



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 10, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Commercial Bank of Texas, National Association
Charter Number: 14371

215 E. Main Street
Nacogdoches, TX 75961-0000

Office of the Comptroller of the Currency

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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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

- Commercial Bank of Texas demonstrates satisfactory responsiveness to the credit needs of its assessment area. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's loans were within its designated assessment area. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment area.
- The level of qualified community development services, investments, and loans represents a satisfactory responsiveness to identified community development needs. Commercial Bank's delivery systems are reasonably accessible to geographies and individuals of different income levels in its assessment area.

SCOPE OF EXAMINATION

Conclusions regarding the bank's lending performance are based on residential purchase, direct auto, and small business loans for the years 2008, 2009 and 2010. For the community development test, the evaluation period runs from the ending date of the last CRA evaluation period to the stated date of the current CRA examination. This test includes a review of the investments, services and loans provided in the bank's assessment area that meet the definition of community development.

Commercial Bank of Texas has designated Nacogdoches, Angelina and adjacent census tracts located in Houston and Cherokee counties as its primary assessment area. This area includes all but one of the bank's branch locations and ATM services and received a full scope review of the bank's performance under the Community Reinvestment Act.

During this evaluation period, the bank opened a branch location in Allen, Texas. Due to the limited time the office has been opened, this area was not included in the scope of this review.

DESCRIPTION OF INSTITUTION

Commercial Bank of Texas (CBTx), headquartered in Nacogdoches, Texas, is an intrastate financial institution with \$397 million in assets. The bank is wholly owned by Nacogdoches Commercial Bankshares, a one bank holding company. CBTx has 12 full service branches with an additional motor bank facility. The bank also operates 34 automatic teller machines located throughout the assessment areas. The bank's offices are located in the non-metropolitan counties of Nacogdoches, Angelina, Cherokee, and Houston. The also has one office in Collin County which is a part of the Dallas/Fort Worth MSA.

During this evaluation period, CBTx opened a loan production office in a shopping center in Allen, Texas. The LPO was converted to a branch office in 2008 which was relocated in late 2009 to a more convenient location that included a drive-in facility. This office is located in Collin County which has been designated as the bank's assessment area in the Dallas/Fort Worth MSA.

CBTx's philosophy is to be a full service institution by providing a wide array of financial services to consumers and commercial businesses. CBTx is retail oriented and offers a wide range of deposit and loan products. As of March 31, 2010, the bank's net loans represented 47% of total assets. The following chart reflects the distribution of the bank's loan portfolio:

Loan Category	\$ (000)	%
Commercial Real Estate Loans	54,850	29.25
Commercial Loans	23,844	12.71
Residential Real Estate Loans	57,847	30.84
Agriculture Loans	2,181	1.16
Consumer Loans	48,847	26.04
Total	187,569	100.00%

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs in its assessment area. CBTx's Tier 1 Capital level is \$32 million representing 8.40% of adjusted average assets as of March 31, 2010. The bank's CRA Performance was last evaluated as of April 16, 2007, with an overall level of performance rated "Satisfactory."

DESCRIPTION OF ASSESSMENT AREA

The Nacogdoches assessment area (AA) consists of Nacogdoches and Angelina counties. It also includes one census tract in Houston County (9506) and one census tract in Cherokee County (9511). There are 27 census tracts in this assessment area with one low-income census tract, three moderate-income census tracts, eighteen middle-income and five upper income census tracts. Additionally, the eight middle-income tracts in Nacogdoches County have been designated as distressed areas. This assessment area meets the requirements of the Community Reinvestment Act and does not arbitrarily exclude low or moderate-income geographies.

The following table provides a description of the Nacogdoches AA based on census data and 2009 Department of Housing and Urban Development information.

DEMOGRAPHIC AND ECONOMIC CHARACTERISTICS OF AA	
Population	
Number of Families	36,453
Number of Households	52,050
Geographies	
Number of Census Tracts/BNA	27
% Low-Income Census Tracts/BNA	3.70%
% Moderate-Income Census Tracts/BNA	11.11%
% Middle-Income Census Tracts/BNA	66.67%
% Upper-Income Census Tracts/BNA	18.52%
Median Family Income (MFI)	
2000 MFI for AA	36,380
2009 HUD-Adjusted MFI	45,600
Economic Indicators	
Unemployment Rate	8.06%
2000 Median Housing Value	\$61,934
% of Households Below Poverty Level	19.00%

The Nacogdoches area has a combined population of 142,539. Several other institutions compete in this market with CBTx having the fourth largest market share of deposits with 13.43% of the area deposits. CBTx Bank is retail oriented with a focus on mortgage and consumer lending, and is the largest student loan provider in the area. The area economy is considered stable. Major employers in the Nacogdoches area include Pilgrim's Pride, Stephen F. Austin State University, Lufkin Industries, and the Nacogdoches and Lufkin Independent School Districts.

Our review also included contacting local business groups in the assessment area. One contact stated the primary need in the area is for small business. Another noted the lack of affordable housing for low and moderate-income individuals. Each contact stated the local financial institutions offer products that help meet all other credit needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

The bank's performance under the lending test is satisfactory. The bank's loan-to-deposit ratio is reasonable and a majority of the bank's loans were within its designated assessment area. The distribution of these loans by geography and by borrower income level reflects a reasonable penetration throughout the assessment area.

Loan-to-Deposit Ratio

The loan-to-deposit ratio of CBTx is reasonable given the bank's size, financial condition and assessment area credit needs. The bank's quarterly average loan-to-deposit ratio was 62.33% since the prior CRA examination in April 2007. The average loan-to-deposit ratio of banks in and around the assessment area, regardless of size, for the same time period, was 69.42%.

<i>Institution</i>	<i>Assets (000s) (as of 3/31/10)</i>	<i>Average LTD Ratio</i>
Austin Bank, Jacksonville	1,055,598	84.76
Citizens National Bank, Crockett	86,996	45.11
Citizens National Bank, Henderson	866,313	57.98
Commercial Bank of Texas, Nacogdoches	397,044	62.33
Farmers State Bank, Center	318,398	58.69
First Bank and Trust, Diboll	750,134	72.75
Grapeland State Bank, Grapeland	25,183	61.91
Huntington State Bank, Huntington	268,209	86.14
Lovelady State Bank	33,362	68.01
Shelby Savings Bank, SSB	223,999	89.42

Lending in Assessment Area

A majority of the bank's lending activity is located within its assessment area. We reviewed a sample of residential, consumer and commercial loans which originated during 2008, 2009, and 2010. The breakdown by loan category is illustrated in the following table.

Lending in Assessment Area										
Loan Type	Number of Loans					Dollars of Loans (000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Residential	14	70.00	6	30.00	20	2,551	75.18	842	24.82	3,393
Consumer	19	95.00	1	5.00	20	448	97.26	13	2.74	461
Commercial	16	80.00	4	20.00	20	7,710	64.25	4,289	35.75	11,999
Totals	49	81.67	11	18.33	60	10,709	67.55	5,144	32.45	15,853

Source: Loan sample

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

CBTx’s overall distribution of loans by income level of the borrower is reasonable given the overall demographics of the bank’s assessment area. The median cost of housing in the assessment area is \$62 thousand with little low income housing stock available. Additionally, a low-income person earns less than \$23 thousand based on the HUD updated 2009 median family income with 19% of the households in the assessment area living below the poverty level. Furthermore, competition for all loan types is strong with numerous bank, mortgage companies and financial institutions vying for these products. We considered these mitigating factors in our analysis of loans to low and moderate-income borrowers.

The distribution of home loans by borrower income level is adequate. There are no loans to low-income borrowers and is reflective of the factors discussed above. However, the percentage of home loans to moderate-income borrowers exceeds the percentage of moderate-income families in the assessment area.

Borrower Distribution of Residential Real Estate Loans								
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
	19.46	0.00	15.90	25.00	20.68	5.00	43.99	70.00

Source: Loan sample, U.S. Census data.

The distribution of consumer loans by borrower income level is reasonable. The percentage of loans to low-income borrowers is below the percentage of low-income families and is again reflective of the factors discussed above. The percentage of consumer loans to moderate-income borrowers is greater than the percentage of moderate-income families in the assessment area.

Borrower Distribution of Consumer Loans								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	25.36	3.85	14.59	19.23	17.38	15.38	42.67	61.54

Source: Loan sample, U.S. Census data.

The bank’s distribution of loans to small businesses is reasonable. The percentage of loans to businesses with revenues of \$1 million or less is near to the percentage of assessment area businesses with revenues of \$1 million or less. However, 23% of businesses in the area did not report income. This information could impact the percentage of business with different income levels.

Borrower Distribution of Loans to Businesses				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	74.00	3.13	22.87	100%
% of Bank Loans in AA by #	71.43	28.57	0.00	100%
% of Bank Loans in AA by \$	32.29	67.71	0.00	100%

Source: Loan sample; Dun and Bradstreet data.

Geographic Distribution of Loans

CBTx’s overall distribution of loans by income level of the geography is reasonable. The middle income tracts located in Nacogdoches County have been designated as distressed areas. Therefore, consideration is also given to loans extended within these tracts.

The geographic distribution of home loans is reasonable. The distribution of loans in low-income tracts is less than the percentage of owner-occupied housing units in the low-income tracts. The distribution of loans in the moderate-income tracts exceeds the percentage of owner-occupied housing units in the moderate-income tracts. The level of owner occupied homes in these areas is low with the stock of available homes minimal. In addition to the loans in the low and moderate income tracts, 25% of the number and 24% of the dollar amount of loans extended were located in middle income tracts that have been designated as distressed areas.

Geographic Distribution of Residential Real Estate Loans								
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
	1.38	0.00	4.76	5.00	65.43	70.00	28.43	25.00

Source: Loan sample, U.S. Census data.

The geographic distribution of consumer loans is reasonable. The distribution of loans in the low and moderate income tracts is less than the percentage of households located in the low and moderate income tracts. The percentage of households in these areas is low with fewer opportunities to provide auto purchase loans. Additionally, 22% of the number and 20% of the dollar amount of loans extended were located in middle income tracts that have been designated as distressed areas.

Geographic Distribution of Consumer Loans								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans	% of AA Households	% of Number of Loans
	2.09	0.00	8.74	3.85	60.58	53.85	28.60	42.31

Source: Loan sample, U.S. Census data.

The geographic distribution of loans to businesses is reasonable. While the distribution of loans to businesses in the moderate-income tracts is less than the percentage of businesses located in moderate-income tracts, the percentage of businesses in both the low and moderate income tracts is low with fewer opportunities to originate loans in these areas. However, the percentage of business loans made in the low-income tracts significantly exceeds the percentage of businesses located in these tracts. In addition to the loans in the low and moderate income tracts, 23% of the number and 55% of the dollar amount of loans extended were located in middle income tracts that have been designated as distressed areas.

Geographic Distribution of Loans to Businesses								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans	% of AA Businesses/Farms	% of Number of Loans
	1.94	11.43	6.97	2.86	61.16	42.86	29.93	42.86

Source: Loan sample, U.S. Census data.

Responses to Complaints

There have been no CRA related complaints received during this evaluation process.

COMMUNITY DEVELOPMENT TEST

The bank's overall performance under the community development test is adequate. The bank has provided a satisfactory level of community development services, investments and loans in its assessment areas.

Number and Amount of Community Development Loans

CBTx has provided a good level of community development loans in its assessment area. Thirty seven loans totaling \$424 thousand were originated during the evaluation period. Most of these loans provided assistance to individuals impacted by Hurricane Ike.

Number and Amount of Qualified Investments

CBTx has provided a satisfactory level of community development investments in its assessment area. During this evaluation period, the bank made 15 qualified investments totaling \$29 thousand. Additionally, the bank previously invested \$500 thousand in the CRA Investment Fund which provides funding to eligible businesses. Dividends are reinvested into the Fund with a current book value of \$562,136. Other investments include donations to local organizations that provide community services

Extent to Which the Bank Provides Community Development Services

CBTx has provided an excellent level of community development services throughout its assessment area. The delivery systems of the bank are reasonably accessible to geographies and individuals of different income levels in its assessment areas. Additionally, a wide range of financial services are provided at each branch and are consistent throughout the bank's branch network. The bank offers ATMs at each branch location and at other locations within the AA. The bank also offers telephone and Internet banking services, ACH deposits, and low cost checking accounts. In addition, the bank provides a large volume of student loans as well as providing SBA, VA, and FHA loans. CBTx is also a participant in the Home Affordable Modification Program (HAMP). This program was developed to provide assistance to borrowers which can no longer afford their current mortgage payments due to job losses and reduction of incomes. In response to the credit needs of borrowers impacted by Hurricane Ike in 2008, CBTx offered programs to provide payment extensions, home repair and assistance loans, as well as an employee assistance program. In addition to retail banking services and specialized loan programs, bank officers and employees are active in numerous local organizations that promote

community development. Examples of qualified organizations include Habitat for Humanity, United Way, Industrial Trust and Nacogdoches Housing Authority.

Responsiveness to Community Development Needs

CBTx has demonstrated an excellent responsiveness to community development needs throughout its assessment areas. Products and services offered meet the needs of all individuals and geographies, regardless of income levels. Additionally, bank staff is involved in community organizations and services that promote community development.

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.