

PUBLIC DISCLOSURE

May 9, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The State Bank of Texas
RSSD # 706151

3330 Antoine Drive
Houston, Texas 77092

Federal Reserve Bank of Dallas
2200 North Pearl Street
Dallas, Texas 75201

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The State Bank of Texas' (bank) performance demonstrates a reasonable responsiveness to the credit needs in its assessment area. The bank's performance under the Lending Test is Satisfactory based on the following criteria:

- A substantial majority of commercial loans, 93.0 percent of the number and 98.1 percent of the dollar volume, originated inside the bank's assessment areas.
- A reasonable net loan-to-deposit ratio (LTD) of 62.4 percent as of December 31, 2015, with a quarterly average of 52.5 percent since the previous Community Reinvestment Act (CRA) evaluation, given the institution's resources and competition in the assessment area.
- A reasonable penetration of loans among businesses of different sizes.
- An excellent dispersion of loans throughout the institution's assessment area.

SCOPE OF EXAMINATION

The bank's lending performance with respect to the CRA was assessed by analyzing a sample of 57 commercial loans totaling \$21.6 million originated by the bank between January 1, 2015 and December 31, 2015. Although the bank offers a full suite of consumer lending products, the bank is primarily a commercial lender. The bank is a Home Mortgage Disclosure Act (HMDA) reporter; however, due to a limited volume of such loans, the analysis would not have been meaningful. The evaluation was conducted using the CRA small bank performance standards. Small bank CRA performance standards evaluate the following criteria:

- Average net LTD ratio since the last CRA evaluation.
- The overall level of lending within the assessment area.
- The bank's lending to borrowers of different income levels and businesses and farms of different sizes.
- The bank's geographic distribution of loans within its assessment area.
- The bank's response to written complaints with respect to CRA performance in the assessment area.

Each standard is viewed as part of an overall picture of the bank's performance in meeting the credit needs of its delineated assessment area.

DESCRIPTION OF INSTITUTION

The bank is an independent, locally-owned, full service financial institution operating two banking offices in the gulf coast region of southeast Texas. The bank's main office is located in the northwest section of the city of Houston, Harris County, and a full service branch operates in Stafford, Fort Bend County. The bank offers commercial, consumer real-estate including, construction, home mortgage, home improvement, and consumer non-real estate loans. A full line of deposit services is offered, and the bank operates non-deposit taking, automated teller machines (ATMs) at each branch location. The bank's locations are shown in the following table.

Retail Locations				
NAME ADDRESS	TRACT INCOME LEVEL COUNTY	ATM (YES/NO)/ DEPOSIT- TAKING CAPABILITY	LOBBY HOURS	DRIVE-THRU HOURS
Full Service Branches				
Main Branch 3330 Antoine Drive Houston, Texas 77092	5205.00 Low HARRIS	Yes No Deposits	M-Th 9 am – 3 pm Fri 9 am – 6 pm Sat 9 am – 12 noon	M-F 7:30 am – 6 pm Sat 8 am – 12 noon
Stafford Branch 13010 Murphy Road Stafford, Texas 77477	6718.00 Middle FORT BEND	Yes No Deposits	M-Th 9 am – 3 pm Fri 9 am – 6 pm Sat 9 am – 12 noon	M-F 7:30 am – 6 pm Sat 8 am – 12 noon

As of December 31, 2015, the bank reported total assets of approximately \$166 million, gross loans of \$94 million, total deposits of \$150 million, and a net LTD ratio of 62.4 percent. The following table reflects the loan portfolio mix.

Product	12/31/2015 \$(000's)	% of Loans
Real Estate		
1-4 Family Residential Construction Loans	16,587	38.3
Other Construction Loans & Land Development & Other	3,367	7.8
1-4 Family Residential Secured by First Liens	7,871	18.2
1-4 Family Residential Secured by Junior Liens	1,079	2.5
Nonfarm Nonresidential Loans Secured Owner Occupied Nonfarm Nonresidential	8,517	19.7
Loans Secured by Other Nonfarm Nonresidential	5,864	13.5
Total Real Estate	43,285	45.9
Commercial and Industrial	28,239	29.9
Consumer	22,864	24.2
Other	3	0.00
Gross Loans	94,391	100.0

The bank's ability to meet various credit needs of the community has not been hampered by its capacity to lend, its financial condition and size, product offerings, prior performance, legal impediments or other factors. The bank received a Satisfactory rating on its previous CRA performance evaluation dated June 20, 2011, performed by the Federal Reserve Bank of Dallas.

**DESCRIPTION OF HARRIS AND FORT BEND COUNTIES
ASSESSMENT AREA**

The bank’s assessment area consists of Fort Bend and Harris counties. Both counties are part of the Houston-Sugar Land-Baytown, Texas Metropolitan Statistical Area (MSA). The 2014 estimated population for the assessment area is 5,126,715. The assessment area population grew approximately 25 percent between 2010 and 2014. The city of Houston, population 2,239,558, is the Harris County seat. The city of Richmond, population 12,018, is the Fort Bend County seat.

County	2014 Population Estimate	% Increase Since 2010	County Seat
Harris	4,441,370	8.5	Houston
Fort Bend	685,345	17.2	Richmond

As of June 30, 2015, the bank ranks 48th in deposit market share out of 83 FDIC-insured financial institutions operating in Harris and Fort Bend counties. The deposits in the bank’s two branches represented 0.09 percent of the total deposits in FDIC-insured financial institutions. JPMorgan Chase Bank National Association (NA) dominates the market with 42.7% of total deposits, followed by Wells Fargo Bank NA with 10.4 percent, and Bank of America NA with 9.05 percent.

Demographic and economic information impacting the bank’s performance context are further discussed on the following pages. Information was obtained from publicly available sources including the 2015 FFIEC Census Data; American Community Survey (ACS) 2006-2010; the U.S. Department of Labor; the U.S. Department of Housing and Urban Development (HUD); Dun & Bradstreet (D&B); and the Texas Workforce Commission.

The following table details selected characteristics of the assessment area.

Harris and Fort Bend Counties Assessment Area								
Income Categories	Tract Distribution		Families By Tract Income		Families < Poverty Level as a % of Families by Tract		Families By Family Income	
	#	%	#	%	#	%	#	%
Low-Income	121	14.0	112,278	10.4	38,768	34.5	270,623	25.0
Moderate-Income	259	30.0	293,293	27.1	57,224	19.5	182,649	16.9
Middle-Income	210	24.4	291,590	26.9	27,755	9.5	187,716	17.3
Upper-Income	268	31.1	385,736	35.6	13,523	3.5	441,909	40.8
Unknown-Income	4	0.5	0	0.0	0	0.0	0	0.0
Total AA	862	100.0	1,082,897	100.0	137,270	12.7	1,082,897	100.0
	Housing Units By Tract	Housing Type By Tract						
		Owner-Occupied			Rental		Vacant	
		#	% By Tract	% By Unit	#	% By Unit	#	% By Unit
Low-Income	217,531	45,582	4.9	21.0	129,979	59.8	41,970	19.3
Moderate-Income	482,480	211,538	22.8	43.8	206,109	42.7	64,833	13.4
Middle-Income	450,585	266,829	28.7	59.2	140,215	31.1	43,541	9.7
Upper-Income	584,325	404,860	43.6	69.3	134,621	23.0	44,844	7.7
Unknown-Income	79	0	0.0	0.0	50	63.3	29	36.7
Total AA	1,735,000	928,809	100.0	53.5	610,974	35.2	195,217	11.3
	Total Businesses by Tract	Businesses By Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-Income	24,466	8.9	21,724	8.6	2,704	13.3	38	7.8
Moderate-Income	55,878	20.4	51,163	20.3	4,624	22.7	91	18.6
Middle-Income	66,955	24.5	62,058	24.6	4,769	23.4	128	26.2
Upper-Income	125,955	46.1	117,438	46.5	8,286	40.6	231	47.2
Unknown-Income	145	0.1	130	0.1	14	0.1	1	0.2
Total AA	273,399	100.0	252,513	100.0	20,397	100.0	489	100.0
Percent of Total Businesses:				92.4		7.4		0.2

Based on 2015 D&B information according to 2010 ACS.

Income Characteristics: The Harris and Fort Bend County assessment area is comprised of 862 census tracts, 121 of which are defined as low-income, 259 are moderate-income, 210 percent are middle-income, 268 are upper-income, and four have unknown-income. Although only 31.1 percent of the census tracts are upper-income, 40.8 percent of the families are considered upper-income. Low- and moderate-income families represent 41.9 percent of all families within the

assessment area. The ACS median family income is \$70,100, which is higher than the state of Texas (\$52,800). Families living below poverty level represent 12.7 percent of all families within the assessment area, which is slightly higher than the poverty level in the MSA (11.8 percent), and it is lower than the poverty level in the state of Texas (15.07 percent). The following table depicts the referenced income level ranges:

Income Level	2015 MSA
Median Income	\$70,100
Low-income	< \$35,050
Moderate-income	\$ 35,050 < \$56,080
Middle-income	\$56,080 < \$84,120
Upper-income	≥ \$84,120

Housing: According to 2010 census data, there are 1.7 million housing units in the assessment area with a median age of 30 years. The median housing value is \$137,381. Owner-occupied housing units comprise 53.5 percent of housing stock, which is slightly below the MSA (56.0 percent) and the state of Texas (57.0 percent). Rental units and vacant units comprise 35.2 percent and 11.3 percent of the housing stock, respectively. The distribution of owner-occupied housing units was 4.9 percent in low-income census tracts, 22.8 percent in moderate-income tracts, 28.7 percent in middle-income census tracts, and 43.6 percent in upper-income census tracts.

The housing affordability ratio for the assessment area is 39.2 percent. The affordability ratio is defined as the median household income divided by the median housing value. A higher ratio means the housing is considered more affordable. By comparison, the affordability ratio for the state of Texas is 40.2 percent. Therefore, the affordability of housing in the assessment area is comparable to that of the state of Texas.

Labor, Employment, and Economic Characteristics: According to 2015 D&B data, there were approximately 273,399 businesses in the assessment area. A majority (92.4 percent) of these are small businesses reporting revenues of less than \$1 million. The major employment sectors include management, business, science, arts, healthcare, oil and gas, and education. Major employers include BP, NASA, ExxonMobil, Chevron, Shell Oil Company, ConocoPhillips, Rice University, University of Texas Health Science Center at Houston, United Airlines, and Marathon Oil. For 2015, the annual average unemployment rate for the assessment area was 4.5 percent. The state of Texas' unemployment rate was 4.5 percent during the same timeframe.

Annual Average Unemployment Rate		
Area	2014	2015
Assessment Area	4.8	4.5
MSA	4.9	4.6
State of Texas	5.1	4.5
United States	6.2	5.3

Community Contacts and Credit Needs: Contact was made with two community service organizations. These contacts identified a credit need in the community as small dollar personal loans to manage expenses. Beneficial services needed in the assessment area include financial literacy and job skills programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

The general purpose of the CRA is to encourage banks to meet the credit needs in their assessment areas while operating in a safe and sound manner. To gain an understanding of the bank's lending activity, the net LTD ratio is reviewed to approximate the credit demand of the assessment area and assess the bank's willingness to meet the community's demand for credit.

The bank's net LTD ratio is considered reasonable, given the bank's size and financial condition, the credit needs of the assessment area, and the competitive local banking environment. As of December 31, 2015, the net LTD ratio was 62.4 percent, and the quarterly average since the previous evaluation was 52.5 percent.

To better understand the bank's performance in relation to its assessment area, a comparison of three similarly situated local banks was performed. These banks were chosen for analysis based on their proximity and similar size and structure. The similarly situated banks have net LTD ratios ranging from 50.6 percent to 94.3 percent as of December 31, 2015. Their quarterly average net LTD ratios ranged from 41.6 percent to 90.6 percent. As noted, the bank's LTD ratios are similar to the majority of its peers and reflect favorably upon the bank's efforts to meet the credit needs of its community.

LENDING IN ASSESSMENT AREA

The bank's performance under the lending test was analyzed by reviewing a sample of commercial loans originated by the bank in 2015. This lending activity totaled 57 loans for a dollar volume of \$21.6 million. Of the bank's commercial lending, a substantial majority of the bank's commercial loans were originated inside its assessment area. As shown in the table below, the bank extended 53 or 93.0 percent by number inside its assessment areas. The table illustrates the distribution of the bank's lending inside and outside the Harris and Fort Bend Counties Assessment Area.

Harris and Fort Bend Counties Assessment Area								
Assessment Area Concentration								
Loan Type	Inside Assessment Area				Outside Assessment Area			
	#	%	\$000's	% of \$	#	%	\$000's	% of \$
Commercial	53	93.0	\$21,634	98.1	4	7.0	\$423	1.9

The remaining analyses will be based on loans made inside the bank's assessment area.

LENDING TO BUSINESSES OF DIFFERENT SIZES

The distribution of lending based on revenue levels of the borrowers reflects a reasonable penetration among businesses of different sizes. The bank extended more commercial loans than any other product.

During the sample period, 53 commercial loans were originated in this assessment area. Of these loans, the bank originated 34 loans for \$11.6 million to small businesses, which are defined as having gross annual revenue of \$1 million or less. This represents 64.2 percent by number volume and 53.7 percent by dollar volume of bank's commercial lending activity during the period.

Distribution of 2015 Business Loans by Revenue Size					
Harris and Fort Bend Counties Assessment Area					
Business Revenue by Size	#	# %	\$(000s)	\$ %	% of Businesses
\$1 million or less	34	64.2	11,613	53.7	92.4
Over \$1 million	19	35.8	10,021	46.3	7.4
Revenue Not Known	0	0.0	0	0.0	0.2
Total	53	100.0	21,634	100	100.0

Another way to gauge the bank's small business lending performance is to review the data by loan amount. Small businesses typically require smaller dollar credits. In this regard, it is noted that 25, or 47.2 percent, of the bank's commercial loans were made in loan amounts of \$100,000 or less.

Distribution of 2015 Business Loans by Loan Amount				
Harris and Fort Bend Counties Assessment Area				
Loan Amount	#	# %	\$(000)	\$ %
\$100,000 or less	25	47.2	1,059	4.9
\$100,001 - \$250,000	7	13.2	1,273	5.9
\$250,001 - \$1,000,000	14	26.4	7,239	33.5
Over \$1,000,000	7	13.2	12,063	55.7
Total	53	100	21,634	100

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution by the census-tract income levels within the assessment area is excellent. Loans were generally made in close proximity to the bank’s branches and there were no conspicuous gaps or anomalies in the lending patterns.

The bank’s small business lending performance of commercial loans in the low-income census tract materially exceeded the percentage of small businesses located in the tracts. The bank originated 22 of the 53 loans reviewed, or 41.5 percent, in low-income census tracts, compared to the 8.6 percent of small businesses operating there. These loans totaled \$9.7 million. The bank also originated 10 loans, or 18.9 percent, in the moderate-income tract, compared to 20.3 percent of small businesses located there. These loans totaled \$1.9 million. Higher levels of lending in low- and moderate-income geographies necessarily results in less lending in higher income categories and this outcome is considered positive.

Distribution of 2015 Business Loans by Income Level of Geography Harris and Fort Bend Counties Assessment Area					
Census Tract Income Level	#	% #	\$(000)	\$ %	% of Small Businesses
Low	22	41.5	9,732	45.0	8.6
Moderate	10	18.9	1,920	8.9	20.3
Middle	8	15.1	2,488	11.5	24.6
Upper	13	24.5	7,494	34.6	46.5
Total	53	100.0	21,634	100.0	100.0

RESPONSE TO COMPLAINTS

There were no complaints related to the CRA during the review period. Consequently, the bank’s performance in responding to complaints was not considered in evaluating its overall CRA performance.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified. The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. Established policies and procedures are designed to ensure ongoing compliance with applicable laws and regulations.

GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small, relatively permanent statistical subdivision of a county. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts average about 4,000 inhabitants, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to the population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language:

1. Affordable housing (including multi-family rental housing) for low- or moderate-income individuals.
2. Community services targeted to low- or moderate-income individuals.
3. Activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less.
4. Activities that revitalize or stabilize –
 - a. Low- or moderate-income geographies.
 - b. Designated disaster areas.
 - c. Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - i. Rates of poverty, unemployment, and population loss.
 - ii. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.
5. Loans, investments, and services by financial institutions that-
 - a. Support, enable or facilitate projects or activities that meet the "eligible uses" criteria described in Section 2301(c) of the Housing and Economic Recovery Act of 2008 (HERA), Public Law 110-289, 122 Stat. 2654, as amended, and are conducted in designated target areas identified in plans approved by the United States Department of Housing and Urban Development in accordance with the Neighborhood Stabilization Program (NSP).
 - b. Are provided no later than two years after the last date funds appropriated for the NSP are required to be spent by grantees.
 - c. Benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or areas outside the bank's assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of the applicants; the amount of loan requested; and the disposition of the application (for example, approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancing of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is 120 percent or more of the area median income, or a median family income that is 120 percent or more, in the case of geography.