



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**November 21, 2011**

### **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

**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 major facts supporting the institution's rating include:

- The loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, assessment area (AA), credit needs, and relevant competitive factors.
- A majority of Lone Star Capital Bank's (LSCB) loans are originated within its AA;
- The bank's record of lending to small businesses is very good. The bank's record of lending to low- and moderate-income (LMI) borrowers is significantly less than area demographics.
- The geographic distribution of originated loans in moderate census tracts (CTs) is significantly below area demographics. LSCB does not have a branch in a moderate-income CT.

**SCOPE OF EXAMINATION**

CRA activities for LSCB were completed using full-scope review procedures for its AA. Our review covered the bank's performance from September 30, 2006 through October 31, 2011. Small business loans and home loans were determined to be the bank's primary loan product and were reviewed as part of this examination. We utilized bank reported HMDA information for our home loan sample with data collected from January 1, 2008 through October 31, 2011. For our business sample, we randomly selected twenty loans spanning from September 30, 2006 through October 31, 2011.

**DESCRIPTION OF INSTITUTION**

LSCB originated with the merger of ClearLake National Bank into Mission National Bank (MNB) in May 2003. The name was changed to Lone Star Capital Bank at the time of the merger. MNB, with its main office at 402 Weidner, also had a branch at Hwy 281 and Brookhollow, both in San Antonio. The main office for LSCB is located at Loop 1604 and Stone Oak in San Antonio, Texas. In September 2004, LSCB opened a new branch located at 1514 Austin Highway in San Antonio. There have been no branch openings or closings since the last CRA examination conducted September 25, 2006.

The bank has four offices: the main office located at Loop 1604 and Stone Oak, branch located at 402 Weidner, branch at Hwy 281 and Brookhollow, and another branch located at 1514 Austin Highway. LSCB is a full-service retail bank serving three counties and surrounding areas. All offices have drive-up facilities with Saturday lobby hours offered at the main branch, while the Weidner and Brookhollow branches offer drive-up services. Automated teller machines (ATM) are located at all branch locations. The bank also offers 24-hour bank-by-phone account access, in addition to on-line banking and BillPay. The on-line service allows customers to check account balances, transfer funds, make loan payments, and order checks.

LSCB's main office and Brookhollow branch are located in north central San Antonio in Bexar

County. This is a fast-growing area with strong competition from large regional banks. Competition is very strong with an estimated 69 banks located within the bank's AA. Branches are also located in the expanding San Antonio metropolitan statistical area (MSA). The Weidner and Austin Highway branches are located in middle-income census tracts. The main branch and Brookhollow branch are located in upper-income census tracts. There are no legal impediments or other factors that hinder LSCB's ability to provide credit in the AA.

As of October 31, 2011, LSCB reported \$58 million in net loans and \$106 million in total deposits. Net loans represent 43% of total assets. The bank's primary loan products are commercial business and real estate loans. Net Tier 1 capital was \$10 million as of that same date. The following chart details the composition of LSCB's loan portfolio.

<b>LOAN DISTRIBUTION AS OF OCTOBER 31, 2011</b>		
<b>Loan Type</b>	<b>Dollar Amount \$(000)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	7,778	13
Secured by Farmland	938	2
1-4 Family Residential	11,566	20
Multifamily (5 or more) Residential	526	1
Commercial	20,804	35
<i>Total Real Estate Loans</i>	<b>41,612</b>	<b>70</b>
Commercial and Industrial	14,949	25
Consumer	2,590	4
Other	56	0
<b>Total Loans</b>	<b>59,207</b>	<b>100</b>

*Source: Bank generated report.*

## **DESCRIPTION OF ASSESSMENT AREA**

LSCB has one AA and includes part of the San Antonio – New Braunfels MSA. This AA meets the regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The bank's AA is centrally located between the East and West Coasts. More than 50% of the total goods flowing between the United States and Mexico travel through San Antonio before reaching their final destination.

<b>DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS ASSESSMENT AREA</b>	
<i>Population</i>	
Number of Families	149,979
Number of Households	220,480
<i>Geographies</i>	
Number of Census Tracts (CT)	105
% Low-Income CT	0
% Moderate-Income CT	13
% Middle-Income CT	34
% Upper-Income CT	52
N/A	1
<i>Median Family Income (MFI)</i>	
2000 MFI for AA	61,677
2011 HUD-Adjusted MFI	57,800
<i>Economic Indicators</i>	
Unemployment Rate	2.62%
2010 Median Housing Value	115,674
% of Households Below Poverty Level	8.17

LSCB AA consists of 105 contiguous CTs in the San Antonio – New Braunfels MSA. The tracts are in north central Bexar County (98 CTs), Comal County (4 CTs), and Kendall County (3 CTs). Fourteen of these census tracts are designated as moderate-income tracts. There are no low-income census tracts in this AA. This designated AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies.

According to the Bureau of Labor Statistics, the unemployment rate, as of September 30, 2011 for the San Antonio – Guadalupe MSA, was 7.9%, while the Texas state unemployment rate was 8.4% and the national unemployment rate was higher at 9.1%. The unemployment rate for Bexar, Comal, and Kendall Counties were 8.1%, 6.9%, and 6.8%, respectively. The three key industries in the MSA are tourism, healthcare biomedical research and development, and the military. The area is home to Fort Sam Houston, Lackland Air Force Base, Randolph Air Force Base, Brooks City-Base, Camp Bullis, and Camp Stanley. The major employers in the MSA include the military bases (Randolph AFB, Fort Sam Houston, Brooks City-Base, and Lackland AFB), USAA, H-E-B, AT&T, and Bill Miller Bar-B-Q.

Competition in the AA is very strong. According to the June 30, 2011 FDIC Summary of Deposits Market Share Report, LSCB ranked 20<sup>th</sup> out of 48 institutions in the AA with 0.16% of deposits. USAA ranked first with 11 offices and 68.20% of the deposits. Other financial institutions include Frost National Bank, in second place, with 27 offices and 9.05% of the deposits, Bank of America NA, in third place, with 38 offices and 4.97% of the deposits, and Well Fargo Bank NA., in fourth place, with 45 offices and 4.01% of the deposits.

A recent community contact was conducted with a community-based economic development entity. Our contact stated that because of the size of the market, there are numerous opportunities for the local financial institutions to participate in various community development opportunities. However, the contact stated that some banks are not familiar with the various programs available. Overall, the contact stated that the banks are fulfilling the credit needs of the community.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance is "Satisfactory". The evaluation period covered lending activity for small business loans reported September 30, 2006 to October 31, 2011.

### Loan-to-Deposit Ratio

LSCB's LTD ratio is reasonable given the bank's size, financial condition, and credit needs in the AA. We reviewed the quarterly average LTD ratios for the twenty-one quarters beginning September 30, 2006 through September 30, 2011, inclusive. Our sample includes banks that were similarly situated in comparison to the bank. The bank's average LTD ratio during this period was 51%. LSCB's LTD ratio ranks last among the bank's peer group. *It is noted that the deposit base at LSCB can fluctuate due to accounts maintained by one large corporate customer.* During this twenty-one quarter period, the bank's LTD ratio ranged from a low of 42% to a high of 68%. The custom peer average was 77%, with average peer bank ratio's ranging from a low of 64% to a high of 87%. Internal bank reports, netting out the previously-mentioned large corporate account deposits, reflected a LTD ratio ranging from 52% to 60% from October 2010 to October 2011.

BANK NAME	TOTAL ASSETS \$(000's)	AVERAGE LTD RATIO
<i>Lone Star Capital Bank</i>	<b>132,703</b>	<b>51%</b>
TexStar National Bank	181,194	87%
Texas Heritage Bank	94,161	79%
First Commercial Bank	115,441	77%
Schertz Bank & Trust	185,640	64%

### Lending in Assessment Area

A majority of the LSCB's loan products were originated within the bank's AA, meeting the standard for satisfactory performance. During the evaluation period, almost 58% of total home loans and business loans were within the bank's AA, and represented 64% of the dollar volume. Please refer to Table 1 below.

Table 1 - Lending in AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	22	45.83	26	54.17	48	\$6,286	58.81	\$4,403	41.19	\$10,689
Home Improvement	9	60.00	6	40.00	15	\$933	88.94	\$116	11.06	\$1,049
Refinance	10	62.50	6	37.50	16	\$3,021	72.19	\$1,114	27.81	\$4,185
Business Loans	16	80.00	4	20.00	20	\$5,462	96.00	\$241	4.00	\$5,703
Totals	57	57.58	42	42.41	99	\$10,240	64.31	\$5,683	35.69	\$15,923

Source: Data reported under HMDA; Loan sample

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

The banks record of lending to small businesses is very good. The banks record of lending to borrowers of different incomes is significantly less than area demographics.

The level of home improvement and refinance loans originated to moderate-income borrowers is slightly lower than the ratio compared to the percentage of moderate-income families in the AA. There were no home loans to moderate income borrowers. The median cost of housing in the AA is \$115,674 based on 2000 census data. The HUD updated median family income for 2011 is \$57,800. Low- and moderate-income populations and organizations that assist these groups in obtaining financing generally prefer fixed-rate loans over a 30-year term, which is outside the bank’s loan policy. LSCB only offers fixed-rate 15 year term loans. Therefore, LSCB is less competitive in this product and bank management does not engage in significant marketing efforts to promote residential loan products. Please see Table 2 for more details.

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	12.78	0.00	13.57	0.00	18.68	0.00	54.98	95.45
Home Improvement	12.78	0.00	13.57	11.11	18.68	11.11	54.98	77.78
Refinance	12.78	0.00	13.57	10.00	18.68	20.00	54.98	70.00

Source: Data reported under HMDA; U.S. Census data.

\*Note: 4.55% of home purchase loans were made to a CT categorized as N/A.

The bank’s record of lending to businesses with gross annual revenues less than \$1 million is very good and significantly exceeds the ratio compared to the percentage of AA businesses with revenues of less than \$1 million. Our loan sample review found the bank’s origination of loans to small businesses within its AA was 90% compared to 68% of AA businesses. Please refer to Table 2A.

Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67.87	2.31	29.82	100.00
% of Bank Loans in AA by #	90.00	10.00	0.00	100.00
% of Bank Loans in AA by \$	93.68	6.32	0.00	100.00

Source: Loan sample; Dunn and Bradstreet data.

## Geographic Distribution of Loans

The geographic distribution of loans does not meet the standard for reasonable dispersion within the AA. LSCB’s level of residential real estate lending in moderate-income CTs is significantly below area demographics when compared to the percentage of owner-occupied properties in those tracts. Bank data for the evaluation period indicates LSCB did not originate any home purchase, home improvement, or refinance loans in moderate-income CTs. While the bank’s dollar volume of residential lending is material at 20% of total loans, the number of loans generated during the evaluation period was only 41. Low- and moderate-income populations and organizations that assist these groups in obtaining financing generally prefer fixed-rate loans over a 30-year term. The bank only offers fixed-rate 15 year term loans. Therefore, LSCB is less competitive in this product and bank management does not engage in significant marketing efforts to promote residential loan products. Please see Table 3 for more details.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in AA</b>								
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	0.00	0.00	8.10	0.00	28.55	9.09	63.35	90.91
Home Improvement	0.00	0.00	8.10	0.00	28.55	11.11	63.35	88.89
Refinance	0.00	0.00	8.10	0.00	28.55	10.00	63.35	90.00

*Source: Data reported under HMDA; U.S. Census data.*

The geographic distribution of loans does not meet the standard for reasonable dispersion within the AA. Our small business loan sample resulted in 5% of business loans in moderate-income CTs compared to 12.31% in the AA according to U.S. Census data. LCNB does not have a branch in a moderate-income CT. According to the June 30, 2011 FDIC Summary of Deposits Market Share Report, LSCB ranked 20<sup>th</sup> out of 48 institutions in the AA with only 0.16% of deposits. The Weidner and Austin Highway branches are located in middle-income CTs, while the main branch and Brookhollow branch are located in upper-income CTs. The bank conducted a CRA self-assessment as of December 31, 2010 and indicated that the bank only had 14 commercial, commercial real estate, or construction and development loans within its moderate-income CT, totaling \$744 thousand and representing 2.3% of total loans (loan portfolio totaled \$32.3 million). The majority of the loans lie within their middle-income and upper-income CTs, representing \$7.8 million and \$23.7 million, respectively. That is representative of our sample and overall results. Please refer to Table 3B.

**Table 3B - 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 Loans	0.00%	0.00%	12.31%	5.00%	34.87%	35.00%	52.82%	60.00%

*Source: Loan sample; U.S. Census data.*

### **Responses to Complaints**

There were no CRA-related consumer complaints regarding the bank’s performance that were received during this evaluation period.

### **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.