

PUBLIC DISCLOSURE

May 3, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Crosby State Bank
Certificate Number: 1492**

**6200 F.M. 2100
Crosby, Texas 77532**

Federal Deposit Insurance Corporation

**Division of Supervision and Consumer Protection
1910 Pacific Avenue, 19th Floor
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 institution received a rating of Satisfactory at the prior CRA evaluation dated December 3, 2001.

Pursuant to the Community Reinvestment Act (CRA), small bank performance factors were applied to this five-office, \$208 million bank headquartered in Crosby, Texas. A small bank is defined as one with assets less than \$250 million at the end of the two preceding calendar years. The small bank performance factors include loan-to-deposit ratio, lending to borrowers of different income levels and businesses of different sizes, geographic distribution of loans, lending in the assessment area, and response to CRA-related complaints. Management did not request the review of qualified investments and services at this evaluation.

Small business and residential real estate loans were chosen as the products to evaluate the bank's performance as they comprise a majority of the bank's loan portfolio. When arriving at the overall rating, more weight was placed on the bank's performance with regard to small business loans as they represent a significant majority of the loan portfolio. As there were no CRA-related complaints received since the prior evaluation, this factor was not weighted in the assignment of the overall rating. Each of the reviewed factors supports the assigned rating. A summary of the individual conclusions derived from the evaluation of each factor to support this rating is noted below. Performance under each test is detailed elsewhere in this evaluation.

- The bank's average quarterly net loan-to-deposit ratio of 54.6 percent demonstrates reasonable responsiveness to community credit needs considering the bank's resources and business strategy, the area's economics and credit needs, and the comparative records of similarly situated institutions.
- Relative to area demographic data, Crosby State Bank has established an adequate record of lending to businesses of different sizes and to borrowers of different incomes.
- The institution has achieved a good geographic dispersion of loans in relation to the assessment area's geographic makeup and the location of the bank's offices.
- A significant majority of the bank's lending activity occurs inside the assessment area demonstrating a strong level of performance.

SCOPE OF EXAMINATION

Crosby State Bank's CRA record is evaluated using five criteria established for small banks. Based on data generated for loans originated from January 1, 2005 to December 31, 2005, commercial loans comprise the bulk of loans by dollar volume at 78.4 percent. Consumer loans and residential real estate loan were 7.6 percent and 12.3 percent, respectively. Since the bank is a HMDA reporter and collects information on 1-4 family real estate loans, the readily available data on all originated loans for 2005 was reviewed in this analysis. Since results in 2004 did not materially differ from that of 2005, only the results of the 2005 analysis are presented in this evaluation. Agricultural (small farm) loans were not reviewed as they represent less than 2.0 percent of the total loan portfolio.

Therefore, commercial (small business) and residential real estate loans were chosen as the focus of this evaluation. A review of data provided by subject bank indicates that the bank's loan product mix has been fairly consistent since the previous evaluation dated December 3, 2001. Using a sampling guideline with a 90 percent confidence interval and a 15 percent precision level, examiners randomly sampled 43 small business loans originated during the one-year period ending December 31, 2005.

Refer to Table 1 for a listing of loan originations detailed by loan category.

Table 1 – Loan Originations from January 1, 2005 to December 31, 2005

<i>Loan Category</i>	<i>Number</i>	<i>Percent of Number (%)</i>	<i>Dollar Amount \$(000)</i>	<i>Percent of Amount (%)</i>
Commercial	338	43.1	50,111	78.4
Residential Real Estate	126	16.1	7,884	12.3
Agricultural	3	0.3	1,050	1.7
Consumer	318	40.5	4,884	7.6
Total Loans	785	100.0	63,929	100.0

Source: Bank records

DESCRIPTION OF INSTITUTION

Crosby State Bank is a state-chartered commercial bank headquartered in Crosby, Texas. In addition to the main office, the bank operates five full-service branches in Houston-Baytown-Sugar Land Metropolitan Statistical Area and one branch in Chambers County. The main office is located in an upper-income census tract, 1 branch office is situated in a low-income census

tract, 1 in a moderate-income tract, 1 in a middle-income tract, and 3 in upper-income tracts. The bank offers a variety of loan and deposit products, including Internet banking, automated teller machines (ATMs), motor banking, direct deposits, night deposits, and telephone banking. Drive-up operations have extended hours on weekdays and morning hours on Saturdays.

According to the December 31, 2005, Consolidated Report of Condition and Income, the bank reported \$208,207,000 in total assets. A breakdown of the bank's asset mix (Table 2) and loan portfolio (Table 3) as of December 31, 2005 is detailed below.

<i>Asset Type</i>	<i>Dollar Amount \$(000)</i>	<i>Percent (%)</i>
Net Loans (Less unearned income and allowance for loan losses)	119,352	57.3
Investments	24,474	11.8
Federal Funds Sold	35,823	17.2
Cash and Due From Banks	17,049	8.2
Premises and Fixed Assets	8,611	4.1
Other Assets	2,898	1.4
Total Assets	208,207	100.0

Source: Consolidated Report of Condition

<i>Loan Type</i>	<i>Dollar Amount \$(000)</i>	<i>Percent (%)</i>
Construction & Land Development	16,844	14.0
Secured by Farmland	1,320	1.1
Secured by 1-4 Family Residential	18,653	15.5
Secured by Multifamily Residential	2,018	1.7
Secured by Nonfarm Nonresidential	52,548	43.6
Commercial and Industrial	19,700	16.3
Consumer	8,116	6.7
Other	1,284	1.1
Total Loans	120,483	100.0

Source: Consolidated Report of Condition

Examination staff did not note legal impediments or other factors that would inhibit the bank's ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

Crosby State Bank has designated the 649 census tracts comprising Harris County as well as two census tracts in Chambers County as its official assessment area. Harris County is part of the Houston-Baytown-Sugar Land Metropolitan Statistical Area (MSA), which is comprised of ten counties. The two census tracts in Chambers County are immediately adjacent to Harris County, which is the location of the new branch in Baytown, Texas. The assessment area meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

Table 4 below illustrates general demographic information regarding the assessment area according to the 2000 U.S. Census.

<i>Table 4 – Demographic Data by Tract Income Level</i>				
<i>Tract Income Level</i>	<i>Number of Census Tracts</i>	<i>Population</i>	<i>Families</i>	<i>Owner-Occupied Housing Units (%)</i>
Low	63	280,361	63,762	3.9
Moderate	223	1,155,543	269,793	25.8
Middle	178	989,975	246,524	30.3
Upper	180	985,621	264,307	40.0
Not Applicable	7	2,275	0	0.0
Totals	651	3,413,775	844,386	100.0

Source: 2000 U.S. Census

As depicted in Table 4 above, the assessment area is comprised of primarily moderate-income census tracts (34 percent), followed by middle- and upper- income census tracts (27 percent each). While the low-income designated census tracts comprise only 9 percent of the assessment area, the assessment area does include low-income families. In fact, low-income families represent approximately 24 percent of all the families living within the assessment area, with half of these families living below the poverty level.

Harris County is the largest of the ten counties that make up the Houston-Baytown-Sugar Land MSA. Houston is the largest city in the state and the fourth most populous city in the nation, trailing only New York, Los Angeles, and Chicago. Houston is also a major corporate center and ranks among the top five MSAs with the most Fortune 500 companies.

Houston's economy has historically been highly concentrated in energy-related industries and continues to be so. The presence of National Aeronautics and Space Administration (NASA) makes Houston the primary domestic beneficiary of space exploration. The energy-related industry employs large numbers of moderate- and middle-income people. Large employment in

the medical, engineering, service-related, and computer-related industries serve to diversify the area's economy while employing mostly middle-and upper-income individuals. According to the Texas Workforce Commission, Harris County reported a 5.3 percent unemployment rate as of August 2005, while the City of Houston reported a 5.5 percent rate for the same time frame. This falls in line with the State of Texas unemployment rate of 5.2 percent for the same period.

The major employers in the area are the University of Texas System MD Anderson Cancer Center, which employs 11,000 people; B P America Production Company, which employs 10,000 people; and D L S Enterprises Inc., which employs 10,000 people. Other major employers are Baylor College of Medicine, Hewlett-Packard USA, and Exxon Mobil Corporation.

The Houston economy is posting exceptional growth, as its energy dividend has finally and belatedly kicked in. Job growth accelerated through the first half of 2005, and has held steady since then. The metro area is seeing strong expansions in most industries, including manufacturing. Strongest growth is coming from the business services segment, which also saw among the strongest upward revisions under the recently released benchmarks.

All indicators reveal that the Houston economy will continue to benefit from strong energy industry activity and rising trade in 2006. Steady population growth will also help support growth in consumer services and in the construction industry. Port and convention traffic in Houston will also increase based upon the aforementioned.

Industrial activity in Houston continues to soar, as evidenced by sturdy manufacturing payroll expansion and steady growth in the Houston Purchasing Manager's Index.

The port presents strong upside potential for growth in Houston. Katrina helped divert additional business to Houston from other Gulf Coast ports. However, without Katrina, new dredging and expansions at the port facility and Wal-Mart's decision to establish its largest ever distribution facility for the country outside the Houston port has bolstered the prospects for trade-related growth. The Port of Houston continues to employ a notable number of moderate and middle income people through its extensive transportation network and continues to be one of the busiest ports in the world.

According to the 2000 U. S. Census, the median family income (MFI) for the Houston-Baytown-Sugar Land, Texas MSA is \$51,212. The 2005 Department of Housing and Urban Development (HUD) estimated MFI for the Houston-Baytown-Sugar Land, Texas MSA is \$59,400.

The institution encounters strong competition within the community as several community banks, branches of larger regional financial institutions, and credit unions of large employers are located within the assessment area. Providing added competition for the bank are mortgage companies and finance companies that are now offering traditional bank loan products in the area.

Community Contact

An interview with a community member provided additional information regarding the condition of the local economy and community credit needs. The contact stated that Crosby, Texas, has been experiencing explosive growth and most banks were active in the community. The contact had favorable views of local financial institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO

Crosby State Bank's lending performance, as measured by the net loan-to-deposit ratio, is reasonable.

The loan-to-deposit (LTD) ratio is a means of measuring a bank's lending activity by comparing it to the volume of deposits held. Using data from the Consolidated Reports of Condition for the 17 quarters since the previous evaluation dated March 27, 2001, the bank's average quarterly net LTD ratio is 54.6 percent. As of December 31, 2005, the net LTD ratio is at 62.46 percent and is indicative of a continued growth pattern since the last examination, when the ratio was 28%.

Table 5 presents a summary of the average quarterly (based on 17 quarters) net LTD ratios for this institution and three other institutions similar in size and loan product concentration. These banks were chosen as there were no other similarly-situated financial institutions in the bank's assessment area. Although there are a number of branch offices of larger nationwide banks and credit unions in the assessment area, there is no readily available financial data on a branch only basis. Therefore, these financial institutions are not listed for comparison.

<i>Bank Name/Location</i>	<i>Total Assets \$(000)</i>	<i>Net Loans \$(000)</i>	<i>Total Deposits \$(000)</i>	<i>Average Quarterly LTD Ratio (%)</i>
<i>Crosby State Bank / Houston, Texas</i>	<i>208,207</i>	<i>119,352</i>	<i>191,085</i>	<i>54.6</i>
<i>First State Bank, New Braunfels, Texas</i>	<i>181,825</i>	<i>134,619</i>	<i>157,585</i>	<i>86.1</i>
<i>First State Bank, Livingston, Texas</i>	<i>227,695</i>	<i>101,116</i>	<i>198,693</i>	<i>56.8</i>
<i>New First National Bank, El Campo, Texas</i>	<i>213,323</i>	<i>145,986</i>	<i>195,135</i>	<i>54.9</i>

Source: Consolidated Reports of Condition December 31, 2001 to December 31, 2005

Table 5 reveals Crosby State Bank's average quarterly net LTD ratio is in line with comparative banks and indicates a reasonable level of lending activity.

Considering the immense level of competition encountered from all types of financial

institutions, the bank's ability to sustain a healthy LTD ratio reflects positively on this performance factor. Overall, subject bank's level of lending activity is reasonable relative to its financial capacities, overall lending focus, and lending opportunities presented in the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The distribution of small business and residential real estate loans demonstrates overall adequate penetration among borrowers of different incomes and businesses of different sizes. The distribution of residential real estate loans reflects an adequate record of lending to low- and moderate-income individuals. In addition, the bank demonstrated adequate performance with regard to lending to businesses of different sizes. Small business lending was given additional weight under this performance factor due to its predominance in the loan portfolio. Only those loans extended within the assessment area are included in the analysis.

Small Business Lending

The bank's record of lending to businesses of different sizes reveals adequate penetration among businesses of different sizes. This conclusion is based on adequate performance with respect to the volume of loans made to businesses with gross annual revenues (GARs) of \$1 million or less when compared with industry (Dun & Bradstreet) data. Examiners reviewed both the GARs of the businesses and the size of the business loans to determine the performance regarding this factor. The emphasis of this review was placed on the distribution of small business loans by GARs since this is a direct indicator of a bank's efforts of providing credit to smaller companies.

As revealed in Table 6 on the following page, Crosby State Bank has an adequate record of extending loans by number and dollar volume to businesses of various sizes with GARs of \$1 million or less. The most recent business demographic data reported by Dun & Bradstreet indicates that 62.4 percent of the non-farm businesses in the assessment area that reported revenue information had revenues of \$1 million or less annually. Given the bank's record of lending to businesses with GARs of \$1 million or less is 67 percent in this analysis, the bank has demonstrated an adequate record with regard to serving the small business needs of the assessment area.

Gross Annual Revenue \$(000)	Number	Percent of Number (%)	Number of Businesses 2004 (% of #)	Dollar Volume \$(000)	Percent of Volume (%)
< 100	12	28.6	N/A	501	6.1
100-250	10	23.8		1,322	16.1
250-500	5	11.9		430	5.3
500-1,000	1	2.4		35	0.4
< 1,000	28	66.7	63.8	2,288	27.9
> 1,000	14	33.3	6.4	5,911	72.1
Revenue Not Reported	N/A	N/A	29.8	N/A	N/A
Total	42	100.0	100.0	8,199	100.0

Source: Bank records and Dun & Bradstreet Data

Table 7 presents a comparison of the number and dollar volume of small business loans extended within the bank’s assessment area by loan size since data relative to loan size is an indirect measure of small business lending performance. The bank’s origination of small business loans under \$100,000 both in number and dollar volume is indicative of the bank’s good lending efforts with regard to smaller-sized businesses.

Loan Size \$(000)	Number	Percent of Number (%)	Dollar Volume \$(000)	Percent of Volume (%)
< 100	27	64.3	893	10.9
> 100 to < 250	7	16.7	1,007	12.3
> 250 to < 500	4	9.5	1,299	15.8
>500 to < 1,000	4	9.5	5,000	61.0
Total	42	100.0	8,199	100.0

Source: Bank records

Residential Real Estate Lending

The bank's record of extending residential real estate loans to borrowers of different income levels, particularly low- and moderate-income borrowers, is satisfactory.

An analysis of the distribution of residential real estate loans by borrower income was conducted using the loans extended within the assessment area. Benchmarks used for analyzing lending to consumers are income levels for the assessment area based upon the area median family income (MFI), as established annually by the Department of Housing and Urban Development (HUD). The bank's assessment area is defined as Harris County, which lies within the 2005 Houston-Baytown-Sugar Land MSA. The analysis of the distribution of residential real estate loans among the different income levels was based upon the 2005 HUD adjusted median family income (MFI) figures for the Houston-Baytown-Sugar Land MSA of \$59,400. Table 8 provides information on how each income level is defined. The analysis only includes loans extended within the boundaries of the bank's assessment area.

Low-income	Less than 50% of the MFI	Less than \$29,700
Moderate-income	50% to less than 80% of the MFI	\$29,700 to less than 47,520
Middle-income	80% to less than 120% of the MFI	\$47,520 to less than \$71,280
Upper-income	120% and more of the MFI	\$71,280 and more

Source: Department of Housing and Urban Development

The distribution of residential real estate loans originated in the bank's assessment area is detailed in Table 9 on the following page. For comparison purposes, the percentage of residential real estate loans reported in 2004 by aggregate lenders in the Houston-Baytown-Sugar Land MSA is also listed.

<i>Median Family Income Level</i>	<i>Number</i>	<i>Percent of Number (%)</i>	<i>2004 Aggregate HMDA Data Number (%)</i>	<i>Dollar Volume Of Loans \$(000)</i>	<i>Percent of Dollar Volume (%)</i>	<i>2004 Aggregate HMDA Data Volume (%)</i>
Low-income	31	27.2	5.9	1,303	18.3	3.2
Moderate-income	24	21.1	21.4	1,184	16.7	14.3
Middle-income	17	14.9	25.5	605	8.5	19.9
Upper-income	31	27.2	41.2	2,650	37.3	52.8
Income information not available	11	9.6	6.0	1,365	19.2	9.8
Total	114	100.0	100.0	7,107	100.0	100.0

Source: Bank records and 2004 HMDA

As indicated in Table 9, the bank’s lending performance regarding low-income borrowers is strong when compared to the aggregate. Performance to moderate-income borrowers is adequate when compared to aggregate lenders indicating satisfactory performance.

Overall, management’s willingness to serve all income segments of the community is evidenced by the adequate level of lending to low- and moderate-income borrowers relative to aggregate lenders, as well as the adequate level of lending to businesses of various sizes in relation to industry data.

GEOGRAPHIC DISTRIBUTION OF LENDING

The bank’s level of performance regarding its distribution of small business and residential real estate loans within its assessment area is good.

Small Business Lending

Based on the sample of small business loans, the dispersion of loans among low- and moderate-income geographies is good. Table 10 displays the bank’s geographic distribution of the sampled small business loans and compares this data to industry data for the percentage of businesses located within each geography as provided by Dun & Bradstreet.

Table 10 – Distribution of Small Business Loans by Income Level of Geography

<i>Census Tract Income Level</i>	<i>Number</i>	<i>Percent (%)</i>	<i>Percent of 2004 AA Businesses Dun & Bradstreet</i>	<i>Dollar Amount \$(000)</i>	<i>Percent (%)</i>
Low	1	2.4	5.9	326	4.0
Moderate	19	45.2	28.1	1,624	19.8
Middle	11	26.2	26.1	2,910	35.5
Upper	11	26.2	39.6	3,339	40.7
Information not available	0	0.0	0.3	0	0.0
<i>Total</i>	<i>42</i>	<i>100.0</i>	<i>100.0</i>	<i>8,199</i>	<i>100.0</i>

Source: Bank records and 2004 Dun & Bradstreet

The bank's lending performance within low-income geographies is poor, while lending performance within moderate-income geographies is significantly higher than the percentage of small businesses located in such tracts as indicated by industry data.

While the bank's main office is located in a moderate-income census tract and the branch office is located in a low-income tract, the fact that they are surrounded by both moderate- and middle-income census tracts and yet still extends small business loans in these typically less economically active census tracts reflects good performance.

Residential Real Estate Lending

The bank's record of lending to residential borrowers in various geographies within its assessment area is considered good. Table 11 on the next page displays the bank's geographic distribution of the residential real estate loans that fell within the assessment area and compares this data to that compiled for aggregate lenders.

Table 11 – Distribution of Residential Real Estate Loans by Income Level of Geography

<i>Census Tract Income Level</i>	<i>Number</i>	<i>Percent of Number (%)</i>	<i>2004 Aggregate HMDA Data Number (%)</i>	<i>Dollar Volume \$(000)</i>	<i>Percent of Dollar Volume (%)</i>	<i>2004 Aggregate HMDA Data Volume (%)</i>
Low	14	12.3	2.3	494	7.0	2.0
Moderate	50	43.9	17.8	3,013	42.4	13.2
Middle	37	32.5	34.5	1,898	26.7	28.9
Upper	13	11.4	45.3	1,702	23.9	55.8
Information not available	0	0.0	0.1	0	0.0	0.1
Total	114	100.0	100.0	7,107	100.0	100.0

Source: 2004 HMDA

The bank's performance compares favorably with the aggregate lenders' record of residential lending in low- and moderate-income tracts. Actual performance is significantly higher than the aggregate by number and dollar amount.

The bank's performance compared to the aggregate lenders' record of residential lending in moderate-income tracts is strong. Considering the median housing value of a home located in the moderate-income census tracts of this assessment area is \$56,351 and the income range for a moderate-income individual begins at \$29,700, the bank's record of extending one-half of the sampled residential real estate loans in moderate-income census tract reflects strong performance with regard to this factor.

Overall, the geographic dispersion of small business and residential real estate lending activity is good.

LENDING IN THE ASSESSMENT AREA

The bank has demonstrated a strong level of small business and residential real estate lending inside the assessment area as a significant majority of loans reviewed were extended inside the assessment area. The selected sample of small business and all residential real estate loans reviewed disclosed 92.3 percent of the number and 93.8 percent of the dollar volume of the combined loans reviewed were made within the bank's assessment area. Table 12 depicts the bank's lending activity under this factor.

Loan Category	Number of Loans					Dollar Volume of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%	#	\$(000)	%	\$(000)	%	\$(000)
Small Business	42	97.7	1	2.3	43	8,199	99.9	9	0.1	8,208
Residential Real Estate	114	90.5	12	9.5	126	7,107	87.6	777	12.4	8,117
Total	156	92.3	13	7.7	169	15,306	93.8	786	6.2	16,325

Source: Bank records and 2004 HMDA

RESPONSE TO CRA-RELATED COMPLAINTS

Crosby State Bank has not received any CRA-related complaints since the last evaluation. The bank has procedures in place to handle any complaints that it might receive.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

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