



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

September 25, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Lone Star Capital Bank, N.A.
Charter Number 23730**

**150 North Loop 1604 East
San Antonio, Texas 78232**

**Comptroller of the Currency
San Antonio - North Field Office
10101 Reunion Place Blvd., Suite 402
San Antonio, Texas 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 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 (LSCB), meets the credit needs of its assessment area (AA) based on the following conclusions:

- Lending performance is satisfactory given the bank’s size, financial condition, and known credit needs in its AA.
- The loan-to-deposit (LTD) ratio is reasonable and averaged 59% during the evaluation period. Such performance is satisfactory given the seasonal fluctuations associated with a large deposit account concentration.
- A majority of LSCB’s loans are within its AA.
- LSCB has demonstrated a satisfactory willingness to extend loans to individuals of varying incomes and businesses of different sizes.
- There have been no complaints with respect to LSCB’s CRA performance.

DESCRIPTION OF INSTITUTION

LSCB originated with the merger of ClearLake National Bank into Mission National Bank in May 2003. The name was changed to Lone Star National 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. The main office and 3 branches each have an automatic teller machine (ATM) on site.

The bank’s lobby and Drive-through are open Monday through Friday, with Drive-through services also provided on Saturdays. LSCB offers 24-hour bank-by-phone account access, in addition to on-line banking. 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 banks. 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. This is the bank’s first CRA Public Evaluation since the merger in 2003. There are no legal impediments or other factors that hinder LSCB’s ability to provide credit in the AA.

LSCB is a commercial lending bank. The primary lending products are commercial business and real estate loans. As of June 30, 2006, LSCB had total assets of \$107 million with the loan portfolio comprising 49% of total assets. The chart on the following page details the composition of LSCB’s loan portfolio:

LOAN DISTRIBUTION AS OF JUNE 30, 2006
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Loan Type	Dollar Amount \$(000)	Percent of Total Loans (%)
Construction and Land Development	8,620	16
Secured by Farmland	725	1
1-4 Family Residential	4,942	9
Multifamily (5 or more) Residential	202	1
Commercial	23,026	44
<i>Total Real Estate Loans</i>	<i>37,515</i>	<i>71</i>
Commercial and Industrial	11,499	22
Consumer	3,301	6
Other	24	1
Total Loans	52,339	100

Source: June 30, 2006 Consolidated Report of Condition

DESCRIPTION OF BEXAR COUNTY AND COMAL COUNTY

LSCB designated parts of Bexar County and Comal County as its AA. The AA consists of 101 contiguous census tracts in the San Antonio Metropolitan Area and Comal County. 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 low- and moderate-income (LMI) geographies.

Based on 2000 US Census data, the AA population is approximately 540 thousand. This includes 228 thousand housing units of which 133 thousand are owner-occupied. The local economy is primarily based on services, retail trade, finance, insurance, and real estate.

We contacted a community leader during our evaluation of LSCB to discuss the potential lending opportunities in the community. Our contact is a member of the South Texas Business Fund (STBF). This is a non-profit organization that provides working capital as well as management and technical assistance to small businesses. Our contact stated that there is a need for credit for customers who do not qualify under traditional underwriting standards. The contact also conveyed that banks could do a better job taking advantage of various government-sponsored programs or refer prospective customers to alternative resources when dealing with marginally qualified commercial borrowers.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Management has demonstrated “satisfactory” performance in meeting the credit needs of the AA.

Loan-to-Deposit Ratio

LSCB’s LTD ratio is reasonable given the bank’s size, financial condition, and credit needs in the AA. The bank’s LTD ratio ranked fifth when compared to six competing banks in the area. It is noted that the deposit base at LSCB can fluctuate between \$8 million to \$20 million due to accounts maintained by one large corporate customer. Additionally, the bank continues to experience significant competition for both customers and lending staff from other banks in the San Antonio area. During our review period from May 30, 2003 to June 30, 2006, LTD ratios ranged from 48% to 66%. Internal bank reports, netting out the

previously-mentioned large corporate account deposits, reflected a LTD ratio ranging from 66% to 74% from April 2005 to March 2006.

BANK NAME	TOTAL ASSETS \$(000's)	AVERAGE LTD RATIO
<i>Lone Star Capital Bank</i>	106,917	59%
Intercontinental National Bank	137,473	75%
TexStar National Bank	76,234	74%
First Community Bank SA	88,693	73%
Schertz Bank & Trust	125,217	72%
Jourdanton State Bank	88,108	40%

Lending in the Assessment Area

A majority of the bank's loans are made within the AA. We sampled 94 loans from the primary lending categories to assess lending performance in the designated AA. We found management originated 66% of its loans and 72% of the dollar volume within its AA as shown by the table below. Management continues to work diligently to increase loan growth at all its branches.

TOTAL LOANS REVIEWED								
LOAN TYPE	IN ASSESSMENT AREA				OUT OF ASSESSMENT AREA			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer	20	57	393	59	15	43	278	41
Commercial	22	81	2,983	68	5	19	1,408	32
Commercial Real Estate (RE)	20	63	10,126	74	12	38	3,553	26
Total Reviewed	62	66	13,502	72	32	34	5,239	28

Source: Bank Data

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The loan distribution reflects reasonable penetration among individuals of different income levels and businesses of different sizes. We randomly sampled loans originated during our review period to assess lending performance in these areas. Based on 2000 US Census data, 30% of households have income levels that are LMI. Our analysis found 14% of loans originated during this period were to LMI borrowers. Although this is lower than the Census statistics, LSCB does not have any low-income census tracts in its AA. LSCB is offering products such as free checking accounts and relaxed debit card requirements to attract borrowers who may not be able to afford typical bank deposit accounts. This will allow the bank to cross sell loan services once they become established customers of the bank.

CONSUMER								
BORROWER INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
<i>% of AA Households</i>	16		14		19		51	
Loans By Year	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	33	22	0	0	67	78
2004	0	0	18	5	27	33	55	63
2005	0	0	7	2	36	37	57	61
2006	0	0	14	10	14	15	71	75
Total	0	0	14	6	26	29	60	65

LSCB's record of lending to businesses with gross annual revenues less than \$1million is reasonable. Our loan sample review found the bank's origination of loans to small businesses within its AA was only 55% compared to 2000 US Census data of 92%. President Bill McCandless stated this was due to strong competition from larger banks in the area, loss of six lenders over the past few years and difficulty finding customers with acceptable credit risk, especially at its newest location on Austin Highway. Loan growth has not occurred as originally projected.

BORROWER DISTRIBUTION OF SMALL LOANS TO BUSINESSES		
Business Revenues	≤\$1,000,000	>\$1,000,000
% of AA Businesses ³	92	8
% of Bank Loans in AA #	55	45
% of Bank Loans in AA \$	34	66

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion within the AA. Our consumer and commercial loan sampling resulted in satisfactory penetration in the moderate census tracts in the AA. LSCB's AA does not have any low-income census tracts. Eleven percent of our consumer loan sample was to borrowers in moderate-income census tracts. The 2000 US Census data reflects 13% of census tracts in the AA are moderate-income. Our commercial loan sample resulted in 9% of the loans in moderate census tracts compared to 11% in the AA according to Census data.

CONSUMER								
CENSUS TRACT INCOME LEVEL	LOW		MODERATE		MIDDLE		UPPER	
<i>% of AA Households</i>	0		13		35		52	
Loans By Year	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	0	0	67	50	33	50
2004	0	0	0	0	27	34	73	66
2005	0	0	21	24	43	26	36	50
2006	0	0	14	15	14	1	71	84
Totals	0	0	11	10	34	28	54	62

COMMERCIAL								
<i>CENSUS TRACT INCOME LEVEL</i>	<i>LOW</i>		<i>MODERATE</i>		<i>MIDDLE</i>		<i>UPPER</i>	
% of AA Businesses	0		11		32		56	
Loans By Year	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount	% of Number	% of Amount
2003	0	0	0	0	29	21	71	79
2004	0	0	14	9	27	11	59	80
2005	0	0	7	7	21	8	71	85
2006	0	0	8	2	30	6	62	92
Totals	0	0	9	5	27	9	64	86

Responses to Complaints

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

Fair Lending Review

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