reasonable dispersion throughout census tracts of different income levels, including the low- and moderate-income census tracts. The bank made 8.3 percent of home refinance loans in a low-income census tract, compared to 1.1 percent of owner occupied housing in a low-income census tract. No home purchase or home improvement loans were made in a low-income census tract. Out of the 53 census tracts in the AA, there is only one low-income census tract and seven moderate-income census tracts.

The bank made 11.1 percent of home improvement loans in a moderate-income census tract, compared to 10.5 percent of AA owner-occupied housing in a moderate-income census tract. The following table details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level.

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
Home Purchase	1.1	0.0	10.5	5.3	36.8	52.6	51.6	42.1
Home Improvement	1.1	0.0	10.5	11.1	36.8	72.2	51.6	16.7
Home Refinance	1.1	8.3	10.5	0.0	36.8	58.4	51.6	33.3

Source: HMDA Data; 2010 Census data.

### Commercial

The bank's geographic distribution of business loans reflects an excellent dispersion throughout the CTs of different income levels. Ten percent of the commercial loans we sampled were to businesses located in a low-income tract, compared to 1 percent of businesses in a low-income tract. Another 10 percent of the commercial loans sampled were to businesses located in moderate-income census tracts. This compares to 9.9 percent of AA area businesses that are located in the moderate-income tracts. The following table details the bank's performance as compared to the percentage of businesses in each census tract income level.

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
Commercial	1.1	10.0	9.9	10.0	35.6	60.0	53.4	20.0

Source: Dunn and Bradstreet Data; Loan Sample

### Responses to Complaints

FCB has not received any consumer complaints related to its CRA performance during this evaluation period.

### 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.