



## **PUBLIC DISCLOSURE**

May 2, 2016

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

Lone Star Capital Bank, National Association  
Charter Number 23730

150 N Loop 1604 E  
San Antonio, TX 78232

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

**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 the 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.**

Lone Star Capital Bank's (LSCB) lending performance reflects satisfactory response to meeting community credit needs in its assessment area (AA). Major factors supporting the rating include:

- The quarterly average loan-to-deposit (LTD) ratio is reasonable.
- A majority of loans, by number and dollar volume, originated inside the AA.
- The distribution of loans reflects reasonable penetration to borrowers of different income levels and businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion.

### **SCOPE OF EXAMINATION**

We evaluated LSCB's lending activities using interagency Small Bank CRA procedures. The performance evaluation (PE) scope covered the period from November 21, 2011, the date of the prior PE, through May 2, 2016, the date of the current PE. We analyzed lending activity during this evaluation period and identified business loans, including real estate, as a primary product, followed by residential loans.

To evaluate the distribution of loans, we used the demographics and geographies related to the 2010 Census as it applies to the years from 2014 through 2015. The 2013 Office of Management and Budget (OMB) Metropolitan Area geographic boundary revisions (referred to as the 2014 OMB Changes) became effective for CRA purposes on January 1, 2014. Since the changes did not affect LSCB's AA delineation, this PE contains a single analysis of loan data for the 2014 through 2015 evaluation period.

We tested Home Mortgage Disclosure Act (HMDA) data for residential mortgages from January 1, 2014, through December 31, 2015, to verify the accuracy of data and found it reliable to use for this evaluation. To evaluate business loans, we selected a sample of 20 loans in each AA, resulting in a total sample of 60 loans. We used the original sample to determine lending inside the AA, and then replaced loans outside the AA with loans inside the AA to assess borrower and geographic distribution.

### **DESCRIPTION OF INSTITUTION**

LSCB, a full-service, intrastate bank headquartered in San Antonio, Texas, is an independently owned institution and has no holding company. LSCB added four branches when it completed its acquisition of Cattleman's National Bank, headquartered in Johnson City, on September 30, 2012. In addition to the four branches located in the Cities of Blanco, Johnson City, Marble Falls, and Dripping Springs, LSCB also has its main office and three branches located in San Antonio.

Each of the eight locations has an onsite automated teller machine (ATM) and a drive-up facility. LSCB offers traditional loan and deposit products and services, including 24-hour bank-by-phone account access, online banking, BillPay, and mobile banking.

At March 31, 2016, LSCB reported total assets of \$235 million. Tier 1 capital totaled \$22.9 million or 9.7% of total assets. Net loans totaled \$158.6 million or 83% of total deposits and 67% of total assets. As shown in the following table, business (commercial) loans comprise the majority of the loan portfolio, followed to a lesser degree by residential loans.

<b>Loan Portfolio Composition as of March 31, 2016</b>		
<i>Loan Category</i>	<i>Dollar Volume (000's)</i>	<i>Percentage</i>
Business (Commercial)	95,996	61%
Residential	58,120	37%
Consumer	3,191	2%
Agricultural/Farm	1,217	0%
Other	51	0%
Total	158,575	100%

Source: March 31, 2016 Call Report; Other loans represent 0.03% of loan portfolio.

Based on its financial condition and size, there are no legal, financial, or other factors that inhibit LSCB's ability to meet credit needs in its AA. LSCB's current business strategy is to continue offering commercial loans as its primary loan product. The prior CRA examination, dated November 21, 2011, assigned an overall "Satisfactory" rating to the lending performance of the bank.

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

LSCB has defined three distinct AAs: the San Antonio metropolitan statistical area (MSA) AA, the Austin-Round Rock MSA AA, and the Non-MSA AA. The AAs meet regulatory requirements, do not reflect discrimination, and do not arbitrarily exclude any low- or moderate-income (LMI) geographies. We performed full-scope reviews in all three AAs.

### **San Antonio MSA Assessment Area**

The San Antonio MSA AA includes 157 census tracts (CTs); 140 located in Bexar County, 12 in Comal County, and 5 in Kendall County. Four of the 157 CTs are designated low-income, 23 are moderate-income, 40 are middle-income, 87 are upper-income, and three have no income designation.

LSCB has its main office and three branches in this AA. The main office is located in an upper-income CT, two branches are located in moderate-income CTs, and one branch is located in a upper-income CT. Major employers include the military bases, HEB Grocery, USAA, Frost Bank, Bill Miller BBQ, CPS Energy, Rackspace, and Valero Corporation.

Based on Bureau Labor Statistics (BLS) data, the March 2016 unemployment rate for the San Antonio MSA is 3.7% and is lower than the United States national average of 5.1% and the State of Texas average of 4.5%. The March 2016 unemployment rate for Bexar County was 3.6%; for Comal County was 3.6%; and for Kendall County was 3.1%.

The FDIC June 30, 2015 Deposit Market Share Report reflects 42 financial institutions in this AA. LSCB ranks 20<sup>th</sup> with a deposit market share of 0.12%. USAA Federal Savings Bank is first with a market share of 72%. Frost Bank has a market share of 8%, Wells Fargo has 4%, Bank of America has 4% and Broadway National Bank has 2%.

We contacted a small business development organization, a neighborhood affordable housing service and an economic development organization in this AA. The contacts said the primary need is loans to businesses, especially small businesses. One contact said current credit standards have made it more challenging for LMI individuals to obtain mortgages, but several financial institutions have established special mortgage programs to help individuals with closing costs and down payment assistance. The contacts said that overall financial institutions are meeting credit needs in the community.

The following table reflects pertinent information about the AA.

Demographic Information for the San Antonio MSA Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	157	3%	15%	26%	56%
Population by Geography	768,029	2%	15%	28%	55%
Owner-Occupied Housing Units by Geography	182,902	1%	10%	28%	61%
Businesses by Geography	73,266	2%	14%	21%	63%
Farms by Geography	1,756	1%	9%	19%	71%
Family Distribution by Income Level	188,342	2%	14%	28%	56%
Household Distribution by Income Level	280,598	2%	16%	29%	53%
Census Median Family Income (MFI)	\$58,222	Median Housing Value		\$185,523	
HUD – Adjusted MFI: 2014	\$58,800f	Households Below Poverty Level (%)		10.36%	
HUD – Adjusted MFI: 2015	\$63,400	Unemployment Rate (%)		3.32%	
HUD – Adjusted MFI: 2016	\$62,500				

Source: 2010 US Census, 2014 – 2016 FFIEC updated MFI, and Bureau of Labor Statistics

### Austin - Round Rock MSA Assessment Area

The Austin-Round Rock MSA AA includes 9 CTs located in Hays County. Three of the 9 CTs are designated middle income and six are upper income CTs. The AA does not include any LMI CTs. The bank has one full-service branch located in a middle-income CT in the AA and it offers ATM services.

With a population of over two million people, the Austin-Round Rock MSA is the 35<sup>th</sup> largest metropolitan area in the United States. The metropolitan area is centered on the City of Austin; the 4<sup>th</sup> largest city in the State of Texas and the 11<sup>th</sup> largest city in the United States.

Major employers include the Austin Independent School District (ISD), the City of Austin, Dell Inc., federal government, IBM Corp, St. David’s Heal University of Texas Austin, and Advanced Micro Devices. Based on BLS data, the March 2016 unemployment rate was 3.1%, which is lower than the U.S. national average of 5.1% and the State of Texas average of 4.5%.

The FDIC’s June 30, 2015 Deposit Market Share Report reflects 26 financial institutions in this AA. LSCB ranks 19<sup>th</sup> with deposit market share of 0.65%. Wells Fargo leads the market with a deposit market share of 18%, followed by Industry State Bank with 14%, FNB Bellville with 10%, Frost Bank and Pioneer Bank with 8% each.

We contacted a local, small business development organization in this AA that identified a need for financial institutions to provide financial education to small business owners and a need to increase available loan alternatives. The contact also identified affordable housing as a need and said institutions could play a bigger role in creating affordable mortgage products. The contact stated that overall, the local financial institutions are serving the credit needs of the local community.

The following table reflects pertinent information about the AA.

<b>Demographic Information for the Austin – Round Rock MSA Assessment Area</b>					
	<b>#</b>	<b>% Low</b>	<b>% Moderate</b>	<b>% Middle</b>	<b>% Upper</b>
Geographies (Census Tracts)	9	0%	0%	33%	67%
Population by Geography	53,476	0%	0%	29%	71%
Owner-Occupied Housing Units by Geography	16,753	0%	0%	33%	67%
Businesses by Geography	6,345	0%	0%	30%	70%
Farms by Geography	260	0%	0%	35%	65%
Family Distribution by Income Level	14,735	11%	12%	19%	58%
Household Distribution by Income Level	18,705	13%	10%	16%	61%
<b>Census Median Family Income (MFI)</b>					
Census Median Family Income (MFI)	\$71,602	Median Housing Value		\$247,231	
HUD – Adjusted MFI: 2014	\$75,400	Households Below Poverty Level (%)		5.46%	
HUD – Adjusted MFI: 2015	\$76,800	Unemployment Rate (%)		2.95%	
HUD – Adjusted MFI: 2016	\$77,800				

Source: 2010 US Census, 2014 – 2016 FFIEC updated MFI, and Bureau of Labor Statistics.

**Non-Metropolitan Statistical Area Assessment Area**

The non-MSA AA includes 17 CTs; two in Blanco County, eight in Burnet County, five in Gillespie County and six in Llano County. Five of the 17 CTs are designated middle-income and 12 are upper-income. LSCB has three branches located in this AA; two in upper-income CTs in Blanco County and one in an upper-income CT in Burnet County.

Geographically, Burnet County is located northwest of the City of Austin and north of the City of San Antonio. The major employers in this county include Burnet Consolidated ISD, county government, and Seton Highland Lakes Hospital. Blanco, Gillespie and Llano counties are located in the Edwards Plateau in west-central Texas. The major employers in these counties include the county governments and ISD’s.

Based on BLS data, the March 2016 unemployment rate for Blanco County was 3.2%, Burnet County was 3.5%, Gillespie County was 2.8% and Llano County was 4.1%. The unemployment rates for all four counties are less than the Texas unemployment rate of 4.5% and the national unemployment rate of 5.1%.

The FDIC June 30, 2015 Deposit Market Share Report reflects 22 financial institutions in this AA. LSCB ranks 13<sup>th</sup> with a deposit market share of 3%. American Bank of Texas and Security State Bank & Trust lead the market with equal deposit market shares of 15%. JP Morgan Chase has a deposit market share of 9%, First State Bank of Burnet has 8% and First State Bank of Central Texas has 7%.

The following table reflects pertinent information about the AA.

Demographic Information for the Non-MSA Assessment Area					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	17	0%	0%	29%	71%
Population by Geography	85,403	0%	0%	33%	67%
Owner-Occupied Housing Units by Geography	25,747	0%	0%	29%	71%
Businesses by Geography	8,134	0%	0%	26%	74%
Farms by Geography	555	0%	0%	19%	81%
Family Distribution by Income Level	24,048	0%	0%	31%	69%
Household Distribution by Income Level	33,659	0%	0%	36%	64%
Census Median Family Income (MFI)	\$47,817	Median Housing Value		\$168,437	
HUD – Adjusted MFI: 2014	\$51,600	Households Below Poverty Level (%)		11.05%	
HUD – Adjusted MFI: 2015	\$52,800	Unemployment Rate (%)		2.55%	
HUD – Adjusted MFI: 2016	\$52,400				

Source: 2010 US Census, 2014 – 2016 FFIEC updated MFI, and Bureau of Labor Statistics.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

LSCB’s LTD ratio is reasonable given the bank size, local competition, and credit needs within the AA. During the evaluation period, the LTD ratio ranged from a low of 53% to a high of 78%, with a quarterly average of 65%. To assess LSCB’s performance, we compared its average LTD ratio to five similarly situated institutions. As reflected in the following table, the average LTD ratios for the five institutions ranged from 54% to 84%, no ranking is intended or implied. The overall quarterly average LTD ratio for all five institutions is 70%.

Institution	Total Assets (\$000's) As of 9/30/2015	Average Quarterly LTD Ratio As of 9/30/2015
TexStar National Bank	211,869	84%
Vantage Bank Texas	461,863	83%
R Bank	326,567	68%
<b>Lone Star Capital Bank, National Association</b>	<b>231,863</b>	<b>65%</b>
The Blanco National Bank	178,854	62%
Business Bank of Texas, National Association	120,909	54%

Source: Quarterly Call Report data from September 30, 2011 through March 31, 2016

**Lending in Assessment Area**

LSCB originated a majority of loans inside its AA, meeting the standard for satisfactory performance. The following table reflects the percentages, by number and dollar volume, of loans originated inside the AA.

<b>Lending in Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Business Loans	44	73%	16	27%	60	11,212	84%	2,071	16%	13,283
Home Loans	18	64%	10	36%	28	6,429	68%	3,031	32%	9,460
<b>Totals</b>	<b>62</b>	<b>70%</b>	<b>26</b>	<b>30%</b>	<b>88</b>	<b>17,641</b>	<b>78%</b>	<b>5,102</b>	<b>22%</b>	<b>22,743</b>

*Source: 2014 and 2015 HMDA data, Business loan sample*

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

The distribution of loans represents reasonable penetration to businesses of different sizes, and poor penetration to individuals of different income levels. Business loans represented the largest percentage of the loan portfolio during the evaluation period. As such, we weighted business loan performance more heavily in our conclusion.

San Antonio Metropolitan Statistical Area Assessment Area

*Business Loans*

For the distribution of business loans, we compared data from the business loan sample to demographic data from Dun & Bradstreet. As reflected in the following table, by number, 63% of the loans originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 80% of the businesses in the AA have annual revenues equal to or less than \$1 million. The distribution of business loans is adequate and reflects reasonable penetration to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in San Antonio MSA Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	80%	4%	16%	100%
% of Bank Loans in AA by #	63%	37%	0%	100%
% of Bank Loans in AA by \$	45%	55%	0%	100%

*Source: Dun & Bradstreet data; Business loan sample*

*Residential Loans*

For the distribution of residential loans, we compared loans reported under HMDA to demographic data from the 2010 U.S. Census. As reflected in the following table, LSCB did not originate any residential loans to LMI borrowers representing poor penetration. Demographic data reflects the AA has a median housing value of \$185,523. This, coupled with an adjusted median family income of \$58,800 for 2015, makes it difficult for LMI borrowers to qualify for residential loans. In addition, LMI borrowers, and the organizations that help these borrowers obtain financing face challenges from current industry credit standards for affordable housing. LSCB does not actively market residential lending products given its strategic plan to continue originating loans to businesses. During the evaluation period, LSCB originated nine residential loans in this AA.

<b>Borrower Distribution of Residential Real Estate Loans in San Antonio MSA Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Assessment Area	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
San Antonio MSA	15%	0%	13%	0%	17%	11%	54%	89%

Source: Dun & Bradstreet data; 2014 and 2015 HMDA data

Austin-Round Rock MSA AA

*Business Loans*

For the distribution of business loans, we compared data from the business loan sample to demographic data from Dun & Bradstreet. As reflected in the following table, by number, 85% of the loans originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 85% of the businesses in the AA have annual revenues equal to or less than \$1 million. The distribution of business loans is very good and reflects reasonable penetration to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in Austin- Round Rock MSA Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	86%	2%	12%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	86%	14%	0%	100%

Source: Dun & Bradstreet data; Business loan sample.

*Residential Loans*

For the distribution of residential loans, we compared loans reported under HMDA to demographic data from the 2010 U.S. Census. As reflected in the following table, LSCB did not originate any residential loans to LMI borrowers representing poor penetration.

Demographic data reflects the AA has a median housing value of \$247,231. This, coupled with an adjusted median family income of \$75,400 for 2015, makes it difficult for LMI borrowers to qualify for residential loans. During the evaluation period, LSCB originated three residential loans in this AA.

<b>Borrower Distribution of Residential Real Estate Loans in Austin Round Rock MSA Assessment Area</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
Assessment Area	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Austin-Round Rock MSA	11%	0%	12%	100%	18%	0%	58%	0%

Source: Dun & Bradstreet data; 2014 and 2015 HMDA data.

**Non Metropolitan Statistical Area Assessment Area**

*Business Loans*

For the distribution of business loans, we compared data from the business loan sample to demographic data from Dun & Bradstreet. As reflected in the following table, by number, 63% of the loans originated to businesses with annual revenues equal to or less than \$1 million. Demographic data reflects 82% of the businesses in the AA have annual revenues equal to or less than \$1 million. The distribution of business loans is adequate and reflects reasonable penetration to businesses of different sizes.

<b>Borrower Distribution of Loans to Businesses in Non-MSA Assessment Area</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	82%	3%	15%	100%
% of Bank Loans in AA by #	63%	37%	0%	100%
% of Bank Loans in AA by \$	19%	81%	0%	100%

Source: Dun & Bradstreet data; Business loan sample

*Residential Loans*

For the distribution of residential loans, we compared loans reported under HMDA to demographic data from the 2010 U.S. Census. As reflected in the following table, LSCB did not originate any residential loans to LMI borrowers representing poor penetration. Demographic data reflects the AA has a median housing value of \$168,437. This, coupled with an adjusted median family income of \$51,600 for 2015, makes it difficult for LMI borrowers to qualify for residential loans. During the evaluation period, LSCB originated six residential loans in this AA.

Borrower Distribution of Residential Real Estate Loans in Non MSA Assessment Area								
Borrower Income Level	Low		Moderate		Middle		Upper	
Assessment Area	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans	% of AA Families	% of # of Loans
Non MSA	14%	0%	15%	0%	18%	17%	53%	83%

Source: Dun & Bradstreet data; 2014 and 2015 HMDA data

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout LSCB’s AAs.

#### San Antonio MSA AA

##### *Business Loans*

The geographic distribution of loans to businesses reflects poor dispersion in this AA. As reflected in the following table, LSCB did not originate any loans in the low-income CTs. However, the AA includes only four low-income CTs and only 1% of businesses are located in these four CTs. The percentage of loans to businesses in moderate-income CTs is lower than the percentage of business located in these CTs.

Geographic Distribution of Loans to Businesses in San Antonio MSA Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Assessment Area	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans	% of AA Businesses	% of # of Loans
San Antonio MSA	1%	0%	14%	5%	21%	16%	63%	79%

Source: Dun & Bradstreet data; Business loan sample

##### *Residential Loans*

The geographic distribution of loans reflects excellent dispersion. As reflected in the following table, LSCB did not originate any loans in the low-income CTs. The percentage of loans in moderate-income CTs exceeds the percentage of owner-occupied housing in the moderate-income CTs.

Geographic Distribution of Residential Real Estate Loans in San Antonio MSA Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Assessment Area	% 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
San Antonio MSA	1%	0%	10%	11%	28%	0	61%	89%

Source: Dun & Bradstreet data; 2014 and 2015 HMDA data

Austin-Round Rock Metropolitan Statistical Area Assessment Area

A meaningful geographic analysis could not be performed because there are no LMI CTs in the Austin-Round Rock MSA AA.

Non MSA AA

A meaningful geographic analysis could not be performed because there are no LMI CTs in the Non MSA AA.

**Responses to Complaints**

LSCB 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.